

OFFICE OF THE STATE AUDITOR

AUDIT MANUAL

ALL EMPLOYEES OF THE OFFICE OF THE STATE AUDITOR ARE EMPLOYED AT-WILL AND MAY QUIT OR BE TERMINATED AT ANY TIME AND FOR ANY REASON. NOTHING IN ANY OF THE OFFICE OF THE STATE AUDITOR'S RULES, POLICIES, HANDBOOKS, PROCEDURES OR OTHER DOCUMENTS RELATING TO EMPLOYMENT CREATES ANY EXPRESS OR IMPLIED CONTRACT OF EMPLOYMENT. NO PAST PRACTICES OR PROCEDURES, WHETHER WRITTEN OR ORAL, FORM ANY EXPRESS OR IMPLIED AGREEMENT TO CONTINUE SUCH PRACTICES OR PROCEDURES. NO PROMISES OR ASSURANCES, WHETHER WRITTEN OR ORAL, WHICH ARE CONTRARY TO OR INCONSISTENT WITH THE LIMITATION SET FORTH IN THIS PARAGRAPH CREATE ANY CONTRACT OF EMPLOYMENT UNLESS: 1) THE TERMS ARE PUT IN WRITING, 2) THE DOCUMENT IS LABELED "CONTRACT", 3) THE DOCUMENT STATES THE DURATION OF EMPLOYMENT, AND 4) THE DOCUMENT IS SIGNED BY THE DIRECTOR OF ADMINISTRATION OR THE STATE AUDITOR.

I ACKNOWLEDGE RECEIPT OF THE AGENCY POLICY AND PROCEDURE'S MANUAL VIA THE OFFICE OF THE STATE AUDITOR INTRANET. MY SIGNATURE ATTESTS THAT I HAVE READ THE AUDIT MANUAL AND UNDERSTAND THAT THIS IS NOT A CONTRACT OF EMPLOYMENT.

Signature

Printed name

Date

Revised 3/18/13

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INTRODUCTION

Welcome to the State Auditor's Office! You are a welcome addition to our staff and we hope that you will find your job professionally rewarding and challenging.

This Section is provided to help you gain a better understanding of the State Auditor's Office (SAO), the work we do and its relation to you.

Its intent is to assist the new employee during the first few weeks of employment by providing information on the most frequently asked questions. Please use this Section as a reference until you become more familiar with the SAO. We also encourage you to ask questions of any staff member.

The SAO is a professional organization of auditors very similar to a large CPA firm. We are proud of the quality of our audits and our staff. We recruit, hire and retain qualified employees and there is room for advancement for those willing to work for it.

Each year, approximately 50 Medicaid contractors are audited with program funding of over \$300 million. The Office is responsible for audits of approximately 100 State agencies with appropriated funds of nearly \$15 billion. The size of the agencies ranges from one with an appropriation of approximately \$120 thousand and 2 full-time employees to one with an appropriation of over \$3.4 billion and over 1,180 employees.

Each member of the State Auditor's Office should be concerned with:

- a. Determining that the state's resources are properly safeguarded and efficiently used;
- b. Determining compliance with state and federal laws;
- c. Encouraging management of state agencies, universities, and Medicaid providers to improve fiscal accountability;
- d. Ensuring that all material deficiencies and audit findings are fully disclosed and communicated to management;
- e. Being alert and serving as a deterrent for waste, fraud, abuse and/or irregularities; and
- f. Attesting to financial statements and cost reports and performing and reporting on the results of agreed-upon procedures engagements.

THE STATE AUDITOR

The South Carolina State Auditor, a statutory officer, is appointed by the State Budget and Control Board. Richard H. Gilbert, Jr. was appointed interim State Auditor in 2006. He is a CPA and is active in several professional organizations.

The Office of the State Auditor is a division of the Budget and Control Board and is financed by State General Fund Appropriations. The State Budget and Control Board, formerly the Budget commission, was created by Reorganization Plan No. 2 adopted by the General Assembly in 1950 pursuant to the terms and provisions of Act 621, Acts of 1948. Under that Act, ten State agencies were abolished as separate entities and their functions and duties brought under the supervision of the Budget and Control Board.

The Board, by law, is composed of the Governor, Chairman; the State Treasurer; the Comptroller General; the Chairman of the Senate Finance Committee; and the Chairman of the House Ways and Means Committee; all of whom serve in an ex-officio capacity.

The principal functions of the Board are addressed through the following offices:

Office of the Executive Director

- [Office of General Counsel](#)
- [Office of the Executive Director](#)
- [Communications](#)
- [Internal Audit Services](#)
- [Internal Operations](#)

Budget and Analyses

- [Office of State Budget](#)
- [Board of Economic Advisors](#)
- [Office of Human Resources](#)
- [Office of Research and Statistics](#)
- [Confederate Relic Room](#)

General Services

- [Agency Services](#)
- [Business Services](#)
- [Facilities Management](#)
- [Real Property Services](#)

Retirement Systems

- [South Carolina Retirement Systems](#)

Insurance & Grants Services

- [Employee Insurance Program](#)
- [Insurance Reserve Fund](#)
- [Office of Local Government](#)
- [State Energy Office](#)

Procurement Services

- [Materials Management Office](#)
- [IT Procurement](#)

State Information Technology

- [DSIT Home Page](#)
- [Customer Services](#)
- [Products & Services](#)
- [SC Enterprise Architecture](#)

State Auditor's Office

RESPONSIBILITIES

Act 235 of the 1933 Code of Laws provided for the appointment of the State Auditor. The Office of the State Auditor is a post-audit agency. Post-audits are conducted by examining the books and financial records at the end of a fiscal period, and examining an agency's compliance with applicable statutes. In contrast to post-audit, pre-audit is performed within an agency by its own employees to prevent errors, detect problems, and suggest improvements. The most important distinction between pre-audit and post-audit is that the latter is organizationally independent of the audited entity. In this respect a post-audit agency in government is comparable to an independent public accounting firm in the private or business sector.

The Office of the State Auditor has the following responsibilities:

- a) Complete an examination of the books and records of each State agency annually as required by law, to include compliance with State laws and regulations;
- b) Apply audit procedures to cost reports filed by institutional providers of Medicaid services throughout South Carolina;
- c) Provide assistance to the Attorney General, the State Law Enforcement Division, and the U.S. Attorney regarding investigations involving financial misappropriations.
- d) Perform an annual financial audit of the Comptroller General's statewide financial statements.
- e) Perform an annual financial and compliance audit of the State's Schedule of Expenditures of Federal Awards.

STAFF ORGANIZATION

In addition to the State Auditor, there are two Directors of Audits, and a Director of Administration. Along with the audit managers, these individuals have responsibility for the management of the office (see organization chart in this section) and meet each month to discuss pertinent matters.

Interim State AuditorRichard H. Gilbert, Jr., CPA
Director of AdministrationR. Kenneth Harrill

Audit Manager

Under general supervision, Audit Managers plan and coordinate audits and engagements of fiscal activities of state agencies and institutions and Medicaid providers for the State Auditor's Office. They perform duties requiring the analysis of broad problems and the planning of various interrelated divisional or departmental activities. Managers must possess extensive knowledge of principles and practices of accounting, the ability to plan and prepare manuals and instructions on procedures required in conducting audit activities. Managers must be Certified Public Accountants and have a minimum of training and experience to include a bachelor's degree in accounting and six (6) years experience in accounting or auditing, two (2) years of which must have been in a supervisory capacity.

Audit Supervisor

Audit Supervisors report to the Audit Managers. Under general supervision, they supervise audits and engagements of fiscal activities of large and complex state agencies and institutions to determine the fairness of financial statements, compliance with State and Federal laws, and the allowability of reported costs of Medicaid providers. Their performance is governed generally by broad instructions, objectives and policies.

The required knowledge, skills and abilities include considerable knowledge of principles and practices of accounting, the ability to establish and maintain effective working relationships with persons contacted in the course of work, and the ability to plan, organize, and review the work of subordinate auditors.

Minimum training and experience include a bachelor's degree in accounting, and four (4) years accounting or auditing experience, one (1) year of which must have been in a supervisory capacity, and a CPA certificate.

TITLE: OFFICE OF THE STATE AUDITOR

Senior Auditor

Under general supervision, Senior Auditors perform audits and engagements of fiscal activities of state agencies and institutions to determine the fairness of financial statements, compliance with State and Federal laws, and the allowability of reported costs of Medicaid providers. Senior Auditors also supervise and train subordinate auditors in audit and fiscal examination procedures.

The required knowledge, skills and abilities include considerable knowledge of principles of accounting and the ability to establish and maintain effective working relationships with persons contacted in the course of work.

Minimum training and experience include a bachelor's degree in accounting one year of experience at the Auditor II level and passage of the CPA examination; or a bachelor's degree in accounting, 1½ years of experience at the Auditor II level and progress toward passing the CPA exam (defined as having passed at least 2 parts of the exam); or a bachelor's degree in accounting and 2 years of experience at the Auditor II level. Candidates for promotion to Senior Auditor must have experience as in-charge on large audits.

Auditor II

Under general supervision, an Auditor II assists in audits and engagements of fiscal activities of state agencies and institutions to determine the fairness of financial statements, compliance with State and Federal laws, and the allowability of reported costs of Medicaid providers.

The required knowledge, skills, and abilities including working knowledge of principles and practices of accounting, the ability to initiate or revise accounting procedures and methods to reflect information and to reconstruct the condition of accounts from unorganized or incomplete data, and the ability to establish and maintain effective working relationships with officials and staff of the auditee.

Minimum training and experience include a bachelor's degree in accounting, one year of experience at the Auditor I level and passage of the CPA exam; or a bachelor's degree in accounting and 1 1/2 years of experience at the Auditor I level and EPMS ratings of "exceeds" or above; or a bachelor's degree in accounting and 2 years of experience with EPMS ratings of "meets." Candidates for promotion to Auditor II must have experience as in-charge on small audits or supervising staff on large audits.

Auditor

Under direct supervision, an Auditor assists in audits and engagements of fiscal activities of state agencies and institutions to determine the fairness of financial statements, compliance with State and Federal laws, and the allowability of reported costs of Medicaid providers.

The required knowledge, skills, and abilities including working knowledge of principles and practices of accounting, the ability to initiate or revise accounting procedures and methods to reflect information and to reconstruct the condition of accounts from unorganized or incomplete data, and the ability to establish and maintain effective working relationships with officials and staff of the auditee.

TITLE: OFFICE OF THE STATE AUDITOR

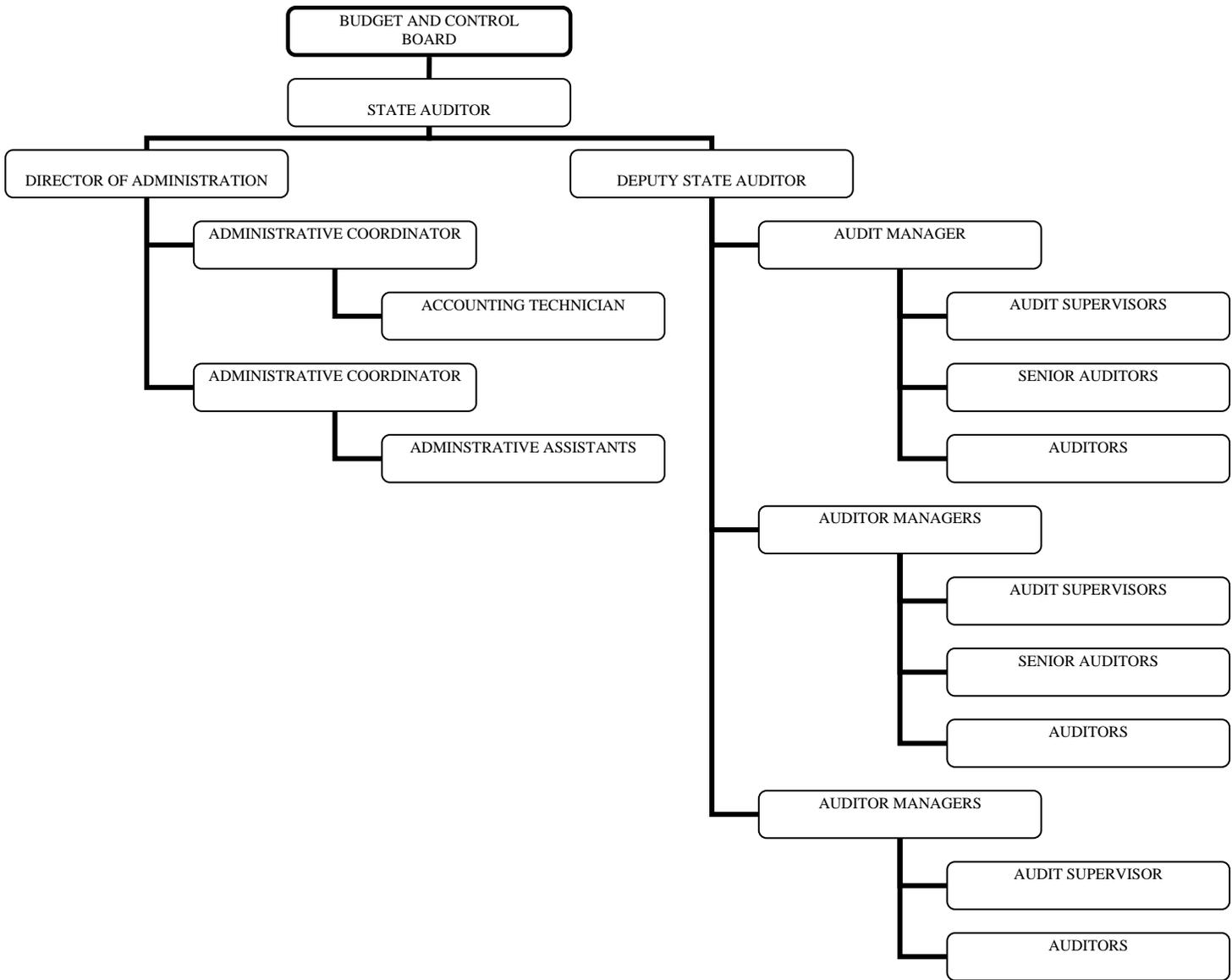
Minimum training and experience include a bachelor's degree in accounting/business/finance and 24 credit hours of accounting courses, including 12 at the Junior or above level.

Upon employment, a trainee is given a brief orientation to state government or medicaid operations and the appropriate method of accounting and auditing procedures. The trainee is then placed under the supervision of an in-charge auditor who closely monitors progress. Each employee receives a written evaluation after every assignment to assess progress. These evaluations are discussed with the employee by the in-charge auditor and/or management. Employees are rotated between in-charge auditors and assignments as considered best for efficiency and the employee's professional growth.

Administration

A small staff manages the word processing and administrative affairs for the office. The office has a budget of approximately \$3.2 million and 69 full-time equivalent positions authorized.

TITLE: OFFICE OF THE STATE AUDITOR



STATE AGENCY AUDITS

The Office of State Auditor performs agreed-upon procedures engagements of most state agencies, financial audits of some state agencies, the annual financial audit of the State's Basic Financial Statements, and the annual audit of the State's Schedule of Expenditures of Federal Awards in compliance with the Single Audit Act.

Agreed-upon procedures engagements relate primarily to compliance with state finance-related laws and the annual budget. Auditor's comments concerning any non-compliance or internal control weaknesses are issued.

Financial audits are conducted in accordance with auditing Standards generally accepted in the United States of America. Those standards require that the audits be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. Financial audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audits also include assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to include the following:

- Opinion on the financial statements and supplementary schedule of expenditures of federal awards
- Report on compliance and on internal control over financial reporting based on an audit of financial statements
- Report on compliance and on internal control over compliance applicable to each major program
- Schedule of findings and questioned costs

State Government Finance Process

Financing the operations of state agencies begins with the budget process. The Governor is responsible for the development and oversight of the process for preparing the annual budget. The Governor submits his recommended budget to the General Assembly each January. Annual budgets are prepared for all funds except Trust and Agency Funds.

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The initial budget, approved by the General Assembly and the Governor, is contained in the Appropriation Act. The General Fund budget must be balanced. To stabilize the budgetary process and to prevent year-end deficits, the General Assembly has enacted Section 11-11-310. In addition, the General Assembly enacted legislation placing spending limitations on appropriations. The spending limitations are described in Section 11-11-410.

Revenues are budgeted on a cash receipts basis. Appropriations for a particular fiscal year are intended to cover all expenditures incurred during the fiscal year and paid during or within one month after the end of that fiscal year. Generally, appropriations unexpended on July 31 (one month after the fiscal year end) lapse unless a specific proviso of the Appropriation Act authorizes the carry forward of such appropriations to the next fiscal year.

Budgetary control is generally required to be maintained at the level of summary object category of expenditure within each program of each organizational unit. Controls have been incorporated into the Statewide Accounting and Reporting System to ensure that vouchers are processed only when both sufficient cash and sufficient appropriations exist to cover the expenditure.

The Comptroller General's Office creates the master account from the State Appropriations Act and maintains accounting controls on all appropriations and general and special funds. The office supervises and accounts for expenditure of all state funds. A pre-audit of all payments made by the State Treasurer is also conducted by the Comptroller General's Office.

The State Treasurer's Office receives and disburses all funds received by the State from all revenue sources. The office also manages collateral pledged by state banks to secure state deposits, invests all funds, and schedules bond issues and payment of principal and interest of outstanding bond issues.

In accordance with Section 11-13-40, South Carolina Code of Laws, monies deposited with the State Treasurer are kept in a general deposit account if, in the opinion of the Budget and Control Board, they may properly be so consolidated. Earnings of the general deposit account are recorded as revenue of the State's General Fund. Funds that cannot properly be consolidated in the general deposit account are segregated in various special deposit accounts, each of which retains its own earnings.

TITLE: OFFICE OF THE STATE AUDITOR

Cash and investments and related earnings accounted for by the State Treasurer's Office but not recorded in the Statewide Accounting and Reporting System include:

- a) All pension fund investments;
- b) Cash and investments of certain agency trust accounts; and
- c) Cash held by component units of State Government authorized by Section 59-101-185, South Carolina Code of Laws, to write their own checks (e.g., State colleges and universities).

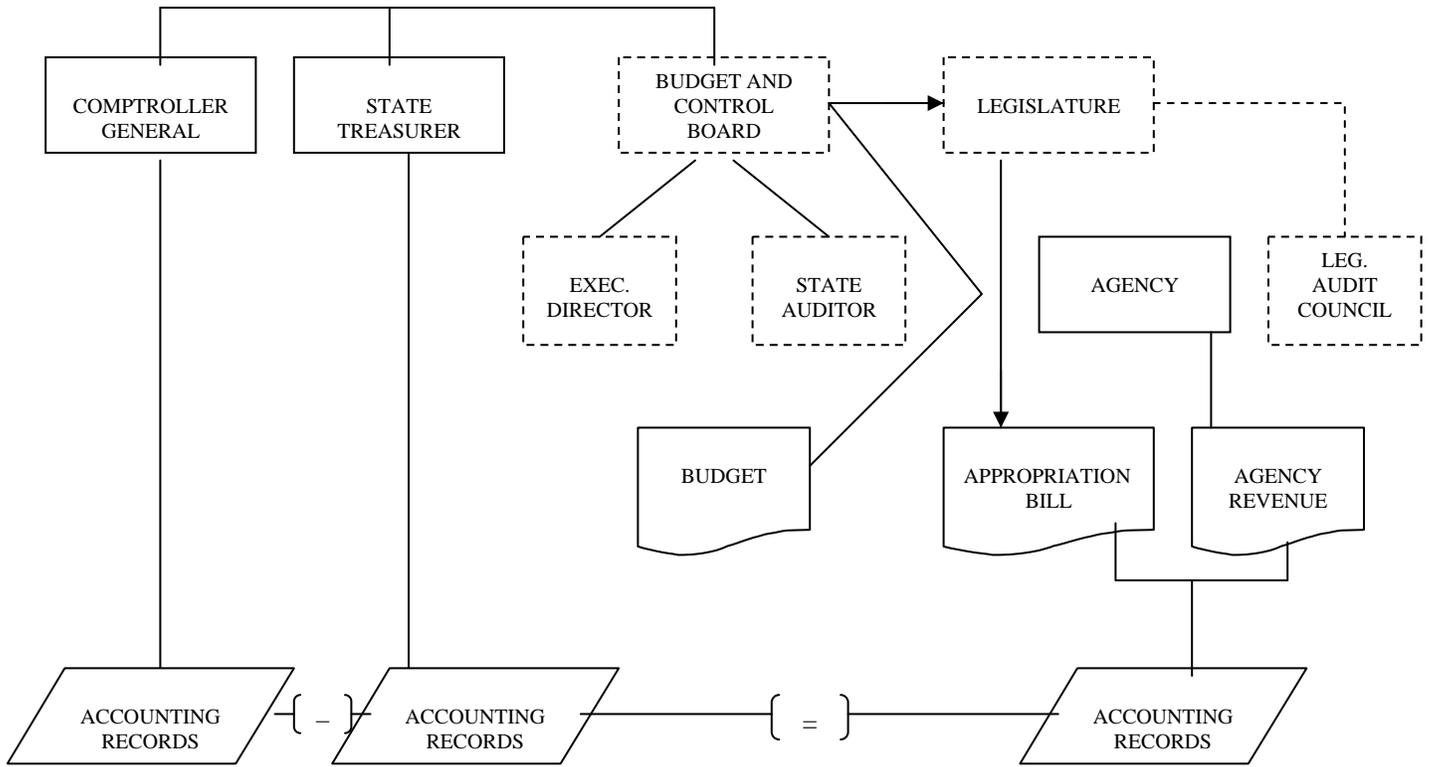
In addition to State appropriations, some agencies generate revenues through fees. Universities collect housing fees and tuition, bookstores have sales revenue and other enterprises such as Prison Industries receive revenue from the sale of goods and services.

State agencies also receive grants and contracts for specific programs. The audit of Federal grants and contracts is included in the audit of the State's Schedule of Expenditures of Federal Awards in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133.

In general, state agencies deposit all receipts with the State Treasurer and the transactions are recorded by the Comptroller General's Office. Agency expenditures are initiated by preparing a voucher which goes to the Comptroller General's Office where a warrant is prepared and forwarded to the State Treasurer's Office. Checks are prepared by the State Treasurer's Office and copies are forwarded to the Comptroller General's Office for recording and to the agency for distribution. The agency relationship to the central state finance area and the relationships between the financial records are shown in this section.

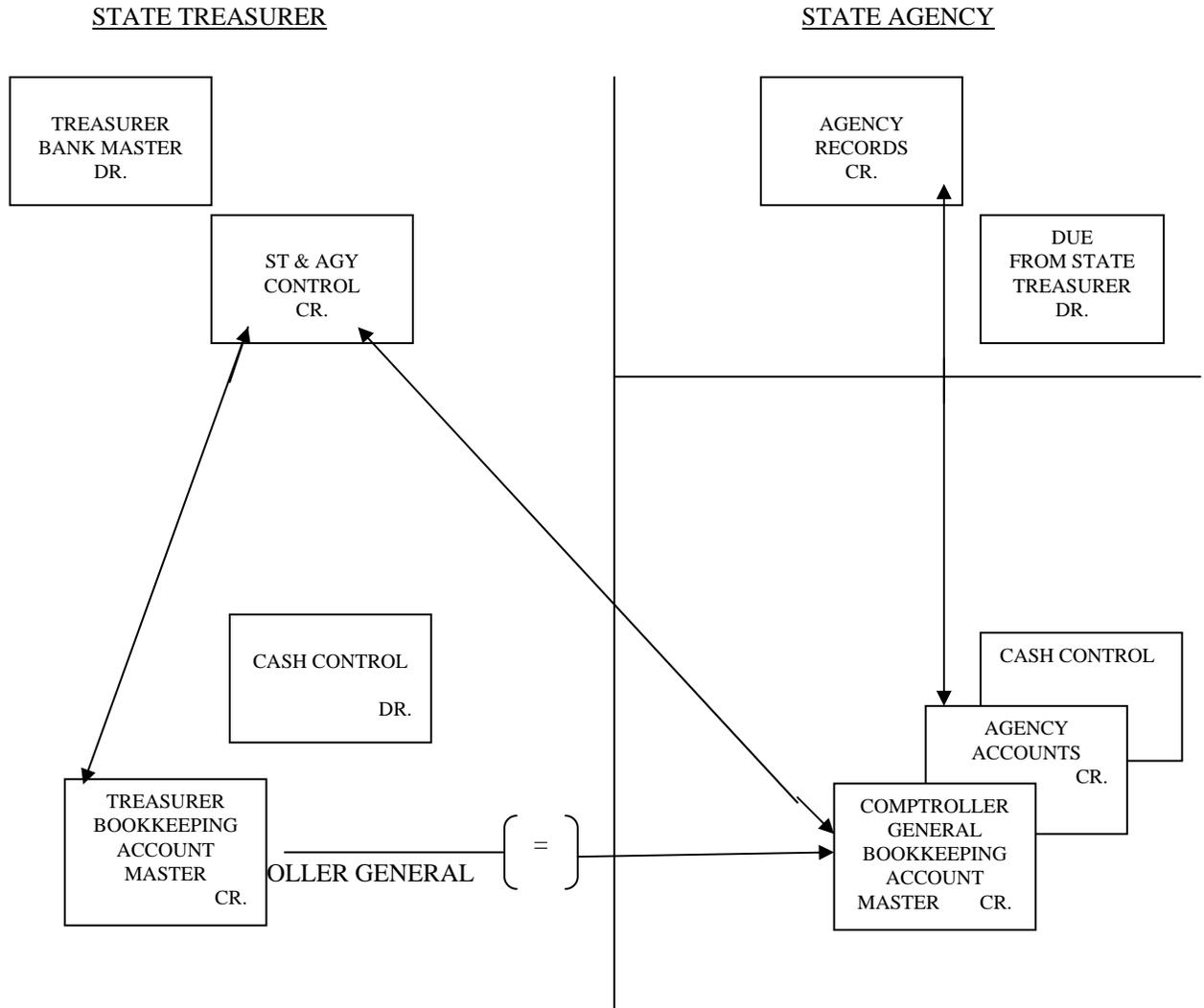
STATE TREASURER

Agency Relationship To Central State Finance Area



STATE TREASURER

Relationships Between Financial Records



MEDICAID AUDITS

The Office of the State Auditor has the responsibility to perform financial and compliance audits and engagements of the Medicaid cost reports of institutional contractors. These contractors (providers) include nursing homes, residential treatment facilities, federally qualified health clinics, home health, hospital and community long term care agencies. The Department of Health and Human Services (DHHS) is designated as the single state agency to administer the Medicaid program and is responsible for establishing contracts with providers of medical assistance to qualified Medicaid recipients. These providers are required to file a cost report which is used by the DHHS to establish amounts to be reimbursed to these providers. These audits and engagements include a review of the financial and statistical records for the purpose of determining the reimbursement settlement between the DHHS and the provider. The reports are provided to the DHHS and to the provider. A copy is also placed in the public file in the State Auditor's Office and is also accessible on the Internet for review by the public.

Audit Process

The examinations and reviews are made in accordance with U.S. generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Audit Standards, when applicable, and accordingly, include such tests of the accounting and statistical records and such other auditing procedures as we consider necessary in the circumstances. The work is usually conducted at the provider's location and is performed to determine if the financial and statistical data on the Medicaid cost report is reported in accordance with the following regulation, policies, and procedures established by the State and Federal Governments:

U.S. Department of Health and Human Services

--45 Code of Federal Regulations

--42 Code of Federal Regulations (HCFA)

--Medicare Provider Reimbursement Manual HCFA Pub. 15-1 (HIM-15)

Department of Health and Human Services

--South Carolina State Plan for Medical Assistance

--Contract between the DHHS and the provider

--Program manuals and Medicaid bulletins

TITLE: OFFICE OF THE STATE AUDITOR

The following general procedures are performed as part of the financial and compliance audit process:

- Review of working papers from previous audits, cost reports, contracts, and other related correspondence;
- Study and evaluation of internal controls to determine extent of testing to which auditing procedures are to be restricted;*
- Determination of allowability of expenditures in accordance with HIM-15, the State Plan, and other established guidelines;
- Analysis of balance sheet accounts to determine total equity for proprietary providers;*
- Review of providers' service delivery records, patient charges and other statistical records used in determining the reimbursement settlement; and
- Evaluation of all evidence obtained during the audit process in order to determine the reimbursement settlement.

**Not normally conducted when agreed-upon procedures are performed*

Medicaid Programs

The Medical Assistance Program (Medicaid) is authorized by Title XIX of the Social Security Act, enacted in 1965, and is designed to provide quality health care to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children. The following are brief descriptions of the Medicaid services whose providers are subject to audit or review by the State Auditor's Office.

- Nursing homes provide skilled and intermediate nursing care in a facility for a period exceeding 24 hours.
- Home health care facilities provide nursing and other therapeutic services in the patient's home.
- Community long term care facilities provide medical day care, respite care, home delivered meals, transportation, personal care, medical social services, and therapies.

TITLE: OFFICE OF THE STATE AUDITOR

- Hospitals provide both in-patient and out-patient acute care services.
- Residential Treatment Facilities provide active, physician-directed treatment programs for severely emotionally disturbed individuals under 21 years of age consisting of individualized psychiatric treatment designed for individuals with persistent patterns of emotional, psychological, or behavioral dysfunction of such severity as to require twenty-four hour supervised care to adequately treat or remediate their condition.
- Federally Qualified Health Clinics receive cost-based reimbursement through the state Medicaid agency. The Provider agrees to furnish clinical services in accordance with all applicable DHHS policies and procedures to all eligible Medicaid recipients. These services shall be performed by or under the supervision of a licensed physician or midlevel practitioner in accordance with the laws governing medicine, nursing and physicians in South Carolina.

SPECIAL REVIEWS AND INVESTIGATIONS

The Office of the State Auditor provides technical assistance to other governmental entities by either assisting with or fully completing reviews of financial records and record keeping systems of specific organizations which have been identified through allegations as having financial problems of a management or criminal nature. Assistance is primarily furnished to the South Carolina Attorney General's Office, the State Law Enforcement Division, the U.S. Attorney's Office and the South Carolina Court Administration. However it is also furnished to other state agencies, local governmental entities and other Federal Governmental entities when appropriate requests for assistance are received.

The special reviews are completed by obtaining pertinent financial records, whether from the identified organization or from third party sources, interviewing employees or other individuals, and completing audit and review procedures appropriate to the specific circumstances. The review findings are normally summarized in a confidential review report, which is furnished to the requesting organization and other organizations, if appropriate. When circumstances warrant, the special review may result in the need for the auditor conducting the review to appear in court and testify as to his findings.

PROFESSIONALISM

Professionalism is reflected in the way you conduct your work assignments, the manner in which you deal with people and in the way you dress. You are working in a professional organization and should conduct yourself accordingly.

As auditors and as professionals, it is important that we set an example for others as individuals and as an office. Often, as a result of the audit, we find it necessary to be critical of other entities in the management letter. Obviously, we do not want to leave ourselves open to criticism as well.

Confidentiality also is important. Our relationship is with the auditee and matters concerning them should not be discussed outside our office. As part of your duties you will sign a confidentiality statement each year.

APPROPRIATE DRESS

On the previous page, the first paragraph states, “...and in the way you dress. You are working in a **professional organization and should conduct yourself accordingly.**” All staff are urged to use good taste, prudent judgment and conservatism when determining what is appropriate dress. Appropriate dress is discussed in the Administrative Policies and Procedures Manual, Section VIII – D- Page 1.

IMPORTANCE OF CERTIFICATION

The SAO encourages all of its professional employees to obtain their professional certification as soon as they are able to qualify. Experience as an auditor on the staff of the State Auditor is recognized by the South Carolina Board of Accountancy as meeting the experience requirement for becoming a Certified Public Accountant.

Professional certification is important because (1) the knowledge gained in preparation for certification is valuable in performance of duties, (2) certification enhances the professional image of you and the Office, (3) passing the exam or certification is required for advancement in the Office and (4) an immediate increase in salary will be effected upon passage of the exam.

The SAO does not pay for CPA review courses or examination fees. Passing the CPA exam should be considered a personal goal and this achievement will be recognized throughout your career.

The SAO allows you limited time off without penalty for taking the exam.

REASSIGNMENTS

In order for the Office to ensure all audits or engagements are adequately staffed periodic reassignments may be necessary. Assignments will be made to provide the most suitable staffing for the performance of the duties of the office.

QUALITY CONTROL SYSTEM

A system of quality control encompasses quality control policies and procedures, assignment of responsibilities, communication and monitoring (QC 90.05). The elements of quality control that pertain to the SAO include independence, assigning personnel to engagements, consultation, supervision, hiring, professional development, advancement, and inspection.

Our engagements are subject to several review steps including reviews by the in-charge auditor and the manager. Throughout the year, engagements are selected on a sample basis for workpaper and report review. This process helps identify and correct any weaknesses and helps maintain the high level of quality work of which we are proud.

The SAO undergoes an external quality control review every three years as required by Generally Accepted Government Auditing Standards (GAGAS). The results of the quality control review are posted on the SAO website.

EVALUATIONS

There are two formal evaluation points for audit staff. They are considered formal because a prepared form is completed, signed, and kept in personnel files. The evaluation allows for a face-to-face exchange where both parties have an opportunity to express their expectations.

Each employee has a written evaluation after every audit assignment to assess progress. These evaluations are discussed with the employee by the in-charge auditor and/or the manager. Employees are rotated between in-charge auditors and jobs as considered best for efficiency and the employee's professional growth. Copies of the current engagement evaluation form are in the forms file. The instructions for preparing the staff evaluation follow this page.

The engagement evaluations are the basis for the annual evaluations. The annual evaluation records progress on previously set objectives and establishes new objectives. The purpose of the evaluations is to provide open constructive communication and to monitor your progress. Annual evaluations (Employee Performance Management System) are discussed in the Administrative Policies and Procedures Manual.

STATE AUDITOR'S OFFICE
INSTRUCTIONS FOR PREPARING STAFF EVALUATION

I. Purpose:

- A. To obtain the necessary information to evaluate the current performance of the staff member which will be incorporated as a component part of the EPMS document (Annual Review).
- B. Ratings and comments shall be based on the staff member's performance and the individual's achievements considering his/her classification, primary assignment area, and the demands of the assignments covered by this evaluation.
- C. Care must be taken that the evaluation covers the staff member's performance results on the work assigned, and is not overly influenced by the staff member's personality.

II. Ratings:

After becoming familiar with the descriptions of the ratings below, the appraiser should indicate, for each section, the rating considered most appropriate.

A. Job Duties

Exceptional Performance Requirements - Work that is above the success criteria for the job throughout the rating period.

Successful Performance Requirements - Work that meets the success criteria for the job.

Unsuccessful Performance Requirements - Work that fails to meet the success criteria of the job.

STATE AUDITOR'S OFFICE
INSTRUCTIONS FOR PREPARING STAFF EVALUATION
(CONTINUED)

B. Performance Characteristic(s)

Pass - Meets requirements.

Fail - Fails to meet requirements.

III. Criteria for an Evaluation:

Upon completion of all engagement assignments an individual should receive a written evaluation prepared on the standard form for an assignment where the individual:

A. Is the in-charge, regardless of the length of the assignment.

B. Charges over 35 hours to the engagement. (Two or more fiscal years on one auditee counts as one engagement for the purpose of determining whether an evaluation is due.)

C. In addition to the required evaluations listed above, an interim evaluation may be completed at any time upon request of management or initiated by the auditor in-charge to recognize either exceptional or below standards performance.

IV. Timing of Evaluations:

Evaluations are expected to be given to the staff member within one week after review of his/her work.

REFERENCE MATERIALS

The SAO maintains a library. A listing of library material can be found on the small table in the library. Items may be checked out by entering the title, your name and date in the checkout notebook. Always sign out and sign in the materials and return them to the correct location on the shelves. Everyone is responsible for helping keep the library organized.

Besides this manual, certain reference materials will be assigned to you upon employment and others will be available through your in-charge at the audit site. Some of these materials are listed below:

Administrative Policy & Procedures Manual - explains the classification plan; reallocation, reclassification, and promotion; dual employment; attendance and leave; employee performance management system; employee disciplinary guidelines; employee grievance procedure; personnel records; administrative orientation; administrative exit interview; nepotism; affirmative action policy; recruitment and selection; reduction in employment force policy; staff development and training; sexual harassment policy; safety belt policy; drug-free workplace; travel and subsistence; telephone services; parking; and paper recycling program.

The Word Book II - over 40,000 words, spelled and divided

A Writer's Reference by Diana Hacker

Codification of Statements on Auditing Standards - The AICPA "Professional Standards." A looseleaf service in the Library contains the most recent Statements.

Government Auditing Standards - commonly referred to as the "Yellow Book" - these standards must be followed for audits of entities that receive federal funds and they incorporate generally accepted auditing standards.

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Codification of Governmental Accounting and Financial Reporting Standards - codification of the GASB pronouncements which provide authoritative accounting and financial reporting guidance for state and local governmental entities. The GASB binders in the Library contain the most recent Statements.

The AICPA Auditing and Accounting Guide - Audits of State and Local Governmental Units - provides guidance to the auditor in examining and reporting on financial statements of governmental units and guidance on audits subject to the Single Audit Act.

STARS Manual - explains the Statewide Accounting and Reporting System (STARS), the forms used in processing information and the various reports generated for the agencies.

HIM-15 Regulations - Health Insurance Manual (HIM) that defines reimbursable costs for Medicare/Medicaid providers.

Medicaid State Plan - sets the Medicaid reimbursement methodology.

Medicaid Program Manuals - guidelines for administration of Medicaid Programs by provider types.

Nursing Home Audit Manual - SAO manual containing various materials for guidance in auditing Nursing Home providers, such as rate calculations and American Hospital Association guidelines for useful lives of fixed assets.

State Personnel Regulations - explains state personnel policies and procedures.

ORIENTATION

The Office has adopted an Orientation program for new employees. The orientation program will help the new employees understand the organization of our office and the work we do. The program should assist the new employees in adjusting to our office and help prepare them for their first assignment.

Before Starting Work

1. Upon acceptance of a position with the SAO, new employees will be mailed information about Columbia, including a map with suggestions on where to park their first day; the Apartment Finder; and information on telephone and utility service. Administrative services will put together the packet of information to send them.
2. Administrative services will also mail to new employees a schedule for the employee's first day in the office.
3. The Manager will assign each new employee to an advisor, a staff member who will be available during the initial 2 weeks of employment.

The "Advisor" will have the following responsibilities:

- . Assist new employee in preparing for first audit assignment (forms, supplies, etc.)
- . Be available to answer questions on specific audit assignment
- . Be available to answer questions on administrative issues (time sheets, expense reports, etc.)
- . Pass along helpful hints about preferences of manager or in-charge

Office Orientation

1. The schedule for the first day will include the following:
 - . Office orientation (1½ hours) by the Deputy State Auditor.
 - . Personnel orientation (1½ hours) by Administrative Services.
 - . Audit supplies and equipment (½ hour) by Administrative Services.
 - . Review of a set of audit working papers provided by the manager. The manager or the "advisor" will explain the organization of the working papers. Then, the new employee will look at audit programs, working papers and the reports.
2. The Manager and an auditor, the "Advisor" whenever possible, should have lunch with the new employee.
3. The following professional development sessions will be conducted soon after new employees start work:
 - . Overview of State Government
 - . Overview of Medicaid Audits
 - . Overview of State Agency Audits
 - . Working Paper Techniques

If formal training cannot be provided (not enough employees starting work at the same time) then the "Advisor" should spend about ½ day with them reviewing a set of work papers and explaining the audit programs for a small engagement as part of the first day orientation.

4. Whenever possible, Managers will assign new employees to a small engagement that has an in-charge who is an experienced auditor. Also whenever possible, the new employee will be assigned to the same audit team as his "Advisor". If the new employee will be unassigned the Manager will consider putting him in the field to observe with his "Advisor".

Hints for New Auditors

As a member of a team, it is important to form good working relationships with your own individual team members as well as members of the office in different areas. This will help in earning respect and receiving cooperation. To do so, consider the following attributes and skills

- a. Be consistent so that people will learn what to expect.
- b. Be dependable by keeping your word.
- c. Understand that others may also be under pressure.
- d. Learn appropriate ways to disagree, and disagree with the idea and not the person.
- e. Be willing to compromise when it becomes necessary.
- f. Keep open the lines of communication between yourself and others.
- g. Maintain a courteous and friendly attitude toward those with whom you work.
- h. Present yourself as an expert only in those areas in which you have greater skills or knowledge.

The following "helpful hints" are recommended by your colleagues.

- a. Ask questions! Communication is 2-way; if you do not understand instructions, ask questions so that you will not waste time by having to re-do work. Whenever possible, accumulate your questions so that several items can be discussed at one time. This will cut down on interruptions for you and your in-charge.
- b. Use this Manual or the Advisor whenever you can.
- c. Bring only what you need to the audit site.
- d. Be at the audit site early on the first day to "set-up" and "settle-in" before you begin to work.

- e. Keep up with your time on a daily basis. (A daytimer is provided for this.)
- f. Use the working paper section of this Audit Manual as a guide during the audit. You may also want to take with you examples of well-prepared working papers.
- g. Review your work before you ask your in-charge auditor a question so that you can give your in-charge all of the details.
- h. Your in-charge prepares your evaluation so you should work with the team and please your in-charge.
- i. A good attitude, eagerness to learn and self-motivation are important qualities of a new auditor.

Your colleagues also suggest that you read the following before your first audit assignment.

- 1. Audit Manual (especially the Working Paper Section)
- 2. Yellow Book
- 3. AICPA Audit and Accounting Guide Audits of State and Local Governmental Units (State Agency Auditors)
- 4. Nursing Home Audit Manual (Medicaid Auditors)

ADMINISTRATIVE INFORMATION

The Administration staff provides support services for all of the activities of the Office. These services include personnel, payroll, purchasing, supplies, copying, time and travel report processing, word processing, maintaining central files, report processing and management support.

SEE THE ADMINISTRATIVE POLICIES AND PROCEDURES MANUAL FOR INFORMATION ON ADMINISTRATIVE MATTERS.

Equipment, Supplies and Forms

As a state employee, you will be entrusted with varying amounts of state property from time to time.

Each staff member is furnished with a laptop computer, a calculator, an audit case, and various reference materials. These are assigned to you and are your personal responsibility. If you have any problems with your calculator or briefcase, report it to Administrative Services.

Supplies needed for audits are available through Administrative Services.

A number of forms have been standardized for use on audits. These forms, along with time sheets, insurance forms, leave forms, and travel support documents are located in the forms file and on the intranet.

CONTINUING PROFESSIONAL EDUCATION

The office of the State Auditor (SAO) is committed to the professional development of each staff member. The broad objectives of the SAO relative to continuing professional education are:

1. Maintaining and enhancing employee's professional competency through professional education courses to meet industry guidelines.
2. Increasing employee productivity.
3. Increasing cost effectiveness.
4. Increasing morale through a predetermined and structured training program.
5. Minimizing the rate of employee turnover.

The first general standard for government auditing is "qualifications." The qualifications standard, as stated in chapter 3, paragraph 3 of the Yellow Book, is:

"The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required."

This standard establishes continuing education and training requirements for auditors working on audits made in accordance with the Yellow Book.

The qualifications standard places responsibility on the audit organization to ensure that the audit is conducted by staff who collectively have the knowledge and skills necessary for the audit to be conducted. The staff should also have a thorough knowledge of the government environment and government auditing or in the specific or unique environment in which they are auditing.

CPE Requirements: The SAO and individual employees have joint responsibilities to ensure that each auditor earns 80 hours of CPE in each two year period beginning January 1, 1989 in approved courses defined below. A minimum of 20 of the 80 hours must be earned in each of the two years. Of the total 80 hours, 24 of them must be in courses directly related to the government environment and to government auditing. The requirements also apply to auditors who audit nongovernment entities in accordance with the Yellow Book; therefore, 24 hours should be in subjects directly related to the specific or unique environment of the audited entity such as Medicaid providers.

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Staff who are employed for less than one year of the two year period will not be required to earn a minimum number of CPE hours, but will be expected to take all courses for which they are scheduled. Staff who are employed for at least one year, but less than two years will be required to earn at least 20 CPE credits. All auditors have 2 years to meet the 80 and 24 hour requirements. Staff who are on extended leave without pay or extended sick leave during the two year period are expected to meet the CPE requirement. Exceptions may be granted on a case by case basis by the Deputy State Auditor. Any exceptions granted should be documented and retained for 5 years.

Staff who have not earned the required number of CPE hours in the two year period will have two months from the end of the two year period to resolve the deficiency in accordance with SAO policy. Failure to meet the requirement will result in the staff member being assigned to other than audit tasks until the deficiency is resolved.

Responsibilities: The successful attainment of the required CPE credits is a joint responsibility involving both the SAO and each individual auditor.

The 80 and 24 hour requirements should fulfill any state's CPE licensing requirement for CPAs; however it is the responsibility of each CPA to ensure that the requirements are met for any state(s) in which they are licensed.

1. The Deputy State Auditor is responsible for developing the annual training plan, identifying auditors who are to attend the training courses, scheduling the courses, and keeping records of those who have attended courses.

2. Each individual auditor is responsible for ensuring that he/she obtains sufficient CPE to meet the requirements set forth in the Government Auditing Standards (GAGAS). Individual auditors are expected to maintain and continuously improve their professional competence. They are responsible (in conjunction with their manager and Deputy State Auditor) for seeking opportunities for training and professional development, for successfully completing these activities, and for ensuring that earned CPE credits are documented. Auditors are also responsible for monitoring their own progress towards meeting the GAGAS 80 hour mandatory CPE requirement to remain qualified to perform the SAO audit work.

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The Deputy State Auditor is responsible for identifying, awarding and recording credit for all Continuing Professional Education (CPE) training courses and other professional educational activities taken by Audit staff. Training courses to be recorded include those taken through the SAO training program, courses taken on an individual basis through external providers (including colleges), time spent in preparing and presenting in-house CPE training programs, and time spent in preparing and presenting speeches and presentations and in writing articles for publication which meet CPE eligibility criteria.

While the office will make available to each auditor no less than the minimum required hours, it is the responsibility of each staff member to attend and document CPE required by the Board of Accountancy and the GAO. Should an auditor not attend sufficient in-house courses to meet these requirements, it is that person's responsibility to obtain on their own time the required CPE. The office has limited self-study courses we can administer in-house for credit. Other courses are available which are administered by the AICPA. The cost of these must be paid by the staff member needing additional hours.

Policy on attending outside training is discussed in the Administrative Policies and Procedures Manual.

Criteria for Granting CPE Credit: CPE programs are structured educational activities designed to maintain and/or enhance the participant's knowledge and skills in areas applicable to their work responsibilities. This may be achieved through interaction with an instructor and other participants (i.e., a group program) or without major interaction with an instructor (i.e., an individual study program).

The following are criteria to be considered in deciding if group and individual study programs will qualify as acceptable CPE programs, and whether participants should be granted CPE hours.

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For group programs:

- . An agenda or outline is prepared in advance and retained that indicates the name(s) of the instructor(s), the subject(s)/topic(s) covered, the program learning objectives, and the date(s) and length of the program.
- . The educational portion of the program is at least 50 minutes in length.
- . Attendance records are maintained.
- . The program is presented by an instructor or discussion leader who is qualified both with respect to program content and teaching methods used.

For individual study programs:

- . Participants are required to register for the program.
- . Program sponsor provides evidence of satisfactory completion (e.g., a certificate).

Courses and Activities Eligible for CPE Credit: Normally, each 50 minutes of a training course will be recorded as one hour of CPE and only full hours will be recorded. Generally, CPE hours are not earned for repeated attendance in the same training course or in another course which covers essentially the same material. When carried out in accordance with the criteria listed above, the following courses and activities will qualify for CPE hours provided they add to the employee's professional proficiency in performing audits.

1. Internal training programs sponsored or presented by the SAO that are identified as bearing CPE hours.
2. External training programs (courses or professional meetings), including:
 - Meetings and seminars of professional organizations if a formal educational program is presented.
 - College courses, either credit or noncredit. Generally, such courses shall earn CPE hours on the basis of 15 CPE hours for each semester hour or 10 CPE hours for each quarter hour credit. For noncredit short courses each classroom hour will equal 1 CPE hour.

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3. Speaking engagements and instruction relating to CPE eligible topics. One hour of CPE will be assigned for each 50 minutes of presentation time plus up to a maximum of two preparation hours for each 50 minutes of presentation, if actually required. Total hours in the two year period for this type of CPE are limited to 40 hours for purposes of fulfilling the mandatory 80 hour requirement. Neither preparation nor presentation credit is given for more than one presentation or repeated instruction on the same topic. However, preparation credit may be allowed if a course or presentation needs to be updated to reflect new subject matter.
4. Published writing on CPE eligible topics related to the employee's expertise and/or work will qualify if the manuscript is accepted for publication. CPE hours will be awarded on a case-by-case basis, based on actual time expended writing, and are limited to a maximum of 20 hours in the two year period for the purposes of fulfilling the mandatory 80 hour requirement.
5. Self study courses in CPE eligible topics: Formal correspondence or other individual study programs that require registration or another form of documentation of participation can qualify for CPE hours, whether the SAO or the employee pays for the course. If the sponsor of the course has determined the average completion time, CPE hours will be awarded at half the stated completion time. If the sponsor has not established an average completion time, an employee may request CPE hours for half the time actually spent to complete the course.

Subjects and topics that may qualify as acceptable CPE may include, but are not limited to, the following:

- . 80-Hour Requirement - Examples of subjects and topics include: accounting principles and standards; analytical procedures; assessment of internal controls; audit methodologies; audit risk and materiality; audit standards; compliance with laws and regulations; budgeting; computer science; contracting and procurement; cost accounting; data analysis; economics; evaluation design; financial management; financial reporting; forecasts and projections; industrial engineering; interviewing techniques; mathematics; operations research; oral and written communication; pension accounting; principles of management and supervision; probability; productivity; program evaluation; public administration; public finance; public policy and structure; quality control; report writing; social sciences; sampling; taxation; and work paper preparation.

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- . 24-Hour Government Requirement - Examples of subjects and topics directly related to the government environment and to government auditing include: assessment of internal controls in government; audit methodologies and program evaluation design in government audits; government auditing standards; compliance with laws and regulations; governmental accounting and budgeting; procurement and contracting in government; governmental financial reporting; intergovernmental relations; legislative policies and procedures; and conducting single audit.
- . 24-Hours Specific or Unique Requirement - Examples of subjects and topics related to a specific or unique environment include: accounting, auditing, and reporting practices for Medicaid providers.

Recordkeeping: The Deputy State Auditor is responsible for maintaining attendance records for internal courses carrying CPE hours and SAO funded external courses, as well as instructor hours for in-house courses. The required records to be maintained include an agenda or outline of the presentation or course as well as a determination of the credits allowed. Also, records will be kept for those courses and activities that are conducted separate from the SAO's training program (e.g., speeches, presentations, articles, and self study based on documentation submitted by the auditors to the Deputy State Auditor).

Auditors should submit the following information to the Deputy State Auditor for all external CPE programs and other professional activities attended or completed.

- . the sponsoring organization,
- . the location at which the program was given (city/state),
- . the title of the program and a description of its contents,
- . the date(s) attended for group programs or date completed if individual study program, and
- . the number of CPE hours earned toward the 80 hour and 24 hour requirements
- . record of the grade received for a university or college credit course
- . an outline and evidence of attendance or of having been the instructor or discussion leader from the program sponsor

TITLE: OFFICE OF THE STATE AUDITOR

- . a certificate of completion from the program sponsor
- . a copy of a published book or article
- . number of CPE hours earned

At least annually, the Deputy State Auditor will provide each employee with a statement showing the record of training provided and the CPE hours earned to date. Each employee should verify the data and provide any corrections or updates to the Deputy State Auditor. All CPE records will be maintained for at least five years.

The Deputy will also periodically review each employee's progress towards the mandatory 80 hours requirement to identify employees who may not meet the CPE requirements. These employees will be made aware of the training situation and may be required to develop a plan for the Deputy that will allow them to meet the requirements. Such plan may include courses that are part of the SAO's annual training plan or courses taken separate and apart from the annual training plan.

OPPORTUNITIES FOR PROMOTION

This office strives to both encourage and recognize an individual's professional growth by promotion from within whenever possible. As discussed under "Staff Organization" we have several audit positions requiring increasing levels of experience, skills, and responsibilities. As a staff member acquires and demonstrates increased abilities, he/she is promoted to the appropriate position. Promotions above senior auditor require the auditor to be a CPA.

The progress of each auditor who has the minimum required experience is evaluated on the individual's annual performance review date. The form used for that evaluation is attached.

Promotion beyond senior auditor is considered on a case by case basis. There are no specified times at which this evaluation is made.

CRITERIA FOR PROMOTION TO SENIOR

AUDITOR: _____

CUMULATIVE EXPERIENCE:	Minimum 36 months as an auditor in the State Auditor's Office.
RECOMMENDATION:	By one or more in-charge auditors/supervisor with concurrence by the manager required.
LEVEL OF RESPONSIBILITY:	Progressively responsible assignments, including in-charge supervising small staff required.
LEVEL OF PERFORMANCE:	Evaluations generally at levels no less than "meets" and "acceptable" required.
CPA EXAM:	Completion of all parts of the exam is required for promotion.*
ADHERENCE TO BUDGET:	Audits completed within budget under normal circumstances.

A recommendation to promote will be based on all of the above criteria. A brief summary will be prepared outlining the basis for the recommendation for each auditor who is recommended for promotion. Individual summaries will be discussed with each eligible auditor.

*Audit staff may be considered for promotion without passing the CPA exam. However, promotion without the exam requires a minimum of four years as an auditor in the State Auditor's Office and making satisfactory progress towards completion of the exam and performing in an exemplary fashion.

TITLE: CODE OF ETHICS

This office holds a public trust and its employees must adhere to high standards of integrity. Personal activities which are illegal or adversely reflect upon the reputation of the State Auditor's Office will be avoided.

Employees should be familiar with the following sources of guidance:

1. The Code of Professional Ethics adopted by the South Carolina Board of Accountancy
2. South Carolina statute, especially *Title 8*, which specifically prohibit a public employee
 - a) using his official position to obtain financial gain for himself
 - b) soliciting or accepting any compensation including a promise of future employment to influence his action, vote, opinion or judgement
 - c) soliciting or receiving any money in addition to that received in his official capacity for advice or assistance given in the course of his employment.
3. The general standards of *Government Audit Standards* (GAO Yellow Book) which relate to the auditor's qualifications, independence and due professional care.
4. Employee Disciplinary Guidelines contained in the State Auditor's Office *Administrative Policies and Procedures Manual*.

Each employee is required to complete annually Statements of Independence and Confidentiality and to notify the Deputy State Auditor at any time a change in that statement becomes necessary. Additionally, any auditor who applies for or is offered employment by an auditee during the course of that audit should immediately notify the in-charge auditor, manager, and the Deputy State Auditor so that a determination can be made as to whether the auditor should be reassigned, since his independence or appearance of independence may be impaired.

TITLE: PROFESSIONALISM IN DEALING WITH AUDITEE PERSONNEL

In order for our office to perform its duties in a proper manner it is important that we project a positive, professional image to our auditees and clients and to those organizations with which we work. Accordingly, certain practices should be avoided:

1. Negative comments regarding auditee personnel or their practices. In the course of our work we sometimes encounter problems which result from:
 - a) inadequately trained or managed auditee staff
 - b) poorly documented or performed accounting procedures
 - c) records which are not current
 - d) lax controls over assets, such as cash, receivables, inventories or fixed assets
 - e) questionable transactions

When experiencing these types of problems, care should be taken not to come across in a negative manner. It is extremely important that we do not make ridiculing remarks about such problems or situations. We should also be conscious of being overheard when we discuss a problem among ourselves. This applies not only while on-site but in public places as well.

2. Avoid getting into lengthy discussions of problems with auditee staff who are not in a position to correct them -- limit such discussions to getting the facts. There normally should be no reason to mention a potential audit exception or management letter comment to bookkeeping and clerical personnel because -
 - a) you may create resentment on their part and adversely affect our working relationship
 - b) they're normally not able to judge the adequacy of your comments and are not usually in a position to change the situation
 - c) you may waste a lot of time with limited results
3. Avoid "Crisis Auditing" -- By using "to do" sheets effectively, we can cut down on interruptions, both of our staff and auditee personnel. A simple but effective example follows -

TITLE: PROFESSIONALISM IN DEALING WITH AUDITEE PERSONNEL

"A. Junior" is performing the disbursements test at XYZ Agency. When he comes to sample item #14 of his sample of 78 items, he notes that the agency failed to pull the voucher for this transaction. He jumps up and goes to the file department and requests the voucher and stands by while the clerk finds it. He then returns with it and continues his work. Shortly thereafter, he notes that #27 is also missing. He jumps up, and goes to the file department and requests the voucher and stands by while the clerk finds it; however, this time she cannot find it, so A. Junior runs and tells the accounting manager the voucher is missing, and on and on and on. Use of a "to do" sheet in such cases can not only save considerable time but can substantially lower the "Auditee Aggravation Factor".

4. Avoid constant piecemeal requests for assistance - Make request to Auditee in writing, whenever practical. During our entrance conference, the manager or the in-charge auditor should establish protocol for requests for auditee assistance in -
 - a) pulling vouchers and other documents
 - b) follow-up on exceptions, etc.
 - c) preparing schedules, special computations, analyses etc.

We should adhere to the agreed-upon plan as closely as practical. Modifications of the plans should be discussed with appropriate auditee personnel and should not be made on a lower level. The larger the audit, the more important this becomes.

In conclusion, these are just some of the ways we can obtain better cooperation, project a more positive image, improve our efficiency, and yet not compromise the integrity or quality of our work. We should recognize that we are intruders in the daily operations of the Auditee and as such, we should try to make this intrusion as nondisruptive as possible.

TITLE: INDEPENDENCE

It is the policy of the State Auditor's Office that the office maintain organizational independence, that each member of the professional staff be free from personal or external impairments to independence, and maintain an independent attitude and appearance as required by Government Auditing Standards and Generally Accepted Auditing Standards.

Annually, the Deputy State Auditor will distribute a blank independence statement and a list of auditees to each member of the professional staff. The completed forms are to be promptly returned to the Deputy State Auditor. The Deputy State Auditor will review the form for possible impairments. Necessary resolutions are documented on the independence statements by the Deputy State Auditor. Impairments to the independence standard are tested in future quality reviews. The forms are maintained by the Deputy State Auditor and are filed by fiscal year. Each manager maintains a copy of any statements noting impairments by assigned staff for review and any required action. Page 1-1 of Section I-D is an example of the form used.

If a staff member becomes aware of circumstances affecting his independence or appearance of independence with regard to any client after the annual form is submitted, the Deputy State Auditor should be notified in writing immediately.

Staff are also reminded that Ethics rulings of the AICPA and Independence Standards Board Standard No. 3 – Employment with Audit Clients specifically require that an individual offered or seeking employment with an auditee be removed from the engagement to prevent any appearance of impairment of independence. Should this at any time apply to you please inform your manager and Deputy State Auditor immediately. The individual's work will be reviewed by the audit manager or Deputy State Auditor to assess whether he or she exercised appropriate skepticism while working on the engagement.

If a professional accepts employment with a State Agency or Medicaid Provider the following procedures will be considered in order to effectively eliminate the risk of independence impairment:

1. the on-going engagement team will give active consideration to the appropriateness or necessity of modifying the engagement plan to adjust for risk of circumvention,
2. if a former professional will have significant interaction with the engagement team, the Deputy State Auditor will ensure that the existing engagement team members have the stature and objectivity to effectively deal with the former SAO professional and his or her work,

TITLE: INDEPENDENCE

3. when a former SAO professional joins a State Agency or Medicaid Provider within one year of disassociating from the SAO and the professional has significant interaction with the audit team, the next following annual audit will be separately reviewed by a SAO professional uninvolved in the engagement to determine whether the remaining engagement team maintained the appropriate skepticism when evaluating the representations and work of a former SAO professional. The reviewer will be selected by the Deputy State Auditor and the extent of this review should be tailored based on the position that the former professional has assumed at the auditee and other facts and circumstances that would heighten or mitigate threats to independence. The deputy may request that the review be included in the Quality Review process.

The deputy will maintain documentation regarding the above procedures (i.e. memos, reviews, etc.).

TITLE: INDEPENDENCE

ANNUAL STATEMENT OF INDEPENDENCE

FISCAL YEAR: 07/01/XX TO 06/30/XX

EMPLOYEE NAME/FIRM: _____

Generally accepted government auditing standards for governmental organizations, programs, activities, and functions require that an auditor be independent from those he audits. The second general standard for government auditing is: "In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance." See paragraphs 3.1 through 3.30 from Government Auditing Standards, 2007 Revision (attachment 1).

Read the list of audit clients (attachments 2 and 3) and indicate in the space provided below if there are presently any personal, external or organizational impairments to your independence regarding any audit client of the State Auditor's Office. **If such impairments concern relatives or personal friends working within an audit client, state their name, relationship, client, job position and area of responsibility. If such impairments are financial, please list the client(s) and complete details of all investments and financial transactions.**

I have read the attached excerpts from the Yellow Book (attachment 1) and have reviewed the client listings (attachments 2 and 3). Except as noted above, there are no impairments to my independence for audit clients of the State Auditor's Office. I UNDERSTAND THAT IF I BECOME AWARE OF CIRCUMSTANCES AFFECTING MY INDEPENDENCE OR APPEARANCE OF INDEPENDENCE WITH REGARD TO ANY AUDIT CLIENT, I WILL NOTIFY THE DIRECTOR OF STATE AUDITS IN WRITING IMMEDIATELY. IF I HAVE ANY CONTACT WITH A CLIENT REGARDING POSSIBLE EMPLOYMENT BY THEM, I WILL IMMEDIATELY NOTIFY THE DIRECTOR OF FEDERAL AUDITS IN WRITING.

SIGNATURE

DATE

POSITION

TITLE: PUBLIC CONTACTS

INQUIRIES FROM THE NEWS MEDIA

Any requests from the media for information regarding any of our work should be referred to the State Auditor. Unless specifically instructed other staff should not make comments to them.

REPORT AND WORKING PAPER CONFIDENTIALITY

Although we are a state agency and serve the public, only a portion of our work is available for public use.

Because of confidentiality requirements (see annual confidentiality statement section) we are limited to providing the public only our finished products. These are audit reports and management letters which have been released.

Before a medicaid audit report can be made available to the general public all administrative and appeal remedies must have been exhausted.

Good judgement and extreme care should be exercised when casual discussions about the auditee arise. Remember the internal affairs of each auditee are confidential. If you have any doubts as to the possible harmful effects of making a statement about the auditee outside the scope of the audit assignment then refrain from doing so.

ANNUAL CONFIDENTIALITY STATEMENT

It is the State Auditor's Office policy to obtain an annual confidentiality statement from each professional staff member. These are kept on file by fiscal year by the Deputy State Auditor. A copy of the annual statement is on the following pages.

TITLE: PUBLIC CONTACTS

TO: All Staff and Contracted CPA Firms
FROM: Deputy State Auditor
DATE:
SUBJECT: Obligation to Maintain Secrecy of Information -
Statement for the Fiscal Year Ending June 30, 20XX

During the course of our audits we are privileged to examine documents and records which are not available to the general public. The penalties for violating the confidentiality of certain documents are severe.

Attached are excerpts from the Appropriations Act, the Code of Laws and from the current contract with the Health and Human Services Finance Commission.

Each of you is cautioned to remember that any confidential information gained in the course of your work should never be discussed except on the job and only then on a need-to-know basis.

You are to read the excerpts, sign and date the statement at the bottom of this memo and return the signed statement to me - **only the signed statement need be returned.**

EXCERPTS

From Section 11-7-35 of the South Carolina Code of Laws:

Section 11-7-35. Access to records and facilities of state and private agencies receiving appropriated state monies; confidentiality.

In order to carry out his duties, the State Auditor and his assistants or designees must have access to all records and facilities of every state agency during normal operating hours. The State Auditor and his assistants or designees shall have access to all relevant records and facilities of a private organization receiving appropriated state monies, relating to the management and expenditures of these state monies, during the organization's normal operating hours. In the performance of his official duties, the State Auditor and his assistants or designees are subject to the statutory provisions and penalties regarding the confidentiality of records of the agency or organization under review. All audit working papers and memoranda of the State Auditor, except final audit reports, are confidential and not subject to public disclosure.

TITLE: PUBLIC CONTACTS

Memorandum
Page Two

From the 1976 Code of Laws, As Amended: (Regarding Department of Revenue Records)

Section 12-54-240. Disclosure of records of and reports and returns filed with Department of Revenue by employees and agents of department and state auditor's office prohibited; penalties.

- (A) Except in accordance with proper judicial order or as otherwise provided by law it is unlawful for a person to divulge or make known in any manner any particulars set forth or disclosed in any report or return required under Chapters 6, 8, 11, 13, 16, 20, or 36 or Article 17 of Chapter 21 of this title. A person violating the provisions of this section is guilty of a misdemeanor and, upon conviction, must be punished by a fine of not more than one thousand dollars or by imprisonment for not more than one year, or both. If the offender is an officer or an employee of the State, he must be dismissed from office and is disqualified from holding any public office in this State for a period of five years thereafter. If the offender is an officer or employee of a company retained by the State on an independent contract basis under subsection (B)(3) of this section or Section 12-4-350, the contract is immediately terminated and the company is not eligible to contract with the State for this purpose for a period of five years thereafter.
- (B) Nothing in this section prohibits the:
- (2) examination of records, returns, and reports held by the department by persons employed by the State Auditor's Office annually to examine the books, accounts, receipts, disbursements, vouchers, and records of the department as required by Section 11-7-20.
 - (3) examination of records, returns, and reports held by the department by persons retained on an independent contract basis by the State Auditor's Office exclusively for the purpose of auditing statewide financial statements, or by persons retained on an independent contract basis by the department to collect delinquent taxes;

ARTICLE IX - COVENANTS AND CONDITIONS

D. Safeguarding Information

The SAO shall safeguard the use and disclosure of information concerning applicants for or recipients of Title XIX services in accordance with 42 CFR Part 431, Subpart F, (2004, as amended), SCDHHS's regulations R. 126 - 170, et seq., Code of Laws of South Carolina (1976), Volume 27, as amended, and all other applicable state and federal laws and regulations and shall restrict access to, and use and disclosure of, such information in compliance with said laws and regulations.

Memorandum
Page Three

STATEMENT

I have read the memo and excerpts above concerning the obligation to maintain secrecy of information and acknowledge that I am bound by them.

NAME: _____

TITLE: _____

AGENCY/FIRM: _____

SIGNATURE: _____

DATE: _____

TITLE: CONFIDENTIALITY AND SECURITY OF REPORTS AND WORKING PAPERS

Public Report Files

A sign out procedure is used to maintain control over the numbered or public report files. Whenever a numbered report is removed from the file a completed sign out card MUST be put in its place.

If you will need the numbered report copy more than on day, sign it out and make yourself a copy.

When you have finished using the numbered copy, replace it in the file and remove the sign out card.

There are three absolute requirements:

1. NO numbered report is ever to LEAVE the office.
2. EVERY report removed from the file must be replaced by a sign out card.
3. EACH report MUST be refiled correctly in NUMERICAL order when you are finished with it.

We are often requested by the Legislature or the news media to provide a report on short notice. Therefore, the integrity of the Public File is essential. If the sign out system does not produce the necessary order and control, we will be forced to keep the files locked and require a written request and/or receipt for each report taken. Your cooperation in implementing and abiding by the sign out system will allow us to leave the files unlocked.

Reports in Word Processing

All reports in Word Processing, including pencil drafts, corrections, and originals, will be locked in a file cabinet after 5:00pm and on weekends. If you will need access to any of these files, make arrangements with the Word Processing Supervisor, during office hours, in advance.

If you retrieve any of these files during office hours, sign the log sheet on top of the filing cabinet stating what report folder you are taking, the date, and sign your name. When you return the folder, mark out your name and the report you are returning.

These procedures keep word processing informed as to the location of all reports in progress.

TITLE: CONFIDENTIALITY AND SECURITY OF REPORTS AND WORKING PAPERS

Office Workpaper Files

For a period of time after report issuance bound workpapers remain in-house before being sent to archives. When these audit working paper binders are removed from the files for any purpose whatsoever, the staff person taking the binders will sign his name, insert the date and name of agency working papers being removed, on the sign-out cards. After the necessary information is placed on the sign-out card, the card is to be inserted in the applicable position in the file drawer where the working papers were removed.

Upon return of audit working paper binders to the files, the sign-out information that had previously been listed on the sign-out card should be crossed out and the card removed from the file.

A supply of the sign-out cards will be available on top of the files.

It should be emphasized that performance of the procedures outlined above is the personal responsibility of the staff person who either removes or returns audit working paper binders.

On-Site Workpapers

Throughout the audit, the auditor is responsible for the safe custody of his working papers.

1. The following guidelines indicate what precautions should be taken to properly secure working papers.
 - a. Working papers should not be left unattended during the day in places where they might be accessible to the public, auditee personnel, or other persons not authorized to examine them.
 - b. Working papers should be locked up overnight. The use of lockable cabinets of the kind usually obtainable from the agencies may not provide full protection against determined efforts to gain access. Nevertheless, the systematic use of such cabinets should discourage such attempts and prevent unauthorized access except by willful violation of established safeguards.

TITLE: CONFIDENTIALITY AND SECURITY OF REPORTS AND WORKING PAPERS

- c. Special precautions are needed for materials of an unusually sensitive nature (such as personnel and payroll files). It may be possible to place such material in security cabinets. If not, use should be made of some safeguard beyond the type of lockable file generally used by the Auditee and for which keys are often readily available. Alternate measures include the use of cabinets with bars and combination padlocks, locked trunks, or padlocked briefcases stored in locked files.
 - d. When it is necessary to take working papers to a hotel or motel room, the papers should not be left in the open when the auditor is absent from the room, but should be kept in locked briefcases or suitcases.
 - e. When it is necessary to leave working papers unattended in an automobile, they should be locked in the trunk rather than left on the seat or floor of the car.
2. Maintain the security established by the auditee for their sensitive records and documents.
- a. Respect the confidentiality of payroll and personnel records.
 - b. Protect sensitive and confidential data from unauthorized auditee personnel.
 - c. Be aware that certain taxpayer and proprietary data is protected by law from unauthorized disclosures.

This does not mean the auditor is prohibited from showing his work papers to auditee personnel under appropriate circumstances. Sometimes it can be quite useful for the auditor, particularly where there are no indications of fraud or damaging comments, to reveal the results of his review to knowledgeable auditee personnel in order to gain further information to help him evaluate significance, perspective, accuracy, and relevance. However, the auditor must always know who has access to his papers.

TITLE: REQUESTS FOR AUDIT INVESTIGATIONS AND OTHER SERVICES

Members of the staff may receive requests from auditees (normally during the audit or shortly thereafter) to perform accounting services unrelated to the audit.

While we wish to be helpful and supportive, we must also consider these requests in view of certain factors, namely -

- 1) Our workload prohibits us from investing much time in such activities
- 2) We must be careful not to impair our independence (examples--posting the general ledger, setting inventory pricing policies)
- 3) We must be careful not to get involved in internal agency "politics" (example--assisting someone in preparing data that might be used to criticize someone else within the agency or another agency)

All such requests should be approved by the appropriate manager or Deputy State Auditor before proceeding. The in-charge auditor should determine the approximate time involved, as well as the potential effect of items 2 & 3 above, where possible, before presenting the situation to the manager or deputy.

The performance of investigative services or special projects or audits will be initiated only after approval by the State Auditor.

TITLE: CHAPTER II - GENERAL AUDITING POLICIES AND PROCEDURES - INDEX

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TITLE: CHAPTER II - GENERAL AUDITING POLICIES AND PROCEDURES - INDEX

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TITLE: INTRODUCTION

Chapter II sets forth the general auditing policies and procedures for state agencies and medicaid audits and engagements. Financial auditing provides an independent opinion on the fairness of presentation of an entity's financial statements in accordance with U.S. generally accepted accounting principles. A state-wide single audit is conducted for state agencies that receive federal financial assistance in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133. Agencies also receive an Agreed-Upon Procedures report. Medicaid engagements include a review of the financial and statistical records for the purpose of determining the reimbursement settlement between the Department of Health and Human Services and Medicaid providers. Medicaid providers receive an Agreed-Upon Procedures report.

State agency and medicaid engagements have common practices and procedures. This chapter discusses common practices and procedures. Chapter III discusses the specific aspects of financial and compliance auditing.

TITLE: ENGAGEMENT LETTERS

AU Section 310.05 and SSAE No.10, Chapter 2.10 requires the auditor to establish an understanding with the auditee regarding the services to be performed for each engagement. That understanding can be documented in an engagement letter or other written communication.

Engagement letters are not a professional requirement but a matter of sound business practice. Engagement letters are recommended, whenever practical for state agencies and are always used for medicaid and State agreed-upon procedures engagements.

An engagement letter notifies an organization that an engagement (i.e., audit, AUP, etc.) will be conducted in the near future.

An engagement letter will generally include:

- . Name of the organization and fiscal year(s) covered by the engagement, if applicable.
- . Statements to be examined and/or scope of services to be provided.
- . Planned starting of the engagement.
- . Obligation of the agency to prepare schedules and statements.
- . Names of Manager, In-charge Auditor and Staff Auditors assigned to the audit. *
- . Arrangements for working space.
- . Additional items, as appropriate. * *

** Not included in Medicaid agreed-upon procedures engagements*

*** SAS 89 - "Audit Adjustments" amends AU Section 310.06 and is effective for SAO 6-30-01 engagements. Applies only to audits of financial statements.*

Sample engagement letters for medicaid engagements, State agreed-upon procedures engagements, and state agency audits are available in the forms cabinet.

Audit managers are to approve engagement letters.

Section 203 of the PPC *'Guide to Audits of Local Governments'* discusses engagement letters. GCL-1a illustrates a Standard Audit Engagement Letter and GCL-1c illustrates a Yellow Book Audit Engagement Letter.

TITLE: ENTRANCE/EXIT CONFERENCES

Entrance Conference

SAO policy requires an entrance and exit conference generally be held for each engagement. An entrance conference is necessary to verbally discuss the nature and scope of the engagement. It is mandatory that the entrance conference be attended by the In-charge Auditor. Generally, staff auditors assigned to the engagement will attend. Agency personnel should include the department director, division director, program administrators, controller and/or supervising accountant.

We should inquire as to any significant events occurring since our last engagement such as key personnel changes, system changes, known defalcations, material errors or natural disasters. Any schedules, documents and other assistance to be provided by the auditee should be requested and an agreement reached as to delivery dates. A memo should be written to document attendees, points discussed, and agreements reached and filed in working papers section A-5.

Exit Conference

The exit conference is necessary to discuss findings and the planned report. An informal exit conference is usually held at the end of fieldwork and if requested by the auditee a formal exit conference will be held after the draft report is presented.

Items discussed during the exit conference should include the type of report to be issued, items which will be in the management letter, and questioned costs for instances of noncompliance with laws and regulations and any items handled as potential audit findings which do not get included in the management letter. The conference provides an indication of the organization's response to the report and to the specific finding recommendations. Generally, key staff auditors and the In-charge Auditor will attend the exit conference. Key personnel should attend the exit conference, including the department director, controller and/or supervising accountant and other administrators required to respond to the report's findings and comments. The exit conference is scheduled by the audit manager or In-charge Auditor as soon as the draft of the report is available. A memo should be written to document attendees and points discussed and filed in working paper section A-5.

When a report has been released by the Deputy State Auditor, a typed draft is e-mailed to the auditee with an invitation for an additional conference should the auditee have unresolved questions or concerns. If such a conference is requested, the Audit Manager is notified.

Neither entrance nor exit conferences should be scheduled without previously informing the Audit Manager. The notice may be oral and need not be formally documented in the working papers.

USING WORK OF INTERNAL AUDITORS

The work of internal auditors cannot be substituted for the work of the SAO; however, when obtaining an understanding of internal control the In-charge Auditor should obtain an understanding of the internal audit function sufficient to identify those internal audit activities that are relevant to planning the audit (i.e., the In-charge Auditor should consider the procedures, if any, performed by internal auditors in determining the nature, timing and extent of our own auditing procedures). If the In-charge Auditor decides the work performed by internal auditors may have a bearing on our own procedures, we should consider the competence and objectivity of internal auditors and evaluate their work. For financial and compliance engagements, guidelines for judging competency and objectivity of internal auditors are set forth in "Codification of Statements on Auditing Standards" published by the American Institute of Certified Public Accountants and "Government Auditing Standards" published by the U.S. General Accounting Office. Any changes in work programs proposed because of work performed by internal auditors must be approved by a manager.

TITLE: USING WORK OF OTHER AUDITORS

USING WORK OF STATE COMPTROLLER GENERAL AND STATE TREASURER

Disbursement vouchers and interdepartmental transfers of most state agencies are preaudited by the Comptroller General prior to issuance of a warrant to the State Treasurer. Checks are written by the State Treasurer, not the Agency. Original invoices are required to be submitted to, and are retained by, the Comptroller General. Cancelled checks are returned to the State Treasurer. For this reason, we do not ordinarily test these documents during an agency audit or AUP engagements. Our office annually tests these controls at the state level. If this testing discloses a need for additional work at the agency level, work programs specific to that fiscal year are modified to cover the specific need.

Agencies not processing disbursements through the Comptroller General, generally Colleges and Universities, retain original invoices and cancelled checks. For these agencies, the auditor should assure that adequate consideration is given to this difference in internal control.

TITLE: USING WORK OF OTHER AUDITORS

USING WORK OF THE OFFICE OF GENERAL SERVICES AUDIT AND CERTIFICATION SECTION

In those engagements of agencies which have had a report issued by the Audit and Certification Section during our audit period, you may choose to reduce the scope of your disbursements testing for compliance with the procurement code. If you do so choose, you must satisfy yourself that the report issued is supported by their working papers or you can elect to test a relatively small sub-sample of your disbursements sample to compare with the results reported by the Audit and Certification Section.

In effect, we will utilize the work done by the Audit and Certification Section as if they were internal auditors. See SAS 322.08 for a discussion of relying on the work of internal auditors. You must document, in your working papers, the scope decision and subsequent work done to satisfy yourself that you can rely on the Audit and Certification Section Report.

INTRODUCTION - AGENCY AUDITS

One of the first and most important steps of an engagement is to review and update the statute section of a permanent file for a state agency. A governmental agency is a creation of statute, and thus, has only such rights, powers, and privileges as have been legally assigned to it either specifically or by implication. An auditor's role is to determine the rights, duties, and responsibilities assigned to the agency, and the sources of, and limitations on, such authority. Unfortunately, there is no single, concise digest prepared for this purpose. Thus, the auditor must become familiar with and learn the skills of legal research as relates to the South Carolina Constitution and statutes. The purpose of this section is to establish guidelines for this research.

There are a number of terms which are commonly used almost interchangeably, but which have precise meanings and are important for an auditor to understand. They are as follows:

- I. Law - Article of civil conduct prescribed by the supreme power in a state.

- II. Classification of Laws
 - A. **Common Law** - case law or "judge-made" law - reflects the principles enunciated by the courts in deciding individual cases.

 - B. **Constitution** - the organic and fundamental law of nation or state.
 - 1. Federal Constitution - a document of delegated powers. That is, the Federal Government has only those powers authorized by the Federal Constitution.

 - 2. State Constitution - a document of reserved powers. That is, a state has full powers, except as limited by its constitution or the Federal Constitution.

 - C. **Statutes** - an act of the Legislature - usually referring to Congress or the State Legislature.

Because, as indicated above, all authority of a state agency is based on law, the auditor is primarily concerned with the use of constitutions and statutes. The principles embodied in common law would generally involve matters of implied authority, power, or duties, which normally would require or justify a formal legal opinion of the Attorney General.

INTRODUCTION - AGENCY AUDITS (CONTINUED)

The Federal and State Constitutions, State Statutes, and Regulations are contained in the Code of Laws of South Carolina 1976 (the 1976 Code), a 27 volume set. A 2 volume general index and a single volume index to local laws are kept in our library on the shelf with the 1976 Code. Cumulative supplements have been issued annually since 1977 and are filed in the back of the jacket cover or on the shelf beside the related volume. Cumulative supplements contain laws of a general and permanent nature passed by the General Assembly since 1976. Cumulative supplements do not include appropriation acts and resolutions and memorials of either or both houses of the General Assembly. Selected statute volumes may be periodically updated to incorporate the contents of a voluminous cumulative supplement. Each such volume is stamped "Revised (year)" on the spine.

The statutory text, and related and similar subject matter within the same volume, are presented in "titles", "articles", "chapters" and "sections". When making reference to the 1976 code, our standard citation is, for example, "Section 1-1-10, 1976 South Carolina Code of Laws, as Amended". In this example, Section 1-1-10 is interpreted as follows:

- 1 = Title 1
- 1 = Chapter 1
- 10 = Section 10

Section 1-1-10 is entitled "Jurisdiction and boundaries of the State".

Volumes 23 through 27 contain the regulations of agencies, departments and institutions of the State of South Carolina (Regulations). Cumulative supplements have been issued annually since 1982 and are filed in the jacket cover of each related volume of the regulations.

GENERAL PURPOSE STATUTES

In reviewing the statutes a distinction should be made between two types of statutes:

Statutes pertaining directly and specifically to a particular agency. References to, or copies of, these statutes are accumulated and updated in the "Excerpts from Code of Laws" section of the permanent working paper file for each agency. Researching these statutes will be discussed in this section.

TITLE: RESEARCHING THE STATUTES, REGULATIONS AND APPROPRIATIONS ACT

GENERAL PURPOSE STATUTES (CONTINUED)

"General" statutes apply to agencies which deal with "statewide" areas of operations. Usually these statutes are not indexed or reproduced in agency working paper files.

Auditors are expected to become sufficiently familiar with the "general statutes" to apply them when necessary. The most important general statutes are as follows:

1. Constitution of South Carolina - Located in Volume 21.
2. Title 1 - Administration of the Government
3. Title 2 - General Assembly
4. Title 8 - Public Officers and Employees
5. Title 10 - Public Buildings and Property
6. Title 11 - Public Finance

PUBLICATIONS USED TO RESEARCH THE STATUTES

Publications used to research the statutes are the Constitution, the 1976 Code and the cumulative supplements to the 1976 Code. The Acts and Joint Resolutions of the General Assembly of the State of South Carolina may also be used (Acts and Joint Resolutions).

When research is contemplated, the following two general questions must be asked:

1. What Statutes have been adopted concerning a particular area and how do I find them?
2. What changes have been made to those statutes since enactment?

Normally, research need not extend prior to the 1976 Code since it has been adopted as law, thus superseding all prior enactments. If you do ever need to research statutes prior to 1976, Volume 22, entitled Statutory Tables, is available. It is a two part volume which allows you to follow the history of Acts of the General Assembly from 1952 to the Code of Laws of South Carolina, 1962 into the Code of Laws of South Carolina, 1976.

1976 SOUTH CAROLINA CODE OF LAWS, AS AMENDED

The 1976 Code includes a two volume General Index. It is a descriptive-word index with topic headings consisting of words that are descriptive of specific things, acts, persons or places, and embracing both legal terms and lay language. The foreword, pages iii to ix in each volume of the index, includes a discussion of the contents, preface, explanation of "How to" use the index, and table of abbreviations. The use of this foreword will make you quickly familiar with and able to use the General Index.

The 1976 Code also includes an Index to Local Laws. This index is arranged alphabetically by counties and municipalities. Statutory provisions which are strictly local in character have not been included in the 1976 code. This index gives the reader the location of these local laws within the annual Acts and Joint Resolutions of the General Assembly. Page iii contains the foreword which explains how to use the Index to Local Laws.

To use an index volume do not decide how a particular subject or item should be or must be indexed; rather, attempt to decide how many ways your subject or item might be indexed. Remember, you are trying to "second guess" the thinking of the person who prepared the index. It is suggested you list each subject and statutory reference for further use.

Duplicate statutory references may be encountered during your research. After elimination of duplicate statutory references, each reference must be thoroughly read to determine whether it relates to the subject or item you are researching. Statutory cross references and annotations following a section may disclose related statutes and indicate the thinking of the courts on matters of interpretation and limitation of the section.

CUMULATIVE SUPPLEMENTS TO THE 1976 CODE

A cumulative supplement is printed for each existing volume of the 1976 Code. The most recently issued cumulative supplement must be researched to determine whether changes or modifications in the 1976 Code were made related to your research subject. This is accomplished by using a table located in the front portion of the cumulative supplements called "Schedule of New Sections Added in this Supplement." This table lists, by the 1976 Code statute section, all permanent general statutes, administrative regulations, and court rules enacted or approved during the 1976 through the most recently completed sessions of the General Assembly. The foreword in each cumulative supplement may be consulted for guidance in its use. Statute references determined to be pertinent to your subject during the review of the 1976 Code must be compared against statutory references in the cumulative table to determine whether modifications to existing statutes have been made. Where modifications have resulted, the statutory section can be located in the cumulative supplement following the cumulative table indicated above.

As verification of your research effort, it is suggested you review the index for the most recent cumulative supplements for possible topics related to your research subject. Cumulative supplements to the 1976 Code index volumes are located in the jacket cover of the related volume. If after completing the above procedure you find nothing on your subject, you may assume it is not covered in the statutes and cumulative supplements.

At times, you may have access to the 1976 Code but the cumulative supplements may not have been updated through the last session. In these instances, the Acts and Joint Resolutions of the last session should be used in addition to the cumulative supplements. Acts and Joint Resolutions are discussed later in this section.

In actual practice, a permanent working paper file containing an "Excerpts from Code of Laws" section is maintained for all existing agencies. Therefore, an auditor's task will normally be to update the audit file for statute changes by using cumulative supplements or Acts and Joint Resolutions. However, for a recently created agency not previously audited, a complete statutory review will be necessary.

Agency personnel can be helpful in indicating statute changes, and often have copies of recently enacted statutes. Photocopies of statute sections received from agency personnel must be verified against the 1976 Code and cumulative supplements and/or Acts and Joint Resolutions to determine whether they are valid and up-to-date.

TITLE: RESEARCHING THE STATUTES, REGULATIONS AND APPROPRIATIONS ACT

ACTS AND JOINT RESOLUTIONS OF THE GENERAL ASSEMBLY OF THE STATE OF SOUTH CAROLINA

We have copies of the Acts and Joint Resolutions in our library for every year since 1984. These are bound volumes of all the Acts and Joint Resolutions of the General Assembly passed during each annual session of the General Assembly. Each session's volumes consist of the following six parts:

- Notice - general information and explanation for use.
- Ratification number to act number - table relating ratification number to assigned act number. Also shows which bills were vetoed.
- General and Permanent Laws - lists in act number order all acts and joint resolutions passed during the annual session of the General Assembly.
- Local and Temporary Laws - listed in act number order.
- Index to Regulations of State Agencies - lists regulations of State Agencies published in the State Register, showing volume and issue number in which published.
- Index to Acts and Joint Resolutions - lists acts passed during annual session, cited by their popular name.

The Acts and Joint Resolutions are most often used for research between the end of a session and the delivery of the annual cumulative supplements to the 1976 code. The annual Appropriations Act is included in the Acts and Joint Resolutions but not in the 1976 Code or its cumulative supplements.

REGULATIONS

Volumes 23 through 27 of the 1976 Code contain the regulations of agencies, departments and institutions of South Carolina promulgated pursuant to Act 176 of 1977. Each volume of the regulations contains a table of contents as its first page. The table of contents lists the agencies which have promulgated regulations that are included in the volume. A separate chapter is designated for each such agency.

The standard way to reference a regulation is, for example, "R 1 - 22, Code of Regulations". In this example, regulation R 1 - 22 is interpreted as follows:

- R = Code of Regulations
- 1 = Chapter 1, South Carolina Board of Accountancy
- 22 = Regulation Number

Regulation R 1 - 22 is entitled "Continuing Education Requirements".

REGULATIONS (CONTINUED)

Each volume of the Code of Regulations contains a cumulative supplement. Cumulative supplements have been issued annually since 1982 and are filed in the back of the jacket cover or on the shelf beside the related volume. The cumulative supplements include later amendments and new regulations as well as later constructions by the courts. The most recently issued cumulative supplement must be researched to determine whether changes were made related to your research subject. This is accomplished by using a table located in the front portion of the cumulative supplements called "Schedule of New Regulations Added in This Supplement". This table lists, by Code of Regulations Chapter and Regulation number, the full text of amendments and additions.

An index is included at the back of each chapter, both in the bound Code of Regulations and in the cumulative supplements. In actual practice, a permanent working paper file containing an "Excerpts from Code of Laws" section is maintained for all existing agencies. Therefore, an auditor's task will normally be to update the working paper file for regulations changes by using cumulative supplements. However, for a recently created agency not previously audited, a complete review of the Code of Regulations will be necessary.

Agency personnel can be helpful in indicating regulation changes, and often have copies of recently enacted regulations. Photocopies of regulations received from agency personnel must be verified against the Code of Regulations and cumulative supplements to determine whether they are valid and up-to-date.

APPROPRIATIONS ACT

One of the Acts of the General Assembly each year is the four part Appropriations Act for the subsequent fiscal year. Part I is entitled "Operation of State Government", Part II is entitled "Permanent Provisions", Part III is entitled "Surplus Fiscal Year XXXX General Fund Revenue Appropriation" and Part IV is entitled "Fiscal Year XXXX Supplemental Appropriations." The annual Appropriations Act is not included in the 1976 Code or the cumulative supplements. It is published as a separate document each year. The State Auditor's Office purchases three copies. The Act is also available on the internet.

The first several pages of the Appropriations Act (the Act) contain a listing of the titles of each major section included in the Act.

TITLE: RESEARCHING THE STATUTES, REGULATIONS AND APPROPRIATIONS ACT

APPROPRIATIONS ACT (CONTINUED)

Part I, Operation of State Government, sets forth some general provisions for the financial operations of state government. Part IA, Section 1 through the last section in Part I lists each state agency for which funds are appropriated to meet ordinary operating expenses. Each agency has a section number. Within a section, the budgeted expenditures of each agency are shown by line item within each program. These budgeted expenditures are shown in two columns - Total Funds and General Funds. The General Funds column are those appropriated expenditures to be funded from the General Fund of the State. The Total Funds Column are all appropriated expenditures, to be funded from the General Fund of the State and all other sources. These other sources include federal funds, revenues from the sale of goods and services and sale of licenses among others.

In addition, Part IB includes provisos which are directed specifically to the financial operations of the agency to which the section pertains. The Budget and Control Board section contains numerous provisos, many of which pertain to the financial operations of all agencies or groups of agencies.

Each year, an Appropriations Act Audit Program is produced by the Deputy State Auditor. Those sections of the Act which apply to the financial operations of multiple agencies are excerpted and listed.

A permanent working paper file containing an "Excerpts from Appropriations Acts" section is maintained for all agencies. An auditor's task will normally be to update the file by photocopying pertinent sections of the appropriations act(s) for the year(s) to be audited. Particular care must be taken to copy and include all provisos specific to the agency, including permanent provisions.

Part II of the Act is entitled "Permanent Provisions". In Section 1, the Code Commissioner is directed to include all permanent general laws in the next edition of the Code of Laws of South Carolina, 1976, and all supplements to the Code. Provisos included in Part II will be found in the cumulative supplements to the Code in the next year and will not be included in the Act again.

Parts III and IV of the Act are used to appropriate surplus funds from the previous year's surplus general fund revenue appropriation. These parts normally make appropriations for current year expenditures with funds to be provided by prior year surplus revenues or unexpended (lapsed) appropriations. In some years, there are no supplemental appropriations.

APPROPRIATIONS ACT (CONTINUED)

Parts III and IV appropriations must be studied very carefully. Occasionally, the wording will affect the fiscal year in which the related revenue must be reported and in which expenditures must be or may be made. When one of these situations arise, the State Auditor's Office will issue a memorandum giving the office policy for handling revenue/expenditure recognition.

INTRODUCTION - MEDICAID AUDITS

The State Auditors Office (SAO) is responsible for Medicaid engagements of institutional providers of health care in South Carolina through a contract with the Department of Health and Human Services (DHHS) which is the single state agency designated to administer Medicaid services.

A number of controlling regulations and rules are specific to the Medicaid program. They are as follows:

1. Federal Regulations - Code of Federal Regulations, CFR 42, Chapter IV Health Care Financing Administration, Department of Health and Human Services and CFR 45 Part 74.
2. Provider Reimbursement Manual (HIM-15)
3. State Plan Required by Title XIX of the Social Security Act
4. Department of Health and Human Services - Medicaid Provider Manual
5. Medicare and Medicaid Guide - CCH Vol.I - Vol.IV
6. Medicaid Bulletins
7. Crosswalk (Account Distribution Index)

The above documents are maintained in the library and are periodically undated. Changed and superseded reference materials are also retained for future use.

FEDERAL REGULATIONS

The code of Federal Regulations is a codification of the general and permanent rules published in the Federal Register. The code is divided into 50 titles which represent broad areas subject to Federal regulation. Each title is divided into chapters which usually bear the name of the issuing agency. Each chapter is further subdivided into parts covering specific regulatory areas.

Each volume of the code is revised at least once a year and the revision date is printed on the cover of each volume. To determine whether a code section has been amended since its previous publication consult the "List of CFR Sections Affected (LSA)", which is table 1 in the back section of the code.

TITLE: RESEARCHING THE STATUTES, REGULATIONS AND APPROPRIATIONS ACT

FEDERAL REGULATIONS (CONTINUED)

The contents of the Federal Register are required to be judicially noticed. The Code of Federal Regulations is prima facie evidence of the text of the original documents therefore the code can be used in legal disputes without being entered into evidence.

Title 42-Public Health is composed of four volumes. The third and fourth volumes (Part 400-end) includes all regulations issued under Chapter IV Health Care Financing Administration (HCFA). This part governs the Medicare and Medicaid programs.

Title 45-Public Welfare is also composed of four volumes. The first volume Part 74-Administration of Grants establishes uniform requirements for the administration of HHS Grants and principles for determining costs applicable to activities of the HHS grants. These cost principles apply to Medicaid transportation services provided by DHHS subcontractors.

PROVIDER REIMBURSEMENT MANUAL (HIM-15-1)

HIM-15-1 provides guidelines and policies to implement Medicare regulations which set forth principles for determining the reasonable cost of provider services furnished under the Health Insurance for the Aged Act of 1965, as amended. The provisions of the law and the regulations are accurately reflected in this manual, but it does not have the effect of regulations. HIM-15-1 was adopted by DHHS to establish reasonable cost and is referenced in the providers' contracts as a condition of reimbursement.

The procedures and methods set forth in this manual were developed to accommodate program and administrative needs of providers and intermediaries to assure that reasonable cost principles are uniformly applied nationally without regard to where covered services are furnished. For any cost situation that is not covered by the manual's guidelines and policies, generally accepted accounting principles should be applied.

The manual accommodates new pages or revisions as further interpretations of the regulations and changes in procedures and methods are made. Accordingly, revised sections, pages, or chapters, are issued as needed. Brackets in the margin of the page indicate new or changed material.

TITLE: RESEARCHING THE STATUTES, REGULATIONS AND APPROPRIATIONS ACT

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

As a condition to receiving Federal funds under title XIX of the social security Act, DHHS must submit a plan for the medical assistance program to the Federal government under the requirements established by Title XIX, Federal regulations and other official issuances of the Department. DHHS was designated to be the single state agency responsible to administer Medicaid. Attachment 4.19 of the state plan covers the institutional providers in South Carolina. Attachment 4.19D covers reimbursement on a reasonable cost related basis for skilled, intermediate nursing facilities, facilities for the mentally retarded, and facilities for quadriplegics. Attachment 4.19D states that not only are allowable costs determined in accordance with Medicaid (Title XIX) regulations and state policies but also Medicare (Title XIX) regulations as well. Medicare regulations would not apply in cases where they conflict with other applicable regulations and policies. Attachment 4.19D is revised annually (usually 7/1/xx) and must be approved by HCFA. CFR 42 Part 430-end prescribe the requirements for administering the state Medicaid Assistance Programs under Title XIX.

DHHS MEDICAID PROVIDER MANUAL

Medicaid Bulletin NH 97-02 dated April 28, 1997 transmitted the Medicaid Provider Manual effective April, 1997. This manual is to be used for program information and requirements, billing procedures, and provider service counseling.

This manual is a good reference manual for patient days, personal needs policies and eligibility requirements. This manual is referenced as a condition of reimbursement in the providers' contracts.

MEDICARE AND MEDICAID GUIDE - CCH

The Medicare and Medicaid Guide which can be accessed on-line furnishes information on the programs established by Titles XVIII (Medicare) and XIX (Medicaid) of the Social Security Act. Reporting covers all aspects of these two federal laws, and state Medicaid laws are covered in summary fashion. The material covered includes not only the federal laws, regulations, and subsidiary material issued by the various federal agencies responsible for the administration of these programs, but also state and federal court decisions, reports to Congress on Medicare and Medicaid issued by the General Accounting Office, and other pertinent materials.

MEDICARE AND MEDICAID GUIDE - CCH (CONTINUED)

Information about the Medicare and Medicaid programs is mailed to subscribers in regular biweekly reports. This information is coordinated with the basic contents of the looseleaf guide. Within four looseleaf volumes information is arranged by topic and indexed for continuing reference. Major topics are grouped together in separate divisions, identified by guide cards with printed tabs indicating the topics treated in each division. The subject divisions, their order, and the volumes in which they are located, are as follows:

- Volume 1 - Medicare Part A & Part B, PPS, DRGS,
and Provider Reimbursement Manual (HIM-15)
- Volume 2 - HIM-15, Medicare Forms and Agreements
- Volume 3 - Medicare: General, Medicaid, Laws
- Volume 4 - Medicare, New Developments

CCH by itself is not authoritative; however, each section is preceded by the applicable regulation, and each section of the manual is followed by a source note tracing the history of the section and by annotations giving the substance of rulings, court decisions, and Provider Reimbursement Review Board decisions on the subtopic. There is a line in small type at the end of each of these annotations, identifying the source of the annotation and giving the paragraph number where the material was first reported by CCH.

Current reports, consecutively numbered and issued every two weeks, contain the full text or summaries of new developments concerning the Medicare and Medicaid programs. The information in each report is coordinated with the contents of the looseleaf guide and is arranged so that new pages may replace existing pages or be added to the contents of the guide. Also each report begins with a summary of the new developments and instructions for the filing of the new pages. Current items in each report appear in the New Developments section, with the appropriate references to paragraph where earlier material on the same topic appear in the subject matter section.

In addition to the regular biweekly reports, or as part of a regular report, texts of Congressional Committee Reports on key federal bills concerning Medicare or Medicaid are included.

MEDICARE AND MEDICAID GUIDE - CCH (CONTINUED)

Using the Guide and Current Reports - The Medicare and Medicaid guide contains a number of research tools for locating pertinent material. These are the Topical Indexes, the Finding Lists, and the Cumulative Index, all identified on the guide card tabs. The basic approach is from the Topical indexes to the subject matter divisions and from the subject matter divisions to the Cumulative Index, where paragraph references lead to details of current items in the New Developments division. This topical approach involves two basic steps:

The first step is to locate in the Topical Indexes in Volume I the topic you are interested in. This division contains two separate indexes, one relating to Medicare and the other to Medicaid. Cost topics are usually found in the Medicare index. You will find each topic listed alphabetically in the appropriate index, with the paragraph number references to the particular item being researched. Appropriate subentries under the main heading will aid in locating the specific section of the guide. As you read the material in the section selected be sure to note any annotations that will lead you to further sections on the topic. You should always try to reduce your topic to key words prior to beginning your search. Decisions of the Provider Reimbursement Review Board and subsequent action on the Board's decisions or the Administrator of HCFA or the courts can be located in a special finding listing also located in the Finding Lists division of Volume I.

The next step is to check for new developments located in the Topical Index of New Developments division in Volume 4. This division contains the Topical Index to New Developments and the Cumulative Index. These indexes can help you find recent entries that have not yet been incorporated into the Medicare or Medicaid Indexes. The Topical Index to New Developments is arranged like the Medicare or Medicaid indexes, i.e., by topic, and references are made to guide numbers and paragraphs. There will also be references to new laws, regulations, or entries into the guide. The Cumulative Index is organized so each time a new development affects a paragraph in the guide it is keyed to the subject through the Cumulative Index. The paragraph number of the subject is set out on the left hand side of the page, followed by a very short description of the new development. The description is in turn followed by a reference to the paragraph in the new developments division at which the item is reported.

MEDICARE AND MEDICAID GUIDE - CCH (CONTINUED)

The contents of each report and of the current reports are arranged by paragraph numbers. They are enclosed in brackets to distinguish them from official law, regulations, and manual section numbers, which are always included with the official text. These numbers, preceded by a paragraph sign, designate each topic and subtopic. Paragraph numbers also appear on the outside corner at the bottom of each page. References throughout the guide are to paragraph numbers rather than page numbers. Page numbers appear at the top outside corner of each page. Page numbers establish the sequence of pages in the volume and are used primarily for the filing of the new pages in the guide.

MEDICAID BULLETINS

Medicaid Bulletins are issued by DHHS for all medicaid programs by the program area making the change or informing the respective program providers. The changes are incorporated in the program manual when revised. Medicaid Bulletins are coded for the program and fiscal year issued and numbered consecutively. For the first nursing home program bulletin issued during FY00 the code would be NF 00-01. These bulletins have the same regulatory status as the Medicaid Long Term Care Manual previously mentioned.

Crosswalk (Account Distribution Index)

The crosswalk is issued by DHHS to classify items into the various cost report cost centers. This document is located in the Medicaid Nursing Home Accounting and Reporting Manual Chapter 5000. This section is periodically amended by DHHS through Medicaid bulletins, cost report instructions and provider correspondence.

All of the above reference books are maintained in the SAO's library except the pages replaced in the CCH guide that can be found in the file room. The new developments are filed by paragraph number of the new development and are in separate binders in the library. In addition, special issues of CCH covering major law changes, Medicare form revisions and instructions, and federal Medicare and Medicaid budgets are filed in binders.

Medicaid

The State Auditor's Office has adopted the audit sampling methodology set forth in the Guide to Audits of Small Businesses (Guide), Practitioners Publishing Company, Chapter 4, which is entitled "Extent of Tests." Chapter 4 is incorporated into this manual by reference.

All engagements with the exception of CLTC should follow Chapter 4 of the Guide. A disproportionate stratified random sampling methodology will be used for CLTC. Any deviations from these methodologies must be formally approved by the audit manager. Documentation of the decision to utilize a sampling or non-sampling approach will be documented by completing and including in the workpapers the appropriate worksheets and forms referenced and explained in Chapter 4. These forms are found in the "CX Checklists and Practice Aids" section of Volume II of the Guide and include:

- CX-7a Planning Worksheet to Determine Extent of Substantive Tests*
- CX-7b Sampling Planning and Evaluation Form-Substantive Tests
- CX-7c Sampling Worksheet for Testing Account Coding and Classifications
- CX-16 Tests of Controls Sampling Planning and Evaluation Form
- CX-14 Inherent Risk Assessment Form

Agency Audits

The State Auditor's Office has adopted the audit sampling methodology set forth in Guide to Audits of Local Governments (Guide), Practitioners Publishing Company, Chapter 5, which is entitled "Audit Sampling in a Governmental Audit Engagement." Chapter 5 is incorporated into this manual by reference.

All audit engagements, with the exception of the Statewide financial audit, must follow the guidance in Chapter 5. Documentation of the decision to utilize a sampling or non-sampling approach will be documented by completing and including in the work papers the appropriate worksheets and forms referenced and explained in Chapter 5. Those forms, which are listed in the GCX index of Volume III of the Guide, are available in the forms file.

The Statewide financial audit will utilize the sampling methodology of the joint audit firm. Documentation of the decisions made pertaining to the sampling approach will be documented in the Statewide working papers.

TITLE: ERRORS, IRREGULARITIES AND ILLEGAL ACTS

SAS No. 54, "Illegal Acts by Clients", imposes on the auditor the same responsibility to detect and report misstatements resulting from illegal acts having a direct and material effect on the determination of financial statement amounts as that described in SAS No. 53. For other illegal acts having material but indirect effects on financial statements, SAS No. 54 requires that if specific information comes to the auditor's attention that provides evidence concerning the existence of possible illegal acts, the auditor should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

SAS No. 82, "Consideration of Fraud in A Financial Statement Audit" requires the audit be planned and performed such that the auditor can obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

Auditors should be alert to situations that could be indicative of errors, irregularities or illegal acts. Suspected errors, irregularities or illegal acts should be handled as addressed below. The intent of this procedure is to ensure that an SAO employee has a reasonable basis for concluding errors, irregularities or illegal acts may have been committed.

Reporting Suspected Errors, Irregularities or Illegal Acts

Audit procedures may disclose possible errors, irregularities or illegal acts through tests of transactions and account balances, study and evaluation of internal accounting controls or inquiries of management.

Evidence of possible illegal acts should not be processed as a routine error or irregularity. Suspected acts of misuse or embezzlement of public funds or suspected crime or illegal transactions should be immediately reported, with work papers, through appropriate levels of supervision to the State Auditor.

Extended audit testing and/or discussions with agency personnel and others may be necessary as directed by the State Auditor. Legal advice may be requested from the Attorney General's Office by the State Auditor

TITLE: ERRORS, IRREGULARITIES AND ILLEGAL ACTS

Consideration of Potential Errors, Irregularities or Illegal Acts

The planning work program has been expanded to ensure that staff members are aware that irregularities and illegal acts may occur and to ensure that they maintain the proper degree of professional skepticism. Auditors for state agencies document this understanding through the use of the "State Auditor's Office Consideration of Potential Errors and Irregularities" form. The form is available in the forms file. It is to be read and signed by every staff member assigned to an engagement. The completed form is to be filed in the planning section of the work papers. When starting new engagements, the form is to be completed during the planning process.

These procedures will help us document compliance with U.S. GAAS & GAGAS.

Medicaid agreed-upon procedures call for the auditors to document the awareness that errors, irregularities, or illegal acts may occur by notation of auditees responses at the entry conference.

TITLE: RESOLVING TECHNICAL AUDIT PROBLEMS AND ISSUES

FIELD WORK

Certain audit situations may require consultation with other SAO staff with special knowledge or responsibility in certain areas. SAO auditors are encouraged to resolve technical problems and issues through discussions with the engagement in-charge auditor and/or manager. A technical reference library is maintained to assist employees in resolving audit questions or problems.

When technical expertise is not available within the SAO, the question or problem may be referred to the South Carolina Board of Accountancy, American Institute of Certified Public Accountants or other recognized groups capable of addressing technical inquiries. These inquiries are coordinated through the Deputy State Auditor. The response to an inquiry is reviewed by the Deputy State Auditor and Engagement Manager to determine the effect on the audit situation. A statement addressing resolution of the audit problem or question is to be included in the audit work papers.

During the course of an engagement SAO auditors may disagree regarding resolution of a problem or issue. As previously indicated, consultation with other SAO staff with special knowledge may be of assistance. When the disagreement cannot be resolved, the following procedure should be followed:

Disagreements relating to audit scope or approach, materiality, financial statement presentation, findings to be included in internal control work papers, internal control memoranda to the auditee, audit report comments or allowability of medicaid cost will be fully explained in a memorandum by the audit staff member disagreeing with the proposed treatment. The in-charge auditor directing the suggested treatment will prepare a memorandum which: A) acknowledges the disagreements and issues raised; B) provides an explicit statement of the direction to be taken; and C) acknowledges responsibility as in-charge auditor for the decision. Both memorandums will be included in the audit work papers.

The first manager's log prepared after the above memorandums have been written will include a reference to the memorandums. The engagement manager has final authority for resolution of technical audit problems and issues raised by SAO staff in conduct of audits.

Under no circumstances will a SAO staff member be adversely evaluated as a result of preparing a written memorandum addressing technical disagreement.

SCOPE IMPAIRMENTS

The South Carolina Code of Laws charges the State Auditor with the following:

Section 11-7-20. Annual audits of state agencies.

- (A) All State agencies and entities supported partially or entirely by public funds are subject to audit by or under the oversight of the State Auditor, except as otherwise specifically provided by law. The State Auditor, to the extent practicable and consistent with his overall responsibility, shall audit or cause to be audited each State agency and entity annually.
- (B) Annually the State Auditor shall audit or cause to be audited the State's basic financial statements prepared by the Comptroller General of South Carolina.
- (C) Annually the State Auditor shall audit or cause to be audited the compliance of the State of South Carolina with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement as applicable to major Federal programs.
- (D) Audits must be conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

Section 11-7-35. Access to records and facilities of state and private agencies receiving appropriated state monies; confidentiality.

In order to carry out his duties, the State Auditor and his assistants or designees must have access to all records and facilities of every state agency during normal operating hours. The State Auditor and his assistants or designees shall have access to all relevant records and facilities of a private organization receiving appropriated state monies, relating to the management and expenditures of these state monies, during the organization's normal operating hours. In the performance of his official duties, the State Auditor and his assistants or designees are subject to the statutory provisions and penalties regarding the confidentiality of records of the agency or organization under review. All audit working papers and memoranda of the State Auditor, except final audit reports, are confidential and not subject to public disclosure.

Section 11-7-45. Guarantee of independence.

As required by professional auditing standards, the State Auditor shall maintain independence in the performance of his authorized duties. Neither the Governor nor an agency or entity of the executive or judicial branches of State government has the authority to limit the scope, direction, or report content of an audit undertaken by the State Auditor.

SCOPE IMPAIRMENTS (CONTINUED)

Section 11-7-50. Service on board or commission; management responsibility of program.

- (A) To preserve the independence and objectivity of the audit function, the State Auditor or his employees may not serve in any capacity on an administrative board, commission, or other organization that they have the responsibility or authority to audit, and they may not have a material, direct or indirect, financial or other economic interest in the transactions of a State agency.
- (B) The State Auditor or a member of his staff may not conduct an audit of a program, activity, or agency for which he had management responsibility or by which he has been employed during the last two years.

Given this authority there should not be any interference from any state agency or medicaid provider personnel in access to records, the selection of transactions to be examined, or other impairments in the conduct of an audit. In case there is an attempt to impair the scope of an audit, the matter shall be immediately transmitted in writing to the Deputy State Auditor for resolution.

Introduction

The SAO has adopted "A Writers Reference," by Diana Hacker, as a grammar guide. The reference book also includes information on formatting and documentation which should be used by SAO auditors. A copy of this paperback text is included in the SAO library and copies have been issued to each auditor. "A Manual for Writers of Term Papers, Theses, and Dissertations," by Kate L. Turabian, Fourth Edition, provides more detailed information on style and formatting of reports and is included in the SAO library.

Selected comments concerning capitalization and citing statutory references are provided below. Detailed comments concerning capitalization, punctuation, footnotes, etc. are provided in the above mentioned texts.

The SAO has adopted the American Heritage Dictionary, Second College Edition, as the official dictionary. Dictionaries may be checked out of the SAO Library as needed. Each staff member will be issued an American Heritage Spelling dictionary and will be expected to use it as needed.

Capitalization Guide for Commonly used Words

1. **Federal.** Capitalize **federal** when it is part of a title such as:

Federal Government
Federal Bureau of...

Do not capitalize **federal** when it is used as an adjective in a general sense, such as:

federal funds federal officials
federal employees federal agencies

2. **State.** Capitalize **state** when it is part of a title such as:

State of South Carolina
State General Fund

Do not capitalize **state** when it is used as an adjective in a general sense, such as:

state employees state highways
state funds

TITLE: STYLE GUIDE

3. **Legislature.** Capitalize the full title and the term **legislature** or any other appropriate term when referring to the specific rule-making body of South Carolina or any other state.

The Legislature passed...
The South Carolina General Assembly...

4. **Titles of Auditees.** Capitalize full official titles of auditees and any parts of the title used in place of the full title and when referring to the auditee as a specific entity.

Commission of Higher Education	Commission
Department of Agriculture	Department
University of South Carolina	University

5. **General Fund.** Capitalize **general fund** when it is used as the name of the specific fund such as:

The General Fund of the State...
The General Fund of the agency...

Do not capitalize **general fund** when it is used as an adjective such as:

The general fund appropriate to the agency...

6. **Fiscal Year.** Capitalize the term **fiscal year** when used with a specific year, such as:

Fiscal Year 76 or Fiscal Year 1976

Do not capitalize **fiscal year** when used in a general sense such as:

During the fiscal year, the agency...
The fiscal year begins on...

Citing Statutory References

Statutes are divided into titles, chapters, and sections.

To cite a section: Section 8-1-10, of the 1976 S.C. Code of Laws as amended

If the specific statute cited has been amended:

To cite a change which has not been included in the supplement when the report is issued: use the reference as above plus the following "(as amended by Chapter 123, 1983 Session Laws)". (Use the appropriate chapter and year for the reference.)

The following guidelines should also be followed:

1. Capitalize the words "title," "chapter," or "section" in the reference.
2. At times we may want to refer to a particular House Bill or Senate Bill and not to the specific statute. When this is necessary use one of the following, as appropriate:

House Bill 1078, 1984 Session (use when bill did not become law)

House Bill 1078, chapter 123, 1984 Session Laws (use when bill did become law)

The Quality Control Inspection System

The purpose of the quality control inspection system which was implemented in July, 1986, is to provide assurance that SAO engagements are conducted in accordance with U.S. "generally accepted auditing standards" and "generally accepted government auditing standards," when appropriate. The system provides self regulation in order to insure the maintenance and improvement of the quality of work performed. The quality control inspections are educational and preventive in nature, and are designed to assure that SAO policies and procedures are operating effectively.

The SAO inspection system consists of quality control review of selected engagements after the report is issued.

The above review is in addition to the field reviews and manager reviews. Inspection pertains to both State Agency and Medicaid engagements.

The quality control review is a comprehensive review of a sample of engagements to determine compliance with professional standards and SAO policies and procedures. The strengths and weaknesses noted by the reviews will be communicated to the State Auditor or Deputy State Auditor.

The procedures for quality control reviews are discussed on the following pages.

TITLE: QUALITY CONTROL INSPECTION SYSTEM

The Deputy State Auditor will review the corrected preliminary draft to ascertain revisions were made by word processing. The preliminary draft report and the management letter draft (if applicable) are then given to the State Auditor for final review and signature on the letter of transmittal. Once the State Auditor has signed the letter of transmittal, the preliminary draft will be mailed to the state agency or provider.

TITLE: QUALITY CONTROL INSPECTION SYSTEM

State Agencies Final Release

When authorization is received from the state agency to release the report, the Deputy State Auditor will be notified. The Deputy State Auditor will ensure that all pending items, such as the mailing list, attorney letter(s), and management representation letter, have been received and will follow-up on items not received. The Deputy State Auditor will then obtain the typed draft file from word processing for the final review. The complete report will be reread, looking mainly for spelling, punctuation and grammar errors. If a management letter is involved, the auditee's written response should be reviewed to ascertain if it is responsive to all points in our management letter. If questions arise as to management's response, the Deputy State Auditor should consult with the engagement manager. After any questions are resolved, the draft report is returned to word processing to incorporate management's response. If any final corrections to the report are required, they would be made at this time also. The final changes made by word processing are to be reviewed by the Deputy State Auditor.

Upon completion of the above procedures the State Agency report with management letter will be presented to the State Auditor for his signature.

Medicaid Final Release

Once the engagement manager approves any required corrections made to the preliminary report, word processing makes these changes and forwards the report to the engagement manager for review. Procedures similar to those performed at the preliminary issuance stage will be conducted.

Upon final approval by the engagement manager, the report will then be submitted to the Deputy State Auditor for final review before submission to the State Auditor for his signature.

QUALITY CONTROL ENGAGEMENT REVIEWS

The Deputy State Auditor shall be responsible for ensuring the efficiency and effectiveness of the quality control engagement reviews. The Deputy will select the engagements to be reviewed, provide guidance on the review process, and revise QC engagement checklists as needed.

After the engagement manager review, the manager is to submit a list of all staff involved in the engagement to the Deputy, so that the independence of each auditor can be verified for engagements that are reviewed.

TITLE: QUALITY CONTROL INSPECTION SYSTEM

Selection of Engagements for Review

The reviews will be scheduled periodically.

In order to achieve a reasonable level of assurance concerning the SAO quality of engagements, the Deputy State Auditor will select a cross section of engagements issued by the SAO. During the course of several fiscal years, engagements of all managers and supervisors will be selected for review, if practical.

The number of engagements selected for review will be contingent upon a number of factors including the size and nature of the engagements performed. The engagements to be reviewed will be selected from the reports issued during the previous 12 months. At least 1% of budgeted hours for reports issued during the fiscal year will be reviewed. The budgeted hours for the Statewide Audit and Statewide Single Audit may be excluded from the population if the following conditions exist:

1. The audit is subject to review during the SAO external quality control review or
2. The audit is subject to review by the contract audit firm's in-house quality control review, local office quality control review, or firm-wide quality control review.

The engagements to be reviewed for contracted state agency engagements will be selected from the reports issued during the fiscal year. At least one contract firm not previously reviewed will be reviewed each year.

Documentation of Reviews

The QC engagement review will be performed using QC checklists. These checklists provide detailed guidance for performing the reviews, provide workpaper documentation of the review performed, and provide consistency for the reviews. The reviewer will complete one checklist for each engagement selected for review. Point sheets may also be used if needed.

TITLE: QUALITY CONTROL INSPECTION SYSTEM

The importance of professional judgment cannot be overemphasized. The exercise of sound professional judgment is required as specific circumstances dictate. The purpose of the QC engagement review is not to scrutinize every tickmark on every workpaper; however, significant flaws in working paper techniques should be noted. The purpose of the review is to concentrate on the substance of the work performed, i.e., does the work performed, as documented, adequately support the conclusions of the report.

Based on the responses to the checklist(s), the reviewer will note both strengths and weaknesses and include any comments appropriate in the circumstances. The Deputy will communicate the results of the review to the engagement manager and auditor-in-charge. Time will be allowed for a response from the engagement manager, if needed, and then the report will be distributed to the State Auditor.

An annual summary report of the review comments will be prepared by the Deputy for the State Auditor. The State Auditor will respond to the report with any action to be taken. The State Auditor shall communicate significant deficiencies noted in the annual summary report to the staff members as deemed necessary.

TITLE: DISTRIBUTION OF REPORTS

State Agency

Reports and management letters are distributed in accordance with a distribution policy approved by the Budget and Control Board.

This policy provides

1. The Governor, Comptroller General, State Treasurer, Chairman of Senate Finance Committee, Chairman of House Ways and Means Committee, Executive Director of Budget and Control Board, the State Agency audited, and the Legislative Audit Council will be notified when the report is issued final.
2. A list of all reports issued shall be transmitted quarterly to each member of the General Assembly and copies of reports requested by a member of the General Assembly shall be furnished.
3. The State Auditor notifies each member of the agency's governing board or commission that the report has been issued.
4. Copies of all reports shall be made available and forwarded to any federal or state agency which demonstrates a real need for such report. (The federal cognizant agency; any state, federal or local government funding source; and the Single Audit Clearing House are furnished copies when the report is released. Others are provided copies upon request.)
5. Copies of reports shall be provided to other interested parties at the cost of reproduction.
6. The State Auditor shall maintain a file of all reports issued which is open for public inspection during normal business hours.

Medicaid

Reports are normally issued to the provider and to the program and reimbursement sections of the Department of Health and Human Services. In addition, at the conclusion of the appeals rights available to the provider, a copy is placed in a public file.

Other

Reports which originate from special requests are distributed to the requester. Specific circumstances determine whether or not these reports are public documents.

TITLE: APPEALS PROCESS

The South Carolina Administrative Procedures Act (APA) allows for decisions made by state agencies to be appealed by the party affected by the decision. Reports of Medicaid Providers issued by the State Auditor's Office are performed under contract with the Department of Health and Human Services (DHHS) and are used to make payment settlements for the costs of the services contracted. These reports represent the basis for payment adjustments made by DHHS and are therefore subject to the provisions of the APA.

The procedures adopted by DHHS require the aggrieved party to give notice of its intent to appeal within 30 calendar days of report issuance and to identify the report items (audit adjustments) contested and the basis for contest.

Shortly thereafter the State Auditor's Office is notified by DHHS of the provider's request to appeal. A pre-hearing conference is attended by the auditors, the provider and their respective legal counsels. The purpose of the conference is to ensure the parties have an opportunity to further discuss the appealed issues and perhaps to provide adequate documentation which will reduce items appealed or eliminate the need for the appeal altogether. This meeting is usually scheduled several days before the scheduled appeals hearing date. As a result of the prehearing conference, in many cases an agreement is reached regarding the extent of the audit adjustments. Often additional audit evidence is presented. In these instances a settlement is reached and the formal appeal stage is not necessary.

In situations when all issues are not resolved as a result of a preappeals hearing, the remaining issues are presented to an appeals examiner by the respective attorneys. The process includes testimony by the witnesses and cross examination by the opposing attorney. The auditors involved in the particular engagement serve as witnesses since they are most knowledgeable about the appealed audit adjustments. The examiner considers the facts and prepares a written decision. The decision is usually rendered within a few weeks after the hearing. If either party is aggrieved as a result of the decision, then recourse is available through appeal in the state's judicial system. Evidence presented at the administrative hearing is used for cases heard in the courts and no additional participation by the SAO staff is necessary. Copies of all decisions, both administrative and judicial, are placed in the public report file with the respective report.

TITLE: CONTRACTED AUDIT SERVICES

General

The Consolidated Procurement Code specifically exempts auditing services from the requirement of competitive bidding. It does, however require any state agency to obtain the approval of the State Auditor before entering into a contract to procure auditing services. It is the policy of the State Auditor's Office to require the use of competitive bidding through the use of a request for proposal (RFP) process unless the agency procuring the auditing services has a good, convincing reason not to. The State Auditor decides on a case by case basis whether to grant a request not to bid auditing services.

Medicaid engagements are generally not contracted.

The State Auditor's Office usually is given an appropriation for the purpose of contracting some of its engagements. In addition, it has a proviso in the Appropriations Act which allows the transfer and use of excess personal services funds to contract for auditing services.

The Deputy State Auditor compiles a list of engagements to be contracted once the amount appropriated is reasonably determinable. The list is presented to the State Auditor for discussion, amendment and approval.

PROCUREMENT PROCEDURE

The State Auditor's Office uses three methods of procuring auditing services:

1. Negotiated contract.
2. Request for proposals from selected firms.
3. Advertised request for proposals.

A negotiated contract or a request for proposal from a single firm is an infrequently used method and is used with the prior approval of the State Auditor. It is most often used when the audit to be done is relatively small and must be done within a short time frame. Normally, the Deputy State Auditor will request the State Auditor's permission to negotiate a contract, suggest one or more firms to use, and, after permission is obtained, request a proposal from the firm selected.

Requests for proposals from two or more selected firms are also infrequently used. This method is used when the audit to be done is relatively large and must be done within a short time frame. The procedure is virtually the same as for negotiated procurements except that more than one proposal is requested, the proposals are evaluated and the firm with the lowest priced responsive proposal is selected and awarded a contract.

TITLE: CONTRACTED AUDIT SERVICES

PROCUREMENT PROCEDURE (CONTINUED)

Advertised request for proposals is the most often used method of obtaining auditing services. The procedure takes approximately two months from the submission of the notice to be published to the mailing of the letter awarding the contract. The Deputy State Auditor prepares a written request for proposal for each agency approved by the State Auditor to be contracted. A notice is drafted and delivered to the Division of General Services, Materials Management Office, to be published in the South Carolina Business Opportunities Bulletin. RFP's are mailed to firms which request them in writing. A proposer's conference is held at each agency to be audited. Written proposals are received at the State Auditor's Office.

EVALUATION AND CONTRACTING

The State Auditor's Office policy is to award contracts to the firm with the lowest priced responsive proposal. The Deputy State Auditor is responsible for preparing written evaluations of the proposals and recommending to the State Auditor which firms should be awarded audit contracts.

Once the State Auditor's approval is obtained, the Deputy State Auditor writes letters to the firms selected accepting their proposal. This letter, which incorporates the successful proposal by reference, serves as the contract between the State Auditor's Office and the firm. A copy of this letter is sent to the agency to be audited.

Letters are also sent to each unsuccessful firm which submitted a proposal. These letters state the name of the successful proposer and the contract amount. The successful proposals are maintained in a file by the Deputy State Auditor and are available for public inspection.

QUALITY CONTROL

The firms are responsible for their reports.

TITLE: CONTRACTED AUDIT SERVICES

QUALITY CONTROL

The State Auditor's Office selects a sample of the workpapers from all contracted engagements to a quality control engagement review process.

State Auditor's Office personnel review the workpapers using the contract workpaper quality control checklist. A blank copy of the checklist is furnished to the successful proposer prior to the start of the audit. The results of these reviews are submitted in writing to the firms reviewed. The request for proposal sets forth both the process outlined here and the options available to the State Auditor's Office if the reviews indicate substandard work.

DOCUMENTS FURNISHED TO SUCCESSFUL PROPOSERS

A number of documents and forms as well as excerpts from the State Auditor's Office Audit Manual are mailed to the contact person at each firm with which we contract. Agency-specific documents will be furnished for each agency a firm is contracted to perform. Only one set of non-agency specific documents will be mailed to each firm, without regard to the number of audits the firm is contracted to perform.

The documents we will send to each firm include appropriate sections of Chapter V of the Audit Manual, Technical Positions - Agency Audits. The most current version will be sent to each firm with which we contract. As long as the firm continues to contract with the State Auditor's Office, we will mail copies of updates and changes to the manual as they are issued.

A listing of the information mailed to CPA Firms (e.g. STO debt reports, CG expenditure reports, Appropriation Activity reports, Appropriation Act work program, etc.) is maintained by Administrative Services. The information is mailed as soon as possible after a contract is entered into or after the annual appropriation act is signed and the information is available.

TITLE: CHAPTER III - FINANCIAL AND COMPLIANCE ENGAGEMENTS - INDEX

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TITLE: INTRODUCTION

AUDIT STANDARDS

The objective of an examination of financial statements is to express an opinion on the fairness with which they present financial position, results of operations, and changes in financial position in conformity with U.S. generally accepted accounting principles. The State Auditor's report is the medium through which an opinion is expressed.

Agency management has the responsibility for adopting sound accounting policies for maintaining an adequate and effective system of accounts for safeguarding assets, and for devising a system of internal control that will help assure the production of proper financial statements.

It is State Auditor's Office policy that the report will contain constructive comments and recommendations to assist agency management to improve accounting policies and practices, safeguard assets, and improve internal control procedures.

The following statement concerning generally accepted auditing standards is quoted from Codification of Statements on Auditing Standards, issued by the American Institute of Certified Public Accountants:

"Auditing standards differ from auditing procedures in that 'procedures' relate to acts to be performed, whereas 'standards' deal with measures of the quality of the performance of those acts and the objectives to be attained by the use of the procedures undertaken. Auditing standards as distinct from auditing procedures concern themselves not only with the auditor's professional qualities but also with the judgment exercised by him in the performance of his examination and in his report."

The American Institute of Certified Public Accountants has adopted ten generally accepted auditing standards which are divided into three classifications, (1) General Standards, (2) Standards of Field Work, and (3) Standards of Reporting.

The General Standards of auditing are as follows:

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.

TITLE: INTRODUCTION

The attainment of an auditor's proficiency begins with formal education and extends to subsequent experience. Subsequent experience includes training which is an objective of the State Auditor's Office as set forth in Chapter I, Section A.

It is extremely important to maintain confidence in the independence of each auditor and the State Auditor's Office. Even the "appearance" of loss of independence must be protected against. Additional comments concerning independence and conflict of interest are set forth in Chapter I, Section D.

The Standards of Field Work are as follows:

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

The first standard of field work, adequate planning of work, is addressed in Section B of this Chapter.

The second standard of field work states the auditor should obtain an understanding of internal control sufficient to plan the audit by performing procedures to understand the design of controls relevant to an audit of financial statements, and whether they have been placed in operation. Typically, the auditor obtains knowledge and understanding of an agency's internal control through discussion with agency personnel and reference to agency documentation such as procedure manuals, job descriptions, and flowcharts. At times, the auditor does a "transaction review" or tracing of one or more of the different types of transactions through the related documents and records. After obtaining sufficient knowledge and understanding of internal control, the auditor makes a preliminary evaluation. Section C of this Chapter discusses the auditor's review of internal control.

TITLE: INTRODUCTION

The third standard of field work requires that sufficient evidential matter is to be obtained to afford a reasonable basis to form an opinion regarding the financial statements. After the auditor has obtained an understanding of internal control, as indicated above, he assesses control risk and then he ascertains the extent of necessary audit tests to secure sufficient evidential matter. Section F discusses the auditor's role in securing and documenting sufficient evidential matter to form an opinion regarding the financial statements.

The Standards of Reporting are as follows:

1. The report shall state whether the financial statements are presented in accordance with U.S. generally accepted accounting principles.
2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

The four standards of reporting relate to the presentation of financial data in accordance with prescribed conventions, rules, and procedures. The standards also relate to comparability of financial statements between accounting periods, adequate disclosures of financial and related data, and the expression of the auditor's opinion. Application of the reporting standards results, from the auditor's conclusion concerning results of field work. Section G discusses the audit report preparation and review process.

ATTEST FUNCTION

Our function as auditors is to attest to the representations of management as set forth in either the financial statements (State Agency Audits), or those reports submitted in support of Title XIX reimbursement (Medicaid Audits). Since further responsibilities of state and federal audits are dissimilar, they will be treated in two separate sections as follows:

1. STATE AGENCY ENGAGEMENTS

Statewide Audits

We audit the State of South Carolina's Basic Financial Statements jointly with a contracted CPA firm each year. These statements are prepared by the Comptroller General's Office. In addition, we perform the annual audit of the State's Schedule of Expenditures of Federal Awards which includes most of the federal funds expended by state agencies.

The Single Audit Act Amendments of 1996 Circular A-133, and the Government Auditing Standards issued by the GAO extend the auditor's reporting responsibilities beyond the expression of an opinion on the basic financial statements of the State to include the issuance of additional internal control and compliance reports. To comply with the requirements of Circular A-133, with respect to the federal financial assistance programs, we report on-

- . The supplemental schedule of expenditures of federal awards.
- . Compliance with requirements applicable to each major program.
- . Internal control over compliance in accordance with the OMB Circular A-133.

Individual Agency Audits

We perform financial audits on certain individual agencies - primarily institutions of higher education - because their financial transactions are not processed by the Comptroller General through the STARS system. The financial information of these agencies are incorporated into the basic financial statements of the State from audited financial statements.

In addition, certain other agencies - primarily those which are accounted for as proprietary funds - are also incorporated from audited financial statements at the direction of the Comptroller General's Office. These audits are performed by CPA firms under contract with the State Auditor's Office.

TITLE: INTRODUCTION

We must be certain that management understands and agrees with the basis of accounting upon which the financial information is to be presented. For example when we are presented cash basis books to audit, we should discuss, with the appropriate level of management (normally the chief financial officer) the necessity of converting to the accrual basis for financial statement presentation.

The closing packages prepared by each agency as part of the Statewide GAAP Financial Statements process should be very useful in preparing accrual basis financial statements. The closing packages consist of agency prepared accruals and note disclosure information which are used by the Comptroller General's Office to convert the cash basis STARS balances to accrual basis balances.

We must carefully review the financial statements (and related disclosures) with agency management to ensure that they understand and agree in principle with the information set forth therein.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We must be certain that management understands and agrees with any adjusting journal entries that we propose. Any entry to be discussed with agency management must be reviewed and approved by the in-charge auditor. If you believe that an entry you have proposed is non-routine in nature, you should bring it to the attention of the in-charge auditor as soon as possible--otherwise, wait until he or she reviews the related work. Routine entries would include:

- Entries similar to those made in prior years
- Entries that are very small in amount

Any entry that you believe would be upsetting to agency management would not be considered routine.

TITLE: INTRODUCTION

We should recommend that agency personnel record all journal entries to correct errors that we propose in the books of account.

Those entries made by us to reclassify items strictly for financial statement presentation purposes, such as thirteenth month cash/accounts payable reclassifications, should not be made by agency personnel in their books.

We must obtain a letter from management setting forth their representation to us, in accordance with SAS No. 85 - "Management Representations" (AU Sec. 333.06). See the forms file for the basic form to be used. This form should be carefully modified to insure that the written representations by the agency agree with the audited financial statements and related disclosures presented therein. Refer to SAS No. 85, as amended by SAS No. 89 - "Audit Adjustments", for further information.

Agreed-Upon Procedures

Most agencies will receive an Agreed-Upon Procedures Report since their activities are included in the State's Basic Financial Statements.

2. MEDICAID ENGAGEMENTS

A basic understanding of the role of a Medicaid auditor's responsibility in each of the Title XIX categories is necessary.

Nursing Homes

This is the largest area both in terms of dollar expenditures and work effort in which our staff operates. The primary document in this area is the Financial and Statistical Report for Nursing Homes (cost report). The cost report is required to be prepared on the accrual basis of accounting. The cost report serves as a basis for establishing and paying a per diem rate to those nursing homes in the state which participate in the Title XIX (Medicaid) program.

Our role is to test the financial and statistical data within the cost report for compliance with both GAAP and those rules and regulations unique to Medicaid reimbursement.

Residential Treatment Facility

These institutions receive reimbursement much the same manner as nursing homes. Audit tests are similar to that of nursing homes. Presently the number of facilities are somewhat limited and do not involve extensive audit effort.

Hospitals, Home Health Agencies and Federally Qualified Health Centers (FQHC's)

The audit function for Medicaid reimbursement of hospitals, home health agencies and FQHC's lies primarily with the Title XVIII (Medicare) intermediary. Our function is generally limited to an analysis of medicaid service delivery units, charges and payments.

Community Long Term Care

Community long term care providers submit a budget which, after approval by the contracting agency, forms the basis for Medicaid reimbursement. Actual costs are periodically submitted for reimbursement within the framework of the budget up to a per unit maximum.

TITLE: INTRODUCTION

Our role is different from that performed for nursing homes. Generally we determine if monitoring efforts by the administering agency are adequate to ensure community long term care cost reports used to report costs and units of service are fairly stated within the framework of both GAAP and those regulations unique to this Medicaid program. Depending on the results of this determination further work may be necessary.

All of the Medicaid engagements result in the issuance of Agreed-Upon Procedures Reports because we do not issue a set of financial statements - balance sheet, statement of income, statement of retained earnings and statement of changes in financial position. The most comprehensive of our reports - those issued to determine the per diem nursing home rate - are limited to a statement of reimbursement settlement, statement of expenses and patient days, statement of average monthly equity and adjustment report.

Medicaid auditors should make certain that management understands any adjusting journal entries that are proposed. Agency adjustments are typically agreed to by management; however, the same cannot be said for Medicaid engagements where recovery of state and federal dollars is involved. Acceptance of Medicaid adjustments more closely equates with acceptance of agency management letter comments.

We typically do not expect the provider to record proposed adjustments in its financial records. The reasons are twofold: (1) The adjustments typically deal with misclassifications between allowable and nonallowable costs, and (2) the timing of the final report after all provider appeal remedies have been exhausted is such that posting of adjustments in the provider's books would be meaningless. This does not preclude our recommending to the provider that certain adjustments - typically those relating to the fair statement of long-term assets and liabilities and related reserves - be posted.

Because Medicaid reports are Agreed-Upon Procedures Reports and the entire set of financial statements required under GAAP is not prepared, a client representation letter in accordance with SAS No. 85 is not required. In addition, with the exception of community long term care engagements, the reports submitted by Medicaid providers generally contain a provider assurance (certification by officer of the facility) that the reports are prepared from the books and records of the facility. The certification further states a belief that the report is true and correct and has been prepared in accordance with Medicaid program requirements.

TITLE: ENGAGEMENT PLANNING, SUPERVISION AND ADMINISTRATION

Planning and Control

The level of attention to planning and control of the work should increase in proportion to the size and complexity of the engagement, but it should never be ignored, even on the smallest engagements.

The first step in any engagement is to determine the objectives or what we need to accomplish. This is the start of the planning process. A material portion of the early stages of any engagement should be devoted to the planning process.

PLANNING IN THE OFFICE

Before field work is started, certain minimum steps should be performed.

1. Review the prior year permanent file and working papers, with emphasis on
 - a. notes to following years engagement
 - b. financial reports
 - c. management letter
 - d. items of continuing interest in the permanent file
 - e. prior provider appeals and appeals decisions
2. Review the correspondence file for any pertinent information. Documents relevant to the engagement are to be removed and given to the in-charge to be placed in the permanent file or work papers.
3. Review our report files for any reports that may have been prepared by ourselves or others on special projects, subsequent to our last regular engagement (check the control card file)
4. Gather necessary forms and supplies, including adequate confirmation forms and the assembly of a tentative work program, either a copy of the standard program or last year's actual program.
5. In many cases, it is beneficial to prepare a rough time estimate and work assignment schedule--at least decide what procedures each assigned staff member will perform on the first day in the field.
6. Certain specialized procedures are performed for agency and Medicaid engagements.

TITLE: ENGAGEMENT PLANNING, SUPERVISION AND ADMINISTRATION

A. Agency Engagements

- (1) Extract relevant information for the permanent file from applicable appropriations act(s) and code of laws.

B. Medicaid Engagements

- (1) Obtain copies of the applicable Medicaid contracts, cost reports, and desk reviews.
- (2) Contact the provider by phone and establish a field work initiation date.
- (3) Send an engagement letter to the provider. The in-charge or supervisor should complete a cursory review of preliminary steps 1-4 and B(1) and make those modifications to the standard engagement letter necessary as a result of the review.
- (4) Confirm payment information with the contracting agency's printouts for the provider being audited.

IN-FIELD WORK-FLOW

1. Hold initial meeting (entry conference) with auditee personnel.

Agency Engagements:

The State Auditor's Office has adopted a policy of requiring the agency to provide draft financial statements as soon as possible after beginning field work. The Auditor-In-Charge (AIC) is to use this draft in the planning phase of the audit to accomplish the following:

- a. Determine whether EACH number in the draft F/S will be tested analytically, substantively, through transactions testing or by a combination of these approaches.
 - b. Indicate the time necessary for the proposed testing of each number.
 - c. Establish benchmarks or target dates for the completion of the various types of testing and the various tasks assigned to each member of the audit team.
 - d. At this point, obtain written approval of Audit Manager.
2. Begin our work on gaining an understanding of internal control -- see specific work program to be completed in this area -- use of this program is mandatory.
 3. Prepare (or update) permanent file information relating to our work on gaining an understanding of internal control.
 4. Once we have completed our review of the accounting system and work on gaining an understanding of internal control, we should obtain (or prepare) a trail balance. The trial balance should be compared to that of the prior period and we should prepare a list of items for follow-up including -
 - a. Significant fluctuations in balances
 - b. New areas/funds that have been added
 - c. Unusual items noted

TITLE: ENGAGEMENT PLANNING, SUPERVISION AND ADMINISTRATION

Note: Adjusted working trial balances which bridge the client's general ledger and Medicaid cost reports are typically provided to us. Prior to preparing a list of items for follow-up, (a)-(c) above, the trial balance should be reconciled between the general ledger and the trial balance prepared in the desk review.

This list should then be discussed with appropriate management personnel to obtain their comments/explanations (at this point, we are not trying to test the items listed) we are merely gathering information to aid in determining the scope, of our overall engagement).

5. Next, we should finalize our work program based on -
- a. U.S. Generally accepted auditing standards
 - b. Applicable AICPA audit guides
 - c. Applicable federal audit guides
 - d. Medicaid rules and regulations
 - e. Medicaid comprehensive desk review
 - f. Office policies and practices
 - g. Our conclusions as to our assessment of control risk and degree of anticipated reliance on internal controls
 - h. The information obtained at step #4 above
 - i. Any other factors deemed relevant under the circumstances

We have adopted, and incorporate here by reference, Chapter 4, Planning A Governmental Audit Engagement, from the Practitioners Publishing Company Guide to Audits of Local Governments. The relevant parts of Chapter 4 here are the sections entitled:

Audit Strategy and Internal Control Structure
Audit Risk Considerations
Materiality Levels
Overall Aspects of Designing Audit Programs and Organizing the Audit

6. We should then begin our work in areas that require lead time, such as confirmations, etc.

TITLE: ENGAGEMENT PLANNING, SUPERVISION AND ADMINISTRATION

7. Next, we should concentrate on areas that may lead to further scope modification in other work areas. This would include our detail tests, such as cash receipts, cash disbursements and (to a lesser extent) payroll. For instance, our tests of cash disbursement sample items may reveal that the internal control procedures relating to cash disbursements may not be nearly as effective in actual practice as they were stated to be. Accordingly, we may not only decide to expand our cash disbursements sample to include more items, but we may also have to expand our work in other areas. Our tests may indicate that procedures operate effectively, except when purchases of fixed assets are involved -- in this case, we would want to expand our work on the fixed asset program. Or, we might find that procedures operate effectively except when one particular department is involved -- in this case we would want to expand our work in that particular department.

8. Finally, we are ready to test account balances. From a practical standpoint, problem areas can be highlighted by actually gathering the information for much of the work on balances earlier in the process. For instance, when performing procedures to obtain an understanding of internal control policies and procedures relating to cash, it would be appropriate to obtain copies of all bank reconciliations (at least major ones) as of the engagement date and perform the following (which would really be an aid to gaining an understanding of Internal Control):
 - a. Cross reference the balances to the trial balance (or agree them to the general ledger if the trial balance is not yet completed)
 - b. Scan for unusual items and obtain comments
 - c. Foot the face of the reconciliations (but not voluminous supporting details, at this point)

The point here is, that early in the engagement, for major areas that could affect the successful completion of the entire engagement, GET THE DETAIL! TIE-IN THE DETAIL (to the control account)! SCAN THE DETAIL! This can save a lot of wasted work and grief!

TIME CONTROL

The original time budget for the current agency engagement should have been prepared by the in-charge auditor of the prior engagement. The estimates should be revised, by the in-charge with manager and deputy approval, to reflect changes in circumstances. This doesn't mean that they should be changed to adjust to actual time incurred -- that would be self-defeating. The budget should be changed for -

1. Work that was not anticipated
2. Work anticipated, but not necessary
3. Substantial changes in scope of the work or audit approach

In all cases where the in-charge desires a budget increase, the written approval of the manager must be obtained prior to incurring the additional time.

We recognize that the time budgets are only estimates and that many of them will require adjustment. This advance approval of changes is not intended to reduce the quality of work, but primarily to aid in scheduling staff. The budget should never be changed for staff efficiency or inefficiency.

The time budget is a control tool. Properly used, it can -

1. Reduce work time without any reduction in quality
2. Assist us to perform similar levels of work under similar circumstances
3. Enable the in-charge auditor to project his staffing needs, through the completion of the engagement, on a fairly accurate basis.
4. Point out areas where we may be doing too much or too little work
5. Point out "wheel-spinning"
6. Give the in-charge auditor better insight into when a member of the staff is going to be ready to switch to another area of the engagement, so that he can be better prepared for the transition
7. Help the in-charge auditor coordinate various segments of the work (particularly in planning his own workload)

SUPERVISION AND REVIEW

Supervision includes the planning, coordination and control of the work assigned to various members of the staff. Review encompasses the evaluation of work performed by the various members of the staff. In this regard, the duties of the in-charge auditor are -

1. Determining what work is to be performed by each staff member assigned to the engagement. To accomplish this purpose, the following factors should be considered -
 - a. level of experience compared to the complexity of the work at the particular agency
 - b. length of assignment to the engagement (as well as anticipated flexibility of the staff member's future schedule, i.e., requirements of other engagements) compared to the anticipated completion time of the work (we must be careful not to look at just the budgeted hours for the assignment, but must also consider the "critical path" of the work flow)
 - c. experience that will be of most benefit to the staff member
 - d. have work performed at the lowest reasonable level of experience
2. Explain the requirements of the work assigned to the staff member in sufficient detail to enable him to perform the required tasks with minimum direct intervention. Don't expect a staff member to do something that you yourself don't clearly understand.
3. Control the progress of the work by measuring time used vs time budgeted, in view of the apparent % of completion. Often, progress reviews of substantially completed segments of a work area will be beneficial, both to the overall progress of the engagement and to the staff member. The experience level, number of separate tasks to be performed and the budgeted time allocated should be used as criteria in making this decision.
4. Critically review the work performed. Be sure that the workpapers, standing alone, clearly reflect work performed and conclusions reached. Insure that the work performed is responsive to the applicable work objectives. Be certain that you concur with the findings, both as to their results and adequacy. Prepare constructive review points to be cleared by the staff members. Do not correct deficiencies yourself, unless it is clearly time and cost effective under the circumstances. The reviewer must keep in mind that clearing review points of another auditor negates the benefit that the auditor derives from learning by correcting his own mistakes - true on-the-job training.

DUTIES OF THE AUDITOR

1. When assigned work, ask questions until you understand exactly what you are to do.
2. Notify the in-charge of major problems promptly. If discussion with agency personnel is necessary, the in-charge should handle it or, at least, discuss with you how you should proceed. Avoid making recommendations to, and or criticism of, the agency's personnel.
3. Accumulate minor problems and questions for review and discussion at planned intervals--avoid constant interruptions.
4. Have recommended solutions or alternative approaches to problems before presenting them. Decide on the solution/alternative you prefer, before presenting the information.
5. Don't go off on a tangent--discuss innovations before you implement them.
6. Document your work as you go. Be prepared for your work to be reviewed and challenged at all times.
7. If you strongly disagree with an approach, solution, or conclusion, refer to "Resolving Technical Audit Problems and Issues" in Chapter II of this manual.

SCOPE OF MANAGER REVIEW

The manager must, as the result of his review, be able to sign off on the planning work program filed in the A work papers binder. The scope of the manager's review is a matter of professional judgment and should be decided based on consideration of the following:

1. The manager's knowledge of the auditee, including size, complexity and likely problem areas.
2. The manager's assessment of the thoroughness and adequacy of the auditor-in-charge's detail review. This can be based on a combination of prior reviews of the same in-charge's work and a sample detail review of current audit workpapers.
3. The extent of the manager's on-going on-site involvement in the engagement since its inception.

REPORT PREPARATION

The in-charge should begin working on preparation of the various required reports as soon as possible. Normally, a substantial portion of this work can be done at a very early stage. The numbers themselves should be the last portion of a report available for completion of the pencil drafts. Statements can be completed, without final figures, well in advance. The footnotes can be drafted with blanks left for amounts.

In addition to enabling the in-charge to complete his day-to-day involvement with an engagement sooner, this process can save considerable time -

1. More of the detail work can be delegated.
2. It places in proper perspective the work that is essential in order to complete the statements.
3. It allows considerable assembly of detail information to be performed by the staff, in the field, as they are still available (too often, the report preparation is begun after the field staff has left the engagement).
4. Better utilization of agency personnel can be made in gathering details as appropriate lead-time can be given.

Report drafts should be completed by the time we leave the auditee's office. Only minor touchup and fill-in of footnote data, etc. should be done in our office. An exception to this would exist on out-of-town assignments when the work can be done as efficiently in our office. Here we must consider the cost of staying out of town as a considerable factor--an hour spent on long-distance calls to get necessary information, is much less expensive than the cost of motels/meals.

TITLE: INTERNAL CONTROL

CONSIDERATION OF INTERNAL CONTROL

For all audit engagements we follow Statements on Auditing Standards (SAS) 55 and 78 (AU 319), "Consideration of Internal Control in a Financial Statement Audit".

Agency Audits

Our guide for considering Internal Control will be Chapter 4, Planning a Governmental Audit Engagement, from the Practitioners Publishing Company Guide to Audits of Local Government (Guide) which is incorporated here by reference. The 4 volume guide is kept in our library and we subscribe to the annual update to keep it current. In addition, each agency audit manager has a complete set with updates.

Medicaid Audits

Our guide for considering Internal Control will be Chapter 2, Planning Activities, from the Practitioners Publishing Company Guide to Audits of Small Businesses which is incorporated here by reference. The three volume guide is kept in our library and we subscribe to the annual update to keep it current.

TITLE: WORK PROGRAMS

AGENCY AUDITS

We have adopted the standard audit programs discussed in Chapter 6 of the Practitioners Publishing Company Guide to Audits of Local Governments (Guide) for use on agency audits performed in accordance with U.S. generally accepted auditing standards. The original audit programs are located in the "GAP" index of Volume III of the Guide. The related forms and worksheets with a "GCX" prefix are also in Volume III. Use of these forms is mandatory. Copies of current audit programs and GCX forms and worksheets are in the forms file.

Reproduced in the following paragraphs are excerpts from the introduction and instructions in the GAP section of Volume III of the Guide.

Introduction and Instructions

This section includes audit programs for the account groupings common to a governmental unit. In this context, governmental unit is a convenient term for the financial reporting entity the auditor is auditing and reporting on. Thus, it includes the primary government and any component units that should be included.

To the extent feasible, these audit programs are generalized to permit maximum flexibility. Terminology used is also general and can be adapted to a variety of specific circumstances. "Governing body" is used to identify the legislative branch of government that is generally responsible for adoption of budgets, financial, and operating policy. The term "responsible officials" is used to identify the administrative officers or employees of the executive branch of government responsible for implementation and execution of policies.

The term "treasurer's record of cash" is used to identify centralized cash records. These records may be maintained by other officials and described in various terms depending on the jurisdiction. If a centralized treasury or the equivalent is not used, cash receipts should be traced to deposit in the appropriate depository account.

Other variations may occur in arrangements for assessment, billing, and collection of various taxes and in legal arrangements related to issuance and repayment of debt. The auditor should consider what adaptations are necessary to the audit programs for local arrangements and requirements.

TITLE: WORK PROGRAMS

The programs use the terms "combined balance sheet" and "combined financial statements." These terms are consistent with the term "basic financial statements", which consist of combined statements.

The programs are designed to increase audit efficiency by linking financial statement assertions, audit objectives, and procedures that are basic to most governmental audit engagements. Behind each set of basic procedures are additional procedures that may be necessary on some engagements. The following points summarize factors discussed in Chapter 6, paragraphs 600.23-.36, that determine whether additional procedures are necessary in specific circumstances:

1. Certain additional procedures must be added to the basic procedures if the governmental unit has certain activities, e.g., an additional procedure for investments (Section GAP-4) must be performed if the governmental unit has repurchase agreements.
2. Other additional procedures are performed if the auditor believes the basic procedures do not accomplish audit objectives because the basic audit procedures disclose more than negligible possible misstatements. In this case, the extent of basic procedures might be increased, e.g., the cutoff amount for items to be tested could be lowered, or additional types of tests might be performed, e.g., sample cash receipts as per the last additional procedure for revenues in Section GAP-5.
3. If relevant internal control structure policies and procedures allow an assessed level of control risk below the maximum, the extent of basic procedures can be reduced, e.g., sample size of 25 rather than 60 in a test of transactions processing.

Each audit program also includes practical considerations designed to provide useful advice that auditors should consider in applying specific audit steps. It is not necessary for auditors to initial the practical considerations.

TITLE: WORK PROGRAMS

The audit programs included in this section are as follows:

GAP-1	General Procedures
GAP-1a	General Planning Procedures
GAP-1b	Other General Procedures
GAP-1c	Audits of Federal Award Programs - General Procedures
GAP-2	Minutes, Contracts, Ordinances, and Laws
GAP-3	Cash
GAP-4	Investments
GAP-5	Revenue, Receivables, and Receipts-Governmental Funds
GAP-6	Service Revenue and Receivables-Proprietary Fund Types
GAP-7	Expenditures for Goods and Services and Accounts Payable
GAP-8	Payroll and Related Liabilities
GAP-9	Inventories
GAP-10	Property, Equipment, and Capital Expenditures
GAP-11	Debt and Debt Service Expenditures
GAP-12	Fund Equities
GAP-13	Grant and Similar Programs
GAP-13a	Audits of Federal Award Programs – Developing Tests of Compliance for Programs Not Included in the Compliance Supplement
GAP-13b	Audits of Federal Award Programs – Compliance Requirements
GAP-14	Insurance and Self-insurance
GAP-15	Municipal Solid Waste Landfills

You should customize these basic programs to fit the particular governmental/college & university engagement. Customizing can be accomplished by cutting and pasting additional procedures on a copy of the blank program page included at the end of this section, or by writing the unique program step(s) on the blank pages.

Caution - always develop your programs from photocopies of the enclosed programs. Otherwise, you will destroy the master copy. (These photocopies should be used only to assist you and should not be used in any published document without the permission of the publisher.)

These programs are updated annually to keep your Guide current with the latest authoritative literature. Thus, if your firm keeps an inventory of audit programs, make sure they have not become outdated by changes that might have been made. To determine whether changes have been made to programs in this edition of the Guide, refer to the "List of Substantive changes and Additions," which is furnished with the annual update.

In addition, the use of our Appropriation Act Audit Program for the fiscal year(s) being audited is mandatory.

TITLE: WORK PROGRAMS

AGENCY AGREED-UPON PROCEDURES

We have developed standard work programs for use on normal year end AUP engagements performed by this office. These programs are intended only as guides and should never be followed blindly. More or less work may be required depending on the circumstances. In deciding if or how to modify the standard work programs, the auditor must consider-

1. Materiality
2. Internal Controls
3. Complexity of the organization and nature of its operations
4. Prior engagement results
5. Points for next engagement from prior engagement
6. Special provisions of the law

Always obtain manager approval before doing more or less than the standard program calls for.

Below is an index of standard work programs for these engagements. These programs are stocked in the forms file by administrative services.

AGREED UPON PROCEDURES INDEX

<u>INDEX</u>	<u>WORK PROGRAM</u>	<u>WORK AREA</u>
A-11	101-A	Planning and Completion
J	111-A	Revenues and Receipts
L	112-A	Expenditures and Disbursements
N	113-A	Payroll
T	114-A	Test of General Ledger and Books of Original Entry
U	118-XX	Appropriation Act 20XX

MEDICAID ENGAGEMENTS

We have developed standard work programs for use on normal year end engagements performed by this office. These programs are intended only as guides and should never be followed blindly. More or less work may be required depending on the circumstances. In deciding if or how to modify the standard work programs, the auditor must consider-

1. Materiality
2. Complexity of the organization and nature of its operations
3. Prior engagement results
4. Points for next engagement from prior engagements
5. Special provisions of the law

Always obtain manager approval before doing more than the standard program calls for and in-charge approval before doing less.

Included in this section is an index of standard work programs.

TITLE: WORK PROGRAMS

NURSING FACILITY _____

DATE _____

PROGRAM INDEX

<u>INDEX</u>	<u>NURSING HOME PROGRAM</u>	<u>WORK AREA</u>
A	A	GENERAL
B	B	TRIAL BALANCE
F	F	FIXED ASSETS
G	G	ORGANIZATION AND START-UP COSTS
I	I	DEBT AND INTEREST
J	J	COST OF CAPITAL REIMBURSEMENT
M	M	EXPENSES
N	N	PAYROLLS
O	O	RELATED ORGANIZATIONS
P	P	HOME OFFICE COSTS
Q	Q	OWNER/RELATIVE & LESSEE/RELATIVE COMPENSATION
R	R	COSTS NOT RELATED TO PATIENT CARE
S	S	STATISTICS
T	T	LOWER OF PRIVATE PAY OR MEDICAID CHARGES
U	U	SPECIAL (ANCILLARY) SERVICES AND PART B CO-INSURANCE

TITLE: CORRESPONDENCE, CONFIRMATIONS AND REPRESENTATIONS

CORRESPONDENCE

Correspondence between the State Auditor's Office and the auditee will be necessary. At a minimum, the following correspondence may be required:

1. Engagement letter (mandatory)
2. Preliminary draft letter (mandatory *)
3. Representation letter (mandatory on agency audits)

A preliminary draft letter transmits a copy of the draft audit report for the agency's written response. The agency must submit written responses to the State Auditor's Office within 10 working days of the date of the draft report.

* unless otherwise authorized by the Deputy State Auditor

CONFIRMATIONS

Generally, State Auditor's Office staff prepares correspondence and confirmation requests. The State Auditor's Office controls the mailing and receipt of confirmation responses so that the confirmation process is independent of the entity being audited. Mailing envelopes have the auditor's office return address so that undeliverable letters are returned to the State Auditor's Office and not to the agency being audited. Reply envelopes are addressed to the State Auditor's Office and are enclosed with the request letters. Forms and correspondence used for confirmation requests should state clearly that the agency being audited is requesting that a reply be sent to the State Auditor's Office.

The standard bank confirmation form, kept in the forms file, is used to confirm balances with commercial banks. Use of this form for agency audits is not necessary in many instances since cash is on deposit with the State Treasurer. Confirmations are not generally necessary in the performance of Medicaid audits except to establish payments made by the funding agency.

Accounts receivable are confirmed generally using a "positive" confirmation request. Use of "negative" confirmations may be appropriate in certain circumstances.

Other confirmations may be necessary depending upon the particular audit engagement. Other confirmations may consist of notes payable, accounts payable, etc. Sample confirmation formats and forms for these accounts and others are provided in the AICPA Audit and Accounting Manual (Nonauthoritative Technical Practice Aids), section 7000.

All confirmation return envelopes should be marked with the auditor's initials to allow proper distribution.

REPRESENTATIONS

Generally accepted auditing standards require an auditor to obtain a written representation from agency management as part of the examination. Similarly, auditing standards require an auditor obtain a written legal representation concerning litigation, claims and assessments against the agency.

Agency Representation Letter

Representations should be based on the circumstances of the engagement and the nature and basis of presentation of the financial statements being examined. The introductory paragraph should specify the financial statements and periods covered by the auditor's report. Representations concerning inventories and other items are not necessary if such items are not material to the financial statements. If certain matters require specific disclosure, the auditor must require the agency to list them after the usual representations. Statement on Auditing Standards, No.85, as amended by SAS No.89 - "Audit Adjustments" includes a listing of specific representations that an auditor may want from the agency.

The agency representation letter should be dated the same as the State Auditor's Office, audit report date. The agency must address it to the State Auditor's Office. Agency management having direct knowledge of financial matters will usually sign the document. (Medicaid auditors report on a cost report certified by the auditee consequently a representation letter is not necessary).

Legal Representation Letter

As part of the written representation from agency management discussed above, agency management provided assurance that all material litigation claims and assessments have been disclosed. Early in the audit, the State Auditor's Office requests the Attorney General's Office to furnish a description and evaluation of contingencies (pending or threatened litigation, unasserted claims and assessments). The letter from the Attorney General's Office must include contingencies, not only for the period under audit, but also for the period between the balance sheet date and the date of the auditor's report. This can be accomplished by indicating in the request letter the approximate date of completion of field work. The response is requested to be furnished at that approximate date. (Medicaid audits do not require a legal representation letter since the objective of these engagements is to determine reasonable costs reimbursable under the medicaid program and not to determine the financial position of the auditee). If an attorney other than the Attorney General is used, a legal representation letter containing the same information must be requested from each such attorney.

TITLE: CORRESPONDENCE, CONFIRMATIONS AND REPRESENTATIONS

Requests for legal representation letters should be typed on the auditee's letterhead after the date and materiality levels have been determined.

The auditor should discuss with the agency the materiality level to be included in the request for legal opinion.

The representations included in the legal representation letter should be evaluated in relation to disclosures made in the agency's financial statements, including the footnote on contingencies.

GENERAL

1. Policy for Revision of Standardized Working Paper Templates

Standardized templates will be available to facilitate preparation of electronic working papers. The current versions of the templates for both State and Medicaid agreed-upon procedures engagements will be maintained in read only format in Public on 'Ntserver.' At the beginning of each engagement, the in-charge auditor will copy the most recent template from the netserver for preparation of the working papers. This should ensure that the latest version of the template is used on each engagement.

All staff are encouraged to present to their manager suggestions and ideas for improvements to the templates. The Deputy State Auditor will review any suggested modifications in the design of the template as recommended by the manager. Any modification will be discussed with all division managers. If the division managers approve the modification, the template will be revised and then circulated and updated on the netserver.

2. Purposes

The main purposes of working papers (papers or electronic media) are:

1. To provide a systematic record of work performed in carrying out an assignment.
2. To provide a record of information and evidence obtained and developed in support of the findings, conclusions, and recommendations made on the basis of our work.

Working papers serve as the basis on which reports are prepared and as a connecting link between the work we do and our reports. In addition, they provide systematic evidence of how our audit and investigative responsibilities on specific assignments are carried out.

3. Use of Working Papers

Working papers provide a systematic record of work performed in carrying out an audit assignment, including a record of evidence obtained and developed in support of the auditor's opinion, findings, conclusions, and recommendations. As such, they are useful management and supervisory tools as well as sources of supplementary audit information. The role of working papers in audit management and supervision includes the following:

- A. Assist managers in monitoring and controlling audits:
 - 1. Establishing quality control
 - 2. Determining compliance with generally accepted auditing standards.
- B. Assist auditors in the conduct of their audit work.
- C. Provide a basis for auditor evaluation.
- D. Facilitate preparation of the auditor's report because they are the source from which the report writer draws material. Some students of auditing are prone to think of financial statements as the finished product of audit work. However, this is not always the case. In most audits, a written report, including statements, exhibits, and schedules, is the end product. The report may assume a variety of forms, depending upon the purpose and scope of the examination. Presentation of findings and recommendations constitutes an essential part of the report; but ordinarily a statement of opinion will accompany findings and recommendations. Regardless of whether the object of the audit is financial statements, a narrative report, or a combination of the two, information necessary for the end product will be drawn from work papers.
- E. Provide supplementary information, not included in the audit report, which is used to:
 - 1. Assist in explaining findings and recommendations to management.
 - 2. Assist in justifying audit records against criticism, in offering testimony before officials of the government, and in defending reports in cases of litigation.

TITLE: WORKING PAPERS

- F. Facilitate subsequent audits. As a pattern for successive audits of the same auditee, previous working papers are of great usefulness. Frequently, the form of working papers employed may be advantageously utilized in subsequent audits. In addition, they can provide a basis for decision as to the extent of audit work required in subsequent audit.

4. Types of Evidence

Since the purpose of working papers is to document evidence supporting audit findings, conclusions, and recommendations, it is important to understand the types of evidence which are acceptable for documentation. Evidence is frequently classified in three broad categories according to its value in supporting a conclusion. These classifications are primary or direct evidence, secondary or indirect evidence, and corroborative evidence.

- A. Primary or direct evidence supports a finding with the greatest degree of certainty. Generally, only evidence considered "proof of fact" would be included in this category. Such evidence does not require inference or presumption on the part of the auditor in coming to a conclusion. A signed contract is generally considered direct evidence of the terms of a contract.
- B. Secondary or indirect evidence has a lesser degree of certainty. Generally, such evidence needs additional evidence to enable the auditor to draw conclusions. Typical examples of secondary evidence are interviews and internally prepared documents. However, the specific use of the evidence and the importance of the finding determine whether such evidence is considered primary or secondary.
- C. Corroborative evidence is additional evidence in support of primary or secondary evidence. It, therefore, supports a conclusion indirectly through primary or secondary evidence.

5. Documentation of Evidence

The auditor should continuously be on guard to resist the temptation of "beefing-up" working papers by including non-essential materials. This is an easy trap to fall into, especially where photo-copy facilities are readily available. Working papers should contain only what is essential.

TITLE: WORKING PAPERS

It is important to note a distinction between agency audits and Title XIX (Medicaid) audits. In agency audits, detailed documentation (vouchers, IDTs, etc.) supporting audit findings is normally retained in the client's files and is readily available for any post audit discussion. Therefore, inclusion in the working papers of copies of client documentation in support of audit findings is only necessary when the auditor suspects fraud or other irregularities, the documentation is necessary to the explanation of the finding, or to support a potential management letter point.

Medicaid audits require that copies of client documentation be included in the working papers for virtually all material findings and adjustments. Medicaid auditors must be prepared to defend and prove their work before a provider appeal hearing. Since recoveries of Title XIX funds are involved, the chance of records not being available following issuance of the audit report is always of concern.

6. Evidential Attributes

As stated in the AICPA's third standard of field work, relevance, competence, and sufficiency are important attributes of evidence documented in working papers. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinion, judgments, conclusions and recommendations.

A. Relevant evidence is evidence which supports or develops a finding or conclusion. Relevancy is determined primarily on the basis of the engagement objective(s); therefore, the first step in determining relevancy is to define the engagement objective(s).

B. Competence of evidence refers to its validity and reliability.

1. Validity refers to the qualities of being supported by objective truth or generally accepted authority.
2. Reliability refers to the qualities of consistency and predictability of results over time.

The degree of reliability of information tends to affect our perception of its validity. For example, if the source of evidence is reliable, we generally attach greater validity to the evidence itself. Such an assumption should not be made, however, because a reliable source may provide invalid data.

3. To determine both the validity and reliability of all evidence included in the working papers is important.

4. Although there are no rules, some generalizations can be made regarding competency.
 - a. Evidence obtained from an independent source provides greater assurance of competency than that secured from the audited organization;
 - b. Evidence developed under a good system of internal control is more likely to be competent than that developed under a weak system;
 - c. Evidence obtained by the auditor through physical examination, observation, computation, and inspection is more competent than evidence obtained indirectly (e.g., through interviews); and
 - d. Original documents are more competent than copies.
- C. The attribute of sufficiency has two dimensions, qualitative and quantitative.
 1. The qualitative dimension incorporates the two attributes relevance and competence.
 2. The quantitative dimension pertains to the amount of evidence required to adequately support a finding.
 - a. The judgment factor has been reduced to some extent through the use of statistical sampling.
 - b. Determination of sufficiency of evidence is still primarily a matter of engagement office policy and auditor judgment.

TITLE: WORKING PAPERS

- D. Fact vs. Opinion. An engagement report may properly include both facts and opinions but should not confuse or intermingle the two. Consequently, work papers must also clearly identify factual statements and matters of judgment. Every factual statement and figure in the report should be supported and explained in working papers. As the examination progresses, the auditor should think ahead to problems of report writing and include in the working papers comments and explanations which will later become part of the report. There should be no hesitancy in adding full explanatory remarks to any schedule or analysis prepared during the engagement. Working papers are not limited to quantitative data; they should include notes and explanations which record fully what was done by the auditor, reasons for following certain engagement procedures and omitting others, reactions and opinions concerning quality of data examined, adequacy of internal controls in force, and competency of persons responsible for operations or records under review.

- E. The importance of good working papers and working paper techniques can not be overemphasized. The credibility of an entire audit office can rest on the content of the working papers or what an evaluation of their contents reveals about the auditor, the supervisor, and the quality of the engagement performed. Good working papers contain evidence that a logical and complete engagement was performed in the manner required by the profession.

PHYSICAL REQUIREMENTS

Each working paper or schedule should contain the following minimum features and requirements. Workpapers may or may not be printed at the discretion of your Manager and/or the Deputy State Auditor.

1. If printed, the paper must be 14 inches long, or be attached to a 14 inch sheet of paper (11" paper should be attached to 14" paper in such a way as to leave a margin at top and bottom). Sometimes, long lists of items (such as accounts receivable aging) are obtained which consist of several 8 1/2 " by 11" sheets. These sheets might best be fastened to an 8 1/2" by 14" hard board with an Acco type fastener. This would all then be considered one schedule for purposes of this section.
2. Worksheets should be prepared on one side only. The auditor should never write on the reverse side of a working paper except to account for an index number not used.
3. Excessively thick individual files should be avoided since they are difficult to handle and deteriorate rapidly with use.
4. Each working paper (printed or electronic) should be neatly and logically prepared with adequate spacing and margins.
5. For all electronic working papers, a printed listing must be provided indicating working paper index, description or title, file name and also include columns for in-charge and manager review.
6. Computer files must be write-protected at appropriate points throughout the engagement.
7. Diskettes and corresponding indexes will be maintained in the workpapers. Workpaper files should be copied on the server.

INDEXING

The organization of working papers reflects on the quality of the engagement. Logical presentation of evidence allows the reviewer to understand the issues and provides him with confidence in the engagement work. Good organization also indicates that the engagement was performed in a goal-oriented manner. Finally, it should be emphasized that working papers not only provide evidence, but also communicate the engagement work performed and the findings to the reviewer. The working paper index and electronic file organization should reflect the engagement results as well as the engagement plan.

In summary:

Good planning is the key to good indexing and electronic file organization.

Working papers related to a particular step or issue should be filed together in a logical manner.

Since working papers are often added that were not originally anticipated, the indexing system must allow for flexibility.

1. Standard Working Paper Organization and Indexing

It is the policy of this office that the index number and/or filename be one of the first entries on the working paper. Our office has a standard index of working paper sections. This standard index should be included in the front of the first working paper binder. If more than one binder is prepared the binder number should be noted to the left of the working paper section on the standard index. Whenever possible, the working paper index and/or title should be the same as the computer filename. Standard indexing provides a code for each section of the working papers, using letters and numbers, and offers the following advantages:

- a. Better control over working papers during the performance of field work.
- b. Working papers will always be arranged in a logical manner to aid in review.
- c. Less time required in assembling working papers into directories and indexed files.

TITLE: WORKING PAPERS

Standard indexing and computer file organization require recognition of the need for flexibility to meet unanticipated working paper needs or specialized industry requirements while undue complexity should be avoided. Excessively complex references may obstruct rather than ease working paper preparation, cross-referencing and filing. Accordingly, it is helpful to develop an organizational plan adaptable to each section of the working papers. Our system classifies working papers as work program, primary detail, and secondary detail in the following classification scheme:

	<u>Using Letters and Numbers</u>
Work program	(A)
Primary detail schedules	(A-1) (A-2) etc.
Secondary detail schedules	(A-2-1) (A-2-2) (A-2-3)

Depending on the complexity of the work to be performed and/or the experience of the auditor, the in-charge may wish to pre-approve the index and/or computer filename or even assist in its preparation.

When work papers are printed, the index will be placed on a working paper section binder. (This binder is normally a folded 13 column work sheet.)

Computer file directory structures should be organized by entity code, and filename (WP Index or Title eg. F27\L.DOC).

2. Standard Indexing

All index numbers should appear in the lower right-hand corner of the working papers. Our standard indexing system has been designed to combine the most desirable features of several different systems. To illustrate how the indexing and computer file organization system will work in detail, we will use the letter "L", which is the cash disbursements index of agency engagements. Basic rules of indexing are:

- a. If there are any working papers in the "L" section, the work program will always be L (i.e., there can never be an L-1 without L).
- b. If there is an L-1-1, it follows L-1 and so on (i.e., never an L-1-1 without L-1).

TITLE: WORKING PAPERS

- c. A schedule may have several pages. For instance, a listing of a sample of 75 cash disbursements, to be subjected to the same engagement tests, may take 3 or 4 sheets to list. This would be one schedule and each page would have the same index. For an example of how to identify the pages of a schedule, let's say that this listing of cash disbursements is four pages and we have chosen to index it as L-2. The First page would be indexed as follows:

L-2
1/4
the second page as

L-2
2/4
and so on.

When referring to this schedule in a memo or other narrative, it would be merely L-2. When cross-referencing a specific number to this schedule, the full index of the applicable page should be shown.

- d. The work program, which is the most important workpaper in the section because it pulls the section together, should be L.
- e. The primary supporting schedules would be L-1, L-2, L-3 and so on, with these coming in a logical order.
- f. Schedules supporting L-1 would be L-1-1, L-1-2 and so on, in logical order.
- g. Schedules supporting L-1-1, if necessary, would be L-1-1-1, L-1-1-2 and so on.

Now, let's look at all the workpapers we might find in a typical engagement working paper section.

A. Work Programs

We have adopted the standard engagement programs from the Practitioners Publishing Company Guide to Audits of Local Governments for use on agency engagements performed in accordance with generally accepted auditing standards. (See Section III-D of the SAO Manual)

TITLE: WORKING PAPERS

We have developed standard work programs for use on agency and medicaid agreed-upon procedures engagements.

In the following discussion of working paper indexing, the term engagement programs will mean both engagement programs and work programs.

All engagement programs should contain the following elements.

1. Objectives - Clear, concise statements of the goals of the engagement/AUP engagement.
2. Procedures - A listing of the tasks to be performed so as to accomplish the stated objectives.
3. Conclusion - A statement by the auditor-in-charge and the engagement manager indicating accomplishment of the stated objectives and taking responsibility for having done so.

For State engagements the engagement program would be indexed as L.

All primary supporting schedules should contain the derivation of any figure which appears in the financial statements or engagement report that has been developed in the working paper section. The following example contains the preferred format for the balance sheet.

TITLE: WORKING PAPERS

Balance Sheet (Example - Fixed Assets - Medicaid Engagements)

<u>Description</u>	<u>(From Reference)</u>	<u>Amount</u>	<u>(To Reference)</u>
Balance per books	B 2/23 (Col.2)	\$xxx	
A listing of provider cost report aje's A-4 27/32	xx A-4 27/32	(xx)	
As reported	B 2/23 (Col.5)	\$xxx	
A listing of DHHS aje's	A-4-1 A-4-1	xx (xx)	
		—	
DHHS Adjusted	B 2/23 (Col. 8)	\$xxx	
A listing of SAO aje's	F-1-3 F-1-4 H-1 M-1	xx (xx) xx xx	
		—	
SAO Adjusted		\$xxx B 2/23 (Col. 13)	

Note: As discussed in detail in Section III-F, Page 6-3 of this manual the reference appears on the left side of the number or item if coming from another workpaper. The reference appears on the right side of the number or item if going to another workpaper. The reference goes on top when all data come from the same workpaper. Reference at the bottom when column total goes elsewhere.

In addition, an auditor might prepare the following typical schedules. (Example - Cash disbursements - Agency engagements).

- L-1 A summary schedule of the population being tested, with a detailed description of the method of selection. (As opposed to the general description in the lead schedule).

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L-1-1 The sample, sorted into chronological order, given to the agency to pull the sample (retain a copy for control).

L-1-2 The random number table used to select the sample.

L-2 The detail regarding each sample item. This is the schedule
1/2 where we would document individual procedures performed on each
L-2 item.
2/2

L-2-1 In this example, let's assume that an item was in the sample that would look unusual to a reviewer, without additional comment, but which was never an exception. This schedule might be used to further explain such an item, even though it was not an exception (i.e., if your first reaction was that it looked unusual, then someone else would probably think the same.)

L-2-2 Exception listing, with disposition of exceptions.

L-3 Test of selected items from a different original source, such as a canteen fund.

B. Handling Special Problems:

1. Often, we perform work on two or more years at the same time. This can lead to confusion in filing of individual working papers. A simple way to solve this is to add the year to the index of all papers other than those for the latest year. Then, if you had schedules B-1-1 for 1996, 1995 and 1994 the index would be:

1996 B-1-1
1995 B-1-1(95)
1994 B-1-1(94)

When cross referencing, it would not normally be necessary to add the year to the index, as we normally do not cross reference between years.

2. Sometimes, a supporting schedule will contain information applicable to two or more primary schedules. In such cases, the supporting schedules should be filed directly behind the first schedule to which it provides support. For example, suppose that a schedule supported both B-1 and B-3. The schedule would best be indexed as B-1-1 and information thereon could be cross referenced to B-1 or B-3 as applicable.

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3. Quite often, particularly where situations have changed, you will end up with unused numbers in your indexing system. Suppose, for example, in the cash disbursements test illustrated in the preceding section, there were no exceptions. Then, schedule L-2-2 would not be needed. Rather than change the index of L-2-3 (which may be cross indexed to several other sources) indicate, on L-2-1 (the preceding schedule) "L-2-2 not used".

Avoid changing a schedule reference, once used, particularly when several auditors are involved. Someone else may have used that particular schedule to support his work, by referring to it (as opposed to a cross reference). Changing the reference would "lose" his documentation.

3. Other Points to Remember

Remember, the order of the schedules and exact content will vary from one engagement to another; however, the underlying principles of indexing and computer file organization should always enable someone familiar with our system to understand what you have done and why.

Other points to remember:

1. Index and reference as you go - the index (filename) is one of the first things you should put on a schedule.
2. Keep printed working papers in the section binder and in the working paper file. Don't accumulate a lot of loose papers. The primary purposes of indexing early are to enable you to control the work flow and make it easy to locate a needed schedule.

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WORKING PAPER PREPARATION-FORMAT

Note: See III-F, 2-1 for physical requirements.

1. The working paper should be indexed in the lower right-hand corner. For work paper sheets that are over 8 1/2" wide, two special rules will apply:
 - a. The inside and outside should both be indexed.
 - b. The lower right-hand corner for the inside will be considered to be on the portion of the paper that would exist if the schedule were 8 1/2" wide.
2. The working paper should contain identification at the top, centered on the first 3 lines, containing the auditee name, schedule name and engagement date as in the following example:

Sample Agency (Provider)
Accounts Receivable Listing -- State IDT's
Period Ending, (Engagement Control Number)

If the engagement is other than a normal year end engagement, the first and/or last line, as applicable, should be clearly marked to identify the engagement, as in the following example (on each schedule):

Sample Entity
Accounts Payable -- Sub Contractors
9 Months Ended 6-30-89 (or 10/01/88 - 06/30/89)

3. The name of the staff member performing the work should appear near the upper right-hand corner, on the first line on the schedule (initials will be acceptable if they are not the same as another staff member). The date the work was performed should also be indicated. This date should show both the date the schedule was started and completed if different from the date started. If the date started and completed is the same, the tickmark "/" as in the following example will be sufficient.

TH 5/15/89 //

4. For electronic working papers, the index/computer filename should appear immediately below the preparation date or at the bottom of the workpaper in the lower left-hand corner.

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5. It is common for an auditor, either due to clearing of review points or obtaining additional information, to change working papers which were previously deemed to be complete. All changes or additions to previously completed workpapers should be clearly indicated (eg by strike-through of old information and bold presentation of the new information). Where information contained on a schedule is deemed to be in error, it should be lined out - never erased. This is primarily for the benefit of a reviewer, who needs to be able to readily identify any changes. If, as a result of additional work, it is deemed necessary to create a new working paper to replace an existing working paper, the old working paper should be printed and marked DELETED on the face and given, along with the new working paper, to the reviewer.
6. The in-charge, supervisor, and manager, by their functions, assume responsibility for all items contained in the permanent file and the auditor is expected to review pertinent permanent file workpapers prior to initiation of an assigned engagement section. Therefore only the preparer's initials are to appear on permanent file workpapers. Also, see Exhibit in Section III-F, pg. 14-5 for a form which may be used in the front of each permanent file folder to document permanent file preparation and review.
7. Sometimes a great number of document pages must be retained for either the engagement or permanent files (contracts, cost reports, leases, etc.). It is necessary for the auditor (and reviewer) only to initial and date the first page of the document as per the following example.

TH 1/9/89 (pages 1-9)

It should be emphasized, as in 6 above that this short cut in no way relieves the auditor or reviewer of the responsibility for all document pages contained.

8. Consider using flapsheets on multipage printed schedules to avoid repeating tickmark and footnote legends as well as source, scope, and purpose, sampling method and conclusions.

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9. Do not handcopy financial statements or other client prepared schedules if photo-copies or computer files are available. Use the copy, mark it "Prepared by client" (PBC) and put tickmarks on the copy to indicate footing and re-calculations performed. The auditor may wish to perform analysis or testing on the client-prepared schedule. This is acceptable as long as our work on the schedule is clearly identified, i.e. is not mistaken for the client's work. This can be accomplished by initialing and dating our comments and tickmarks, or by shading or parenthetical expression on computer file.
10. Quite often internal auditors and other preparers will sign schedules they prepare for us. This can be quite helpful on subsequent engagements in identifying the preparer. However, we should clearly indicate that this was not our original work. We can do this by adding their name and title, if the preparer did not do so.

Note: This contrasts with the treatment of internally prepared schedules for client use, as in 9 above, where the preparer may not be known.

11. Sometimes a schedule is created to complete a very limited and specific function. Such schedules often don't clearly indicate their purpose when taken out of the context of the rest of the schedules. In such cases a comment should be added at the bottom of the schedule explaining the purpose.

"Note - the purpose of this schedule is ..."

12. Working papers containing document copies should have a purpose. State the reason for including a copy. If there is no reason and the copy does not support an engagement step or conclusion, consider eliminating the copy as unnecessary. However, see Section III-F, 1-3 concerning documentation necessary to support Medicaid engagement work.
13. The working paper title should always relate to the work being performed. Separate working papers should never contain the same title. Use of the same title for separate working papers would indicate a lack of adequate planning.
14. Set up schedules to test attributes in a manner that asks questions which will be answered "yes" if there are no exceptions.
 - a. Negative responses would then be explained by use of a footnote.
 - b. This reduces the need for excessive footnotes and makes the workpapers more self-explanatory.

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15. Avoid crowding working papers. If it is necessary to make a material addition to a workpaper, do so via an addendum.
16. Set up working papers to aid the engagement review process. Write clearly. Clarity gives more credibility to what is written. There are no substitutes for a working understanding of specific objectives of the engagement, reason for performing a specific task, and its relation to approved objectives. This knowledge comes from well-planned and well-organized work programs and effective instruction by supervisors.

WORKING PAPER PREPARATION - CONTENT

1. Necessary Elements

Each workpaper must stand on its own. Minimum content requirements include:

- a. Purpose
- b. Scope
- c. Procedures
- d. Sources
- e. Findings (Adjustments, Management Letter Points, etc.)
- f. Conclusion

This doesn't mean that each workpaper must contain all this information in detail. Where all this information is not obvious or on the workpaper, the workpaper should be clearly referenced to where the information is located.

2. Individual Elements

a. Purpose

The purpose (when it is not obvious) should be stated explicitly with the word "purpose" included.

b. Scope

The scope should state explicitly the time period included in a specific test, for example:

Scope: All payroll checks written from June 15 to June 30, 19XX.

c. Procedures

Procedures should indicate those steps expected to be taken to accomplish the purpose.

The engagement program identifies the procedures to be used to gather the evidence needed for the engagement report. The program influences the organization of the working papers.

The procedures section should also contain, if applicable, the sample selection method.

The sample selection method should clearly state the population from which the sample was selected. It should also state if it is a statistical or judgmental sample. Also state exactly how it was chosen, computer-generated, random numbers table, random start periodic sample of every nth item, etc.

d. Sources

The source must be added as a matter of routine to all information included in the working paper.

1. The source contributes to the credibility of the evidence.
2. The source provides an engagement trail if follow-up work is required.
3. On subsequent engagements the source allows the auditor to locate similar information.

It should be noted that the sources referred to above are general: i.e., client's general ledger, cash disbursements journal etc. Specific sources listed during the course of work will normally be generated in the form of cross-referencing.

The purpose, scope, procedures, sample selection method and sources should be written prior to performing the test work to assist in maintaining consistency and to provide a continuing focus for work to be performed.

e. Findings

Detailed findings in the form of management letter points, adjusting journal entries, etc. will be made. A summary of general findings is to be made.

f. Conclusion

The conclusion must be consistent with the working paper objectives (Purpose) and it must be supported by the work performed. Generally only two conclusions can be reached - a) the objective has been met and no further procedures on the objective are necessary or b) the objective has not been met in which case alternate procedures (if available) will need to be performed. If alternate procedures are not available, the auditor may decide to conclude that because the engagement objectives have not been met, a disclaimer or qualification of opinion on the financial statements is appropriate.

All working papers which involve tests, analyses, reconciliations, etc., should have the conclusion stated on the working paper itself or have a reference to working paper where the conclusion can be found. If a working paper has no conclusion, then the title or stated purpose should give an indication that the working paper does not need a conclusion, as is the case with background material.

CROSS-REFERENCING

Each auditor has his or her own idea about what constitutes adequate referencing. It should be kept in mind that primary users of our engagement workpapers are going to be other qualified auditors who are reasonably familiar with our engagement programs and formats. Therefore our cross-referencing should be kept at an efficient level. Cross-references should be provided to lead the reviewer to the correct working papers.

- a. If no cross-reference is included, then the reviewer will assume that the current working paper logically follows from the previous one or a new engagement step is started.
- b. The indexing of the working papers should also provide some guidance to the reviewer so that the amount of cross-referencing is kept at an efficient level.
- c. Cross-references for a narrative can either be put in parentheses or in a separate column on the side of the paper.

Basically, cross referencing (or cross indexing) means "to document where, in subschedules, a number came from, or where, from subschedules, the number went to". It can also be used in a broader sense to tie comments (or "points") to their source. Cross references can be divided into the following logical subgroups:

- a. Cross referencing a number from a summary (or main) schedule to a supporting schedule (and vice versa).
- b. Cross referencing a point from the source of discovery to a point sheet.
- c. Cross referencing a number to the same number within the same schedule.
- d. Cross referencing a number to a comment regarding that number on the same schedule.
- e. Also, in certain special cases, such as a cash disbursements test, a special form of b above can be used to cross reference each exception to the specific "exception point" written about it. (See Exhibit this section)
- f. Non-standard references (basically all other than those above).

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Some general rules concerning these subgroups are as follows:

1. All individual amounts or totals, as applicable, in a working paper or schedule should be adequately referenced as to source. This rule is also applicable to specific comments or findings when discussion of these is performed on working papers other than that containing the specific comment or finding.
2. Always remember that a cross-reference is like an adjusting journal entry - it should never be one-sided.

Special Situations

Source of information - Sometimes it is virtually impossible, even with good cross-referencing, to identify the source of information on a schedule. As a result, when doing the work for the current year, the auditor can't determine where, among the many agency records, his predecessor found this information. The situation should be answered by a comment in the upper left-hand corner of the schedule (with the word "source") such as:

Source: Mary Jones, Purchasing Agent, Room 403.

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Exhibit - Cross-Referencing

A. Cross-referencing from subschedule to main schedule

For this illustration, we will use the public accounts test of cash balances. On schedule C-2, you have a bank reconciliation showing outstanding checks, in total only, of \$3,219.00. The outstanding list, with the same total, is on Schedule C-2-1. On the primary schedule (C-2) the reference to the detail should be on the left hand side. This would be found on Schedule C-2.

Less-outstanding checks	C-2-1	(3,219.00)
Balance per books		<u>4,812.00</u>

This shows that the number came from a supporting schedule.

On the supporting schedule (C-2-1), the reference should be placed directly beneath the number. This would be found on C-2-1.

#4,955	301.00
#4,956	<u>18.00</u>
	<u>3,219.00</u>
	C-2

This shows that the number goes to a primary schedule. With respect to the trial balance (B in this example), C-2 would be the supporting schedule and B would show:

Petty cash		500.00
Cash in bank - C&S	C-2	4,812.00
Cash on deposit with State Treasurer		12,418.00

C-2 would then show:

Less-outstanding checks	C-2-1	(3,219.00)
Balance per books		<u>4,812.00</u>
		B 1/23

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B. Cross referencing an amount to an amount on the same schedule

For example, suppose on a bank reconciliation you have only a few outstanding checks and you want to list them on an unused portion of the schedule rather than on a separate schedule. This should be cross-referenced with consistent tickmarks as follows (assume that the O/S checks are completely across the schedule from the first number):

Less - outstanding checks **	(3,219.00)	
#482		1,500.00
#484		803.00
#485		415.00
#486		<u>501.00</u>
		<u>3,219.00**</u>

Thus we have used a tickmark to cross reference one amount to the same amount. Note that the tickmark is to the right of the support amount and to the left of the primary amount, as in A above.

By using a tickmark to reference an amount to the same amount elsewhere on the same schedule, we have told the reviewer that the amount is supported by another amount on the same schedule.

C. When cross referencing an amount to a comment use the same method as above.

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D. Cross referencing numerous like items

This method of cross referencing applies only in those special cases where you use a grid (or matrix) to document certain steps performed in testing a sample. The workpapers in part might look like this:

<u>Voucher</u>	<u>Amount</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
4241	310.40	*	*	*	*	*	*
4896	403.38	*	2	4	*	*	*
4991	16,811.40	*	*	*	*	*	*
5302	13.04	*	*	*	*	*	*
5306	190.00	1	*	*	*	*	*
5771	891.63	*	*	*	*	5	*
5851	20.34	*	3	*	*	*	*

A, B, C etc. represent steps to be performed, each with a specific explanation of what is to be done, either on this schedule or a separate tickmark legend.

A tickmark (* in the above example) would mean the step had been completed without an exception and would be so explained on the tickmark legend.

1, 2, 3, etc. would refer to exceptions noted which would be fully documented on another schedule. At the bottom of the schedule, make an explanation such as the following - 1, 2, 3, etc. - exception noted, see L-3 for disposition. The exceptions on the other schedule would be numbered in the same sequence. Thus, the reviewer could readily identify the exact exception noted in performing step E on voucher #5771 and follow through the disposition.

E. Non-Standard Cross References

There are some shortcuts we can use to "standardize" certain types of references that don't fall into the specific categories:

1. Journal entries - A comment on a work paper (example D above) may give rise to a needed journal entry. The writer might end his comment with "journal entry #6 made on schedule B-1-1". This could be shortened to a standard "AJE#6 (B-1-1)".
2. Points for possible footnotes - Note #8 (A-4) where Note is short for "footnote".

TICKMARKS

Tickmarks are engagement symbols used to designate repetitive work performed. Rather than writing a detailed narrative such as:

"I examined voucher #4081 for "this, that and the other" and found no exceptions. I also examined voucher #4082, 4083, 4084, etc. for this, that and the other and also found no exceptions.

We can use a tickmark by the list of vouchers to indicate this review as follows:

Voucher #
4081*
4082*
4083*
4084*

*examined voucher for, no exceptions noted.

This makes the work:

1. Easier to control, as we mark the voucher # with the tickmark as we go along.
2. Easier to measure progress as we can quickly see how far we've gone and how far we have to go.
3. Easier to review as undone items stand out clearly.
4. Progress more quickly as repetitive narrative is eliminated.

However, it must be remembered that tickmarks are just symbols, and, unless carefully and clearly explained, they mean nothing.

1. Every tickmark must be adequately explained.
 - a. Words like "checked" or "verified" should be avoided because they do not describe the actual activity.
 - b. Words like "traced to" or "reconciled to" may be used, depending on the circumstances.

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- 2. A legend for all tickmarks or symbols used to denote the work done or sources of information should appear on each worksheet or top worksheet of a group. On multiple printed schedules, the auditor should consider using flapsheets in order to avoid having to repeat tickmark and/or grid heading explanations.
- 3. Commonly used symbols should be simple and distinctive, not elaborate hieroglyphics.
- 4. Use of letters should be avoided except for the following standard tickmarks.

Footed	F	
Crossfooted	CF	
Recalculated	R	(generally a reviewer's tickmark)
Posted	P	(posting adjusting journal entries)
Traced	T	
Correctly Calculated	CC	(generally a reviewer's tickmark)

USE OF ABBREVIATIONS AND WORD SYMBOLS

Some in-charge auditors will only allow a very limited use of abbreviations or word symbols in preparing working papers. Office policy is one of neutrality. Therefore it is incumbent on the auditor to check with the in-charge on his or her policy regarding the use of abbreviations.

Due to the great volume of writing performed on our engagements, abbreviations or symbols when used with discrimination can save valuable preparation time. It must, however, be noted that IT IS INAPPROPRIATE TO USE ABBREVIATIONS IN EITHER THE AUDIT REPORT OR IN FORMAL CORRESPONDENCE. Following is an example listing of common abbreviations and symbols. (This listing is a partial listing and is not intended to be committed to memory.) Some abbreviations will have more than one meaning. The appropriate meaning will obviously lie within the context of the phrase or topic. The auditor should avoid using the same abbreviation for two different meanings on the same workpaper. If in doubt about whether a reviewer can understand an abbreviation, do not use it!

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Abbreviations and Word Symbols

p/o	printout or purchase order
s/b	should be
s/n/b	should not be
f/a	fixed assets or field engagement
b/o	behalf of
m/l	management letter
aje	adjusting journal entry
adj	adjustment
rept	report
.	
..	therefore
tr	traced
w/p	working paper
SA	State Auditor
a/g	audit guide
d/t	due to
d/f	due from
CG	Comptroller General
AG	Attorney General
n/a	not applicable
o/c	object code or owner's compensation

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PNA or
PNF Patients' Personal Needs

PBC prepared by client

STO State Treasurer's Office

PF permanent file

x-ref cross reference

number

WTB working trial balance

& and

con'tcontinued

NH Nursing Home

T-19Title XIX (Medicaid)

SECURING WORKING PAPERS

Throughout the engagement, the auditor is responsible for the safe custody of his working papers.

1. The following guidelines indicate what precautions should be taken to properly secure working papers.
 - a. Working papers should not be left unattended during the day in places where they might be accessible to the public, agency personnel, or other persons not authorized to examine them.
 - b. Working papers should be locked up overnight. Sensitive working papers on computers should be password-protected. The use of lockable cabinets of the kind usually obtainable from the agencies may not provide full protection against determined efforts to gain access. Nevertheless, the systematic use of such cabinets should discourage such attempts and prevent unauthorized access except by willful violation of established safeguards.
 - c. Special precautions are needed for materials of an unusually sensitive nature (such as personnel and payroll files). It may be possible to place such material in security cabinets. If not, use should be made of some safeguard beyond the type of lockable file generally used by the agency and for which keys are often readily available. Alternate measures include the use of cabinets with bars and combination padlocks, locked trunks, or padlocked briefcases stored in locked files.
 - d. When it is necessary to take working papers or laptop PCs containing working papers to a hotel or motel room they should not be left in the open when the auditor is absent from the room, but should be kept in locked briefcases or suitcases.
 - e. When it is necessary to leave working papers or PCs unattended in an automobile, they should be locked in the trunk rather than left on the seat or floor of the car.

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2. Maintain the security established by the auditee for their sensitive records and documents.
 - a. Respect the confidentiality of payroll and personnel records.
 - b. Protect sensitive and confidential data from unauthorized auditee personnel.
 - c. Be aware that certain taxpayer and proprietary data is protected by law from unauthorized disclosures. (See I-F)

This does not mean the auditor is prohibited from showing his work papers to auditee personnel under appropriate circumstances. Sometimes it can be quite useful for the auditor, particularly where there are no indications of fraud or damaging comments, to reveal the results of his review to knowledgeable auditee personnel in order to gain further information to help him evaluate significance, perspective, accuracy, and relevance. However, the auditor must always know who has access to his papers.

WORKING PAPER REVIEWS

1. Purpose

The purpose of working paper reviews is to ensure that the engagement sufficiently covers all material areas, the engagement report is well supported, and the working papers are of professional quality. The working paper review process can best be understood within the context of the total process involved in the generation of the engagement report.

2. Types

In addition to a self review, working paper reviews are conducted by the auditor-in-charge, supervisor and manager. Also quality control reviews are performed by the Deputy State Auditor.

A. The auditor should perform a self review of each working paper prior to its submission to the auditor-in-charge.

At a minimum this review should ensure the following standards have been applied.

1. Standard size working papers are used. (where applicable)
2. The name of the auditee under examination is shown on the heading.
3. A brief description of the working paper and the period of time covered by the audit is shown in the heading.
4. Working papers are prepared on one side only.
5. The date of the working paper is shown.
6. Index numbers are indicated.
7. Working papers are properly cross referenced.
8. The name or initial of the auditor and dates prepared is shown.
9. The source of information is indicated.
10. The purpose of the working paper is indicated.

11. The legend of the tickmarks is indicated.
 12. The meaning of other audit symbols are explained.
 13. Working papers are legible and neat.
 14. Working papers are clear and understandable.
 15. The information contained in the working papers is significant, relevant and useful in relation to the review, findings and conclusions.
 16. The working papers are complete and in sufficient detail to provide adequate support documentation.
 17. When applicable, a comment or indication that the schedule was prepared by auditee's employee.
- B. The review of the auditor-in-charge controls the engagement in detail.
1. The auditor-in-charge role is important and deficiencies in his review cannot be completely compensated for in the supervisory and/or managerial review.
 2. The "in-charge" review is performed continuously throughout the engagement and is indicated by the auditor-in-charge's initials on each of the working papers.
- C. The purpose of the supervisory and/or managerial review is to ensure that the planned direction of the engagement is or was maintained and that the policies of the office are adhered to.
1. The quality of the engagement is also reviewed; however, the content of the working papers is not reviewed in as much detail as in the in-charge review. See Section III-B, 6-1 for discussion of scope of manager review.
 2. The supervisory and/or managerial review should be performed as the field work progresses. It should not be performed at the end of the field work.

- D. The quality control review is a form of managerial review except that it checks for compliance with specific procedures which are applicable to all or most financial engagements. Specifically, the quality control review is intended to ensure the engagement was performed in accordance with U.S. GAAS and the engagement report has been prepared in accordance with U.S. GAAP and, if applicable, Medicaid requirements. See Chapter II, Section J for discussion of our quality control review process.

3. Review Points

- A. The working paper review process is designed to monitor and control engagement progress, to ensure compliance with office policies and procedures, to maintain quality control, and to ensure readability and legal compliance.
- B. Points should be answered in the workpapers. Make every attempt to insert missing data logically into the workpapers. Then reference the point to the proper workpaper. It is important for workpapers to stand on their own.
- C. The auditor should remember that, no matter how they are written, review points --should be interpreted as training points. They serve the purpose of not only ensuring quality work is performed, but also point out areas in which the reviewee's engagement techniques need to improve.
- D. Review point sheets are retained in our working papers as evidence of an adequate level of supervision. They also support the interim performance evaluations of staff members by the in-charge auditor.

If a reviewer discovers repetitive procedural review points such as, (1) failure to initial or sign and date workpaper (2) inadequate tickmark explanation (3) inadequate cross- referencing, the review should be suspended until the preparer corrects these recurring deficiencies. If any changes are made to work papers or draft engagement reports by someone other than the original preparer the changes should be clearly indicated.

DEVELOPING FINDINGS AND MANAGEMENT LETTER POINTS

No workpaper section is complete without a formal disposition of all exceptions and potential findings. The Potential Management Letter Comments form and the Potential Findings and Questioned Costs form were developed to help the auditor briefly outline each matter so that the in-charge auditor can consider its significance and materiality. The in-charge must then decide upon one of four possible dispositions:

1. Require that a management letter comment be drafted.
2. Require that a finding of noncompliance and/or questioned cost be drafted.
3. Require that the matter be discussed with management.
4. Delete the potential finding.

The Potential Management Letter Comments form and the Potential Findings and Questioned Costs form with instructions for their use are included in this Section.

The remainder of this section is devoted to a discussion of the development and writing of a finding or management letter comment which is to be included in our issued report.

1. Steps to Follow in Developing Findings

The process of developing a finding involves:

Identifying the deficiency by measuring the condition (what is) against acceptable criteria (what should be).

Determining the effects or significance of the deficiency (result of a difference between what is and what should be).

Ascertaining the causes of the deficiency (why it happened).

Identifying lines of authority and responsibility in the organization with the operations involved.

Identifying and resolving legal questions.

Obtaining and evaluating the comments of persons or organizations directly concerned who may be adversely affected by our reporting the finding.

Determining possible courses of corrective action or improvement to be recommended.

2. Elements of a Finding

a. Condition -

The statement of condition answers the question, "what is?" This is a description of what was found and the extent. If you can not fully describe the condition, your field work is not complete.

b. Criteria -

Asks, "What should be?" This is a statement of what the condition should have been. Said another way, this is the standard against which you were reviewing when a condition was discovered. By comparing the "condition" with the "criteria" you can then determine the deviation. Standards may include GAAP, good internal control, State or Medicaid laws and regulations or the agency's own rules and regulations. There are a few occasions when the authority is so obvious that it insults the reader's intelligence. If the auditor believes this to be the case, he should omit it from his finding but not from his audit work papers for he needs to know and understand the authority given if he is to form sound conclusions on the rest of his audit work.

c. Effect -

Asks "So what?" This is the significance of the resulting deficiencies. The "effect" of the deviation is the impact the deviation has on the organization or program. If the effect is not sufficiently great, the finding is not material and should be treated accordingly. If you are unable to determine the effect, you may have no problem or, at least, you have not looked into the matter deeply enough. Effect, then, is the convincer and as such is an indispensable element of an audit finding. If it is not shown in the report or if it is insignificant, the odds that management will take the action needed to correct the condition which the auditor found are not good and perhaps this is as it should be. There is often no strong argument for corrective action if no significant losses are being incurred or no significant lack of effectiveness is resulting.

d. Cause -

"Why did it happen?" This is the determination of what permitted the condition to exist. In identifying the cause you are truly into operational or performance analysis, but when you identify this attribute, you are looking for the systems breakdown which allowed the condition to exist (or the deviation to occur). This particular attribute is probably the most difficult to pin down. A practical approach to identifying underlying cause is to determine why an adverse condition has occurred and to pursue the matter through the various chain of events until a level is identified at which a recommendation can be made that will correct the problem at hand. Difficult though it is in some cases, identifying cause so that it can be corrected is a very important part of the auditor's work and as such should receive his or her best efforts. If the auditor does not do a good job of identifying underlying cause, the auditor may not be able to formulate a good recommendation and obtain effective corrective action.

e. Recommendation -

"What should be done about it?" This is the heart of the process. It's one thing to recognize a problem, but it takes a creative, imaginative auditor to think through to an efficient and economical solution. Sometimes a feasible recommendation seems to suggest itself, but in other cases the auditor will find he must summon all his ingenuity to come up with a recommendation that is sensible and has a reasonable chance of being adopted. The auditor should make his recommendation practicable and acceptable. It should be directed to an official who can take corrective action.

f. Work Paper Reference

The workpaper reference should be to the workpaper upon which the potential comment has been documented, not the lead memo.

The person one level above the person preparing the management letter point will be responsible for the point's disposition.

TITLE: WORKING PAPERS

Summary:

<u>Attributes</u>	<u>Question</u>
A. Statement of Condition	A. What is?
B. Criteria	B. What should it be?
C. Effect	C. So what?
D. Cause	D. Why did it happen?
E. Recommendation	E. What should be done about it?

The following will help you systematically control your field work by testing each finding to ensure that each attribute is present and fully developed.

Be sure you have substantiated the finding in the working papers.

QUESTIONS TO ASK YOURSELF IN DETERMINING SIGNIFICANCE AND COMPLETENESS

1. Are any attributes missing? Why? What can or should you do about it? Is it a presentation defect or a symptom of incompleteness?
2. Are attributes mixed up, one with another, in a manner that impedes clarity? Are facts indistinguishable from opinions?
3. Are the criteria unclear or unconvincing? Are they weak or unsound from a professional standpoint? Do they contain subjective bias?
4. Has effect been understated? Exaggerated? Insufficiently quantified? Are intangibles inadequately recognized or not explained?
5. Is the information on cause incomplete? Superficial? Does it get to the heart of the matter?
6. Is the recommendation unnecessarily vague? Too rigid? Does it take care of the past but not the future? Is it punitive rather than constructive? Is it out of harmony with cause?

Outline for a Potential Finding

Before writing a draft potential finding and recommendation, the auditor should prepare an outline to be used as a guide in structuring the potential finding. An outline serves several very useful purposes in that it causes the auditor to consider all facts and conclusions bearing on the subject, provides a logical arrangement of the material to be included in the findings, and finally, a determination as to whether all the necessary elements are present to support the finding. A brief summary of all significant points applicable to each element (i.e., condition, criteria, effect, cause and recommendation) should be included in the outline. Two standard forms, Potential Findings and Questioned Costs and Potential Management Letter Comments, are provided for this outline. When properly completed, these forms provide the basic facts for discussion with management or preparation of a draft management letter comment or a draft finding and/or questioned cost comment. The forms also document the decision by the in-charge and manager as to which option was selected.

TITLE: WORKING PAPERS

Instructions - Potential Management Letter Comments Form

This form was developed to save time and eliminate wasted effort. In reviewing management letter drafts, it was noted that many M/L comments were deleted by the in-charge or manager after considerable time and effort had been expended by the audit staff.

Every potential finding discovered by an auditor should be briefly outlined on a Potential Management Letter Comments form (PMLC). The intent is to get the facts to the in-charge - NOT a finely crafted draft of a management letter comment. It is not necessary to prepare this form in complete sentences. It is necessary that the form be prepared briefly and simply, clearly outlining the information called for, including where in the workpapers the in-charge can go for more detailed information. If you find that you are writing the same thing twice, on the form and in the draft M/L comments, you wrote too much on the PMLC.

Once an auditor has prepared a PMLC form, the in-charge can then consider the significance and materiality of the potential finding and decide upon one of three possible dispositions:

1. Require that a management letter comment be drafted.
2. Require that the matter be discussed with management.
3. Delete the potential finding.

The manager can make a different decision or approve the in-charge's decision in the subsequent manager's review.

The complete PMLC form should be filed in the workpaper section in which the finding was noted to support the disposition of the potential finding.

TITLE: WORKING PAPERS

Exhibit - Potential Management Letter Comments

AGENCY _____
POTENTIAL MANAGEMENT LETTER COMMENTS
PERIOD _____

CONDITION _____

CRITERIA _____

EFFECT _____

CAUSE _____

RECOMMENDATION _____

WORK PAPER REFERENCE _____
DISPOSITION
IN MANAGEMENT LETTER _____
DISCUSS WITH MANAGEMENT _____
DELETED BY IN-CHARGE _____
DELETED BY MANAGER _____

NOTE: Remember - this form should be **BRIEF AND TO THE POINT**. If the In-Charge decides a M/L comment is needed, you will then be directed to expand your comments. If you find yourself copying this information verbatim, you wrote too much here!

TITLE: WORKING PAPERS

Exhibit - Entity's Response to PMLC

AGENCY _____
POTENTIAL MANAGEMENT LETTER COMMENTS -
ENTITY'S RESPONSE
PERIOD _____

Name of Person Responsible
and Respondent at Entity _____

Title _____

Initials _____

Response _____

Following Year Follow-up _____

NOTE:

Once the entity's acknowledgment of the discussion (initials of the entity's respondent) and written response have been obtained, three copies of the PMLC (both pages) should be made and distributed as follows:

1. A copy, properly cross-referenced to the workpaper section where the potential finding was noted, should be filed at A-3 - Notes to Next Year's Audit.
2. A copy should be given to the person who initialed the form and provided the response.
3. A copy should be placed in a file to be discussed with and given to the senior management representative present at the exit conference.

TITLE: WORKING PAPERS

Instruction - Potential Findings and Questioned Costs Form

Every potential finding of noncompliance and/or questioned cost discovered by an auditor should be briefly outlined on a PFQC form. The auditor who notes the finding should complete the form, index it in the A-12 section, and turn it in with the workpapers in which the finding was noted.

OMB Circular A-133 requires the auditor to include the following items in the schedule of findings and questioned costs,

- Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program. The auditor's determination of whether a noncompliance with the provisions of laws, regulations, contracts, or grant agreements is material for purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the Compliance Supplement.
- Known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor.
- Known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement.
- Known questioned costs that are greater than \$10,000 for a federal program that is not audited as a major program.

The Potential Finding and Questioned Costs (PFQC) form was developed to help systematically accumulate information which must be reported pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133. The form will be used to document unresolved audit exceptions related to the compliance requirements contained in the laws, regulations, award terms, etc. applicable to each of the auditee's federal grants and contracts.

The following are some general instructions for completing the PFQC form:

- A. Any finding or questioned cost, meeting the criteria discussed above, must be written up .
- B. The three elements of program identification (program title; CFDA numbers; and grant identifier) should be included. This information must correspond to that reported on the Schedule of Expenditures of Federal Awards. In instances in which the grant number is not available, the grant title should be listed on the PFQC form.

TITLE: WORKING PAPERS

- C. Generally the finding identifies the dollar amount of questioned costs for each federal award. The auditor should be aware that there may be circumstances due to the nature of the compliance exception that all costs charged to the grant must be questioned. Occasionally, the associated cost cannot be reasonably determined. (See SOP 98-3, Section 10.64 for some criteria for reporting questioned costs.) Generally the amount of questioned costs should be included if it can be reasonably associated with the compliance finding and the amount is identifiable and available; consequently, the omission of the amount of questioned costs should be approved by the in-charge and the reasons therefore documented in the workpapers.
- D. The finding description does not need to be in complete sentences but should concisely and simply outline the exception. In the write-up of the finding, the auditor should include:
- (1) a description of the finding
 - (2) the extent of noncompliance in relation to the number of items tested (ex. Two of the 60 tested were...)
 - (3) the compliance requirement tested
 - (4) the auditee's planned corrective action and/or disposition of the finding
- E. The auditor should determine whether a Potential Management Letter Comment is also needed based on such factors as materiality, number of occurrences, etc. If one is warranted, the workpaper reference of the comment should be noted on the PFQC form.

TITLE: WORKING PAPERS

Exhibit - Potential Findings and Questioned Costs

AGENCY _____
POTENTIAL FINDINGS AND QUESTIONED COSTS
PERIOD _____

PROGRAM TITLE _____ CFDA# _____

GRANT # _____ QUESTIONED COSTS \$ _____

FINDING/NONCOMPLIANCE _____

EXTENT OF NONCOMPLIANCE _____

COMPLIANCE CRITERIA _____

AUDITEE'S RESPONSE _____

WORKPAPER REFERENCES: SOURCE _____

POTENTIAL MANAGEMENT LETTER COMMENT _____

AGENCY FILE A SECTION - CONTENT AND ORGANIZATION

The "A" Section of the work papers should contain all items of a general or overall nature relating to the current period under examination. Each specific subsection of the "A" Section is discussed below.

The first work paper in the "A" Section should always be the overall work paper index, which has been pre-indexed as "Summary Index" (AF-1). The second work paper should always be the "A" Section index, which has been pre-indexed as "A" (AF-2).

Section Contents

A-1 The report/financial statement draft

A-2 The management letter draft (A-2 may be combined with A-1)

A-3 Notes to following years engagement

This schedule should consist of a point sheet, indexed as A-3, which will be used to accumulate:

- 1) time-saving ideas for the next engagement
- 2) references to areas of work that require special timing or early consideration during the next engagement, that may not be normally anticipated
- 3) references to where special forms, etc. peculiar to this engagement can be found
- 4) points to be followed up during next engagement
- 5) any other comments or suggestions deemed helpful for the next engagement

Preparation of this section should be a continuing process. Points should be made on A-3 when they are noted, even if all the necessary information is not yet available. When preparing this section, don't assume that you will be doing the work again next year or that you will be able to "remember it all."

A-4 Possible Footnotes

This schedule should also be a point sheet. As soon as you have any thoughts concerning a matter that may require footnote disclosure, stop and make a note of it even if you don't have all the details -- the important thing is write it down in a logical place, where it won't be forgotten!

TITLE: WORKING PAPERS

Use A-4-1, A-4-2, etc. to file computations, etc. made especially for footnote disclosure. However, if the details are already complete elsewhere in the working papers, merely cross reference the point to the applicable schedule and leave it where it is. Before leaving the field, be sure you have sufficient data to clear every point on this schedule. Clearly document any footnotes proposed but not made as to why they were not made.

A-5 Meetings and Conferences

This schedule should be a series of memoranda, and in all probability will be the first work paper started on each engagement and the last work paper completed. This schedule should document, as an absolute minimum:

1. Initial contact with agency to begin the engagement which should include discussion with the chief financial officer covering:
 - a. timing, including number of weeks of field work and anticipated report release date
 - b. space requirements for staff
 - c. significant changes in operations, organization, accounting procedures or internal controls
 - d. any unusual problems that require special attention
 - e. protocol in requesting information, overnight storage of records, etc.
 - f. degree of assistance available in pulling documents, schedule preparation, etc.
2. Exit conference - document the exit conference with the following minimum information:
 - a. date and persons present
 - b. major items discussed
 - c. any significant changes in the report as a result of this meeting

TITLE: WORKING PAPERS

3. The above meetings, of course, would be at the beginning and ending of the engagement. Also document, as they occur, any meetings during the engagement where significant items were discussed that are not documented elsewhere in the working papers.
4. Do Not document personnel conflicts here.

A-6 Management Letter Comments

Formally, most management letter points will be supported in the working papers. In instances where they are not, use A-6-1, etc. to provide support. As points are noted, PMLC's should be written up immediately. Assume that, based on the PMLC, a decision is made to draft a management letter comment. On the work papers where the problem leading to the point is documented, write, with a red pencil "ML Pt. # made". Then flip to A-6, write up the point in as near to final form as possible, assign the next unused number to the point and place that number in the blank on the original schedule. Be sure to include the index to the original schedule on A-6. Often the "original schedule" will be the internal control questionnaire. The reference should be placed there as it would be for any other schedule. On a few occasions, there won't be a schedule. An idea may come up for an improvement or comment that doesn't relate to a specific work paper. In such cases, put a - in the work paper index column. In these cases be sure that we have all the facts on A-6 (or a supporting schedule if necessary) to support our comment.

On large engagements, staff may be working away from the location of the main working papers. In such cases, it is helpful to redesign the indexing of this section as follows:

A-6 becomes a control sheet for all management letter points. A-6-1, A-6-2, etc. can be assigned to individual members of the staff to document their points as they discover them. This determination should be made very early in the engagement by the in-charge auditor. Then, each staff member's points will begin with his number followed by a sequential listing of his points. In such cases, the reference to the point, on the schedule where it was noted, must be expanded to say "ML point # made" on A-6-(members number) - point number.

A-7 Internal Control Questionnaire

Forms GCX-3 and GCX-9 should be filed in the A-7 section.

TITLE: WORKING PAPERS

A-8 Work Program

The standard Work Program should be indexed A-8 and filed here. (Note: A-8 may also be used as an index to audit programs when audit programs are filed with the section workpapers)

A-9 Time Summary

Use the standard form to document overall time. Have each staff member keep his time, by area and day on a separate schedule A-9-1, A-9-2, etc.

A-10 Representation Letters

A-11 Planning and Supervision

This section contains the planning memo, the proposed time budget and staffing requirements, and the preliminary audit scopes and proposed procedures documenting the planning process. Also, this section contains point sheets and training points documenting the supervision and review given during the engagement.

AGENCY FILE B SECTION - CONTENT AND ORGANIZATION

The trial balance section of the working papers must be organized in such a way as to allow maximum efficiency in achieving the following objectives:

1. Reflecting the agency's unadjusted balances (per book amounts) in a clear and concise manner.
2. Clearly show the following:
 - a. Total assets, with subtotals by balance sheet category.
 - b. Total liabilities, with subtotals by balance sheet category.
 - c. Total revenues, with subtotals by category for the statement of changes in fund balances.
 - d. Total expenditures, with subtotals by category for the statement of changes in fund balances.
 - e. Total of other activity, with subtotals by category for the statement of changes in fund balances.
3. A summary of changes in fund balances, including the beginning and ending balance. The beginning balance should agree to our previous report and the ending balance should agree with the balance per books (in the "per books" column).
4. All adjusting journal entries and their posting to the appropriate trial balance.
5. Every number or column of numbers must be referenced as to source. Any combining of accounts to arrive at a financial statement amount must be clearly shown.

AGENCY PERMANENT FILE - CONTENT AND ORGANIZATION

A properly organized and complete permanent file can be one of the most important tools available to the auditor in conducting his examination. The major functions of the permanent file are:

1. Prevent duplication of effort from year to year
2. Pinpoint changes in accounting procedures and internal controls
3. Provide new auditors to an engagement with a concise history of the agency.

Most sections of the permanent file are fully explained by the title in the permanent file index. Further comments on sections 5,8,10,11, and 12 follow to explain their intended uses.

PF-5 Flow Charts and Procedural Write-ups

This section should contain all information resulting from our review of accounting procedures and internal controls that will be of benefit to future engagements. The first work paper in the section should be a general write-up of the basic accounting system including:

1. Funds maintained
2. Type of records (single entry, etc.)
3. Degree of automation
4. Any other factors of an overall nature peculiar to this agency
5. A listing of supporting write-ups and index thereof

This schedule should be indexed "PF-5". A separate write-up should support this schedule to describe the following areas:

PF-5-1 - Cash Balances

This should include nature and purpose of any accounts not maintained with the State Treasurer, a summary of procedures for reconciliation of accounts (including State Treasurer accounts) and a description of strengths and weaknesses in the system.

PF-5-2 - Billing, Accounts Receivable and Cash Receipts

This section should contain an outline of sources of revenues, and a flow of documents from origination of a "source of a charge" through billing (where applicable), accounts receivable (where applicable), cash receipting and into the general ledger.

TITLE: WORKING PAPERS

PF-5-3 - Purchasing, Receiving, Accounts Payable and Cash Disbursements

This section should follow the flow of an expenditure from requisition to mailing the check and recording the transaction in the general ledger.

PF-5-4 - Inventory Control

This section should cover controls over items "warehoused" as opposed to routine supply expenditures, which are often delivered directly to the eventual user. The major consideration in this area should be whether the system provides adequate segregation between physical custody and accounting for values on hand at any given point in time.

PF-5-5 - Fixed Asset Control

This section should be designed similarly to the one above and should concentrate on the same major consideration.

PF-5-6 - Personnel and Payroll

This section should outline procedures and controls from the point of hire, through personnel records, into payroll records and preparation and to:

1. Delivery of check or stubs.
2. Recording of amount in the general ledger.

Procedures should also be outlined for sick leave, annual leave and terminations.

This section should be much more detailed, particularly with respect to preparation procedures, in lump sum agencies.

Other sections (indexed PF-5-7, etc.) should be used for any other areas deemed necessary at a specific agency. When practicable, flow charting should be used to illustrate as much as possible of the procedures (and personnel carrying them out) described above.

TITLE: WORKING PAPERS

PF-8 - Leases

This section should consist of a summary sheet, in continuing analysis form, showing the following for each lease:

- 1) Lease number - we should assign consecutive numbers to make the section easier to review.
- 2) Leasor
- 3) Brief description of property
- 4) Beginning date
- 5) Ending date (normally, this should be the earliest date the agency could abandon the lease without any penalty)
- 6) Annual rental (minimum)
- 7) Special provisions worthy of disclosure

Following this should be a complete, signed copy of each lease indexed as PF-8-1, PF-8-2, etc. using the consecutive numbers previously assigned as the last digit of the index.

PF 10 - Significant Publicity

This section should contain copies of news articles and other media coverage that had or could have significance to our work. Examples of articles to include are:

1. Investigations by law enforcement, LAC, our office, etc.
2. Purchase or sale of significant assets
3. Litigation of any nature
4. Proposed bond issues, etc.
5. Major changes in personnel, particularly key personnel
6. Any other publicity that would help future auditors gain a better understanding of the agency.

PF 11 - Copies of Prior Reports

This section should contain copies of all of our final reports for the latest three years.

TITLE: WORKING PAPERS

PF 12 - Summary of Fixed Asset Activity

This section would consist of a schedule showing a summary of each major fixed asset category and the activity therein from year to year. This would show:

Balance per report, 6-30-xx	\$55,000.00
Additions-year ending 6-30-xx + 1	18,000.00
Retirements-year ending 6-30-xx + 1	(4,000.00)
Balance per report, 6-30-xx + 1	\$69,000.00
Additions-year ending 6-30-xx + 2	5,000.00
Retirements-year ending 6-30-xx + 2	--
Balance per report, 6-30-xx + 2	\$74,000.00

Each number in such an analysis should be cross referenced to its source in the current year work papers. This schedule will:

1. Give subsequent insight into dollar activity in the accounts
2. Point out unusual fluctuations
3. Highlight problems, such as unlocated differences, etc., if such exist.

Other Helpful Ideas

Organization Charts - where the agency has not done so, write in the names of people we come in contact with, on the organization chart. Recap major changes from prior year. Keep prior years.

If you write a special work program(s) for a particular area(s) make a copy to use currently and put the original in front of the permanent file for the subsequent auditor to use as a draft.

A lot of miscellaneous "tidbits" of information that will be helpful in work for years to come can be included in the memo at PF-5, instead of repeating them each year in "notes to next engagement" in the "A" section.

MEDICAID A SECTION - CONTENT AND ORGANIZATION

The "A" Section of the work papers should contained all items of a general or overall nature relating to the current period under examination. Each specific subsection of the "A" Section is discussed below.

- A-1 **REPORT**
The report, management letter, and personal needs letter
- A-2 **CORRESPONDENCE AND CHANGES SUBSEQUENT TO ISSUE OF DRAFT REPORT**
Correspondence, additional documentation, and work papers supporting changes to the report subsequent to the issuing of the draft report
- A-3 **CORRESPONDENCE AND CHANGES SUBSEQUENT TO ISSUE OF FINAL REPORT**
Correspondence, additional documentation, and work papers supporting changes to the report subsequent to the issuing of the final report
- A-4 **COST REPORT, DHHS ADJUSTMENTS AND WORKSHEETS, AND RATE SHEET CORRESPONDENCE**
The cost report, DHHS adjustments and work sheets, and rate sheet(s) and applicable correspondence
- A-5 **MEETINGS AND CONFERENCES**
This section consists of the A-5 Work Program, Entry Conference Questionnaire, the informal exit write-up and notes/write-ups made during the engagement
- A-6 **MANAGEMENT LETTER COMMENTS**
This section consists of a control sheet for all PMLCs proposed, the work paper reference and the disposition of the finding. The PMLC will be filed in the supporting work paper
- A-7 **NOTES TO FUTURE AUP'S**
Notes to the following year should consist of time saving ideas, events subsequent to the engagement period (i.e. facility expansion, changes in charge structure, etc.), directions to the facility, points to be followed up during the next engagement, and any other comments or suggestions deemed helpful for the next engagement
- A-8 **GENERAL & STATE PLAN COMPLIANCE**
A-8-1 General Program and A-8-2 State Plan Compliance Program

TITLE: WORKING PAPERS

- A-9 TIME SUMMARIES
Use the standard form to document overall time. Each staff member keeps his time by area and day on a separate schedule
- A-10 HCFA FORM 1539 - CERTIFICATION DOCUMENT
- A-11 PLANNING AND SUPERVISION
This section contains the planning and control memo, the proposed time budget and staffing requirements, and the preliminary scopes and proposed procedures documenting the planning process. Also, this section contains point sheets and training points documenting the supervision and review.
- A-12 MISCELLANEOUS CORRESPONDENCE
The engagement letter and correspondence not related to desk adjustments are filed in A-12
- A-13 PROVIDERS WTB
The A-13 work program, the provider's WTB and AJEs are filed here
- A-14 PROVIDER'S AUDITED F/S's
- A-15 PRIOR PERIOD REPORT AND APPEALS DECISION

MEDICAID B SECTION - CONTENT AND ORGANIZATION

The "B" section of the working papers are organized as follows:

1. "B" section work program and lead memo is included.
2. A schedule of cost arrays and patient days is prepared. This schedule contains DHHS and SAO adjusted balances by cost array, SAO AJE's, and SAO adjusted per-diem by allowable cost center.
3. The State Auditor's Office Adjustments (AJE's) are summarized in the adjustment report. Each AJE must contain the applicable criteria supporting the AJE.
4. A schedule of passed AJEs is also included and a conclusion on the aggregate effect on the rate.

MEDICAID PERMANENT FILE - CONTENT AND ORGANIZATION

A properly organized and complete permanent file can be one of the most important tools available to the auditor in conducting his examination. The major functions of the permanent file are:

1. Prevent duplication of effort from year to year
2. Pinpoint changes in accounting procedures and internal controls

Most sections of the permanent file are fully explained by the title in the permanent file index. Each specific subsection of the permanent file section and any comments necessary to explain their intended uses are listed below. It should be noted that not all items are required. Only those items that are applicable to those procedures performed should be included.

I. General Information

This section contains general information regarding the provider. Not all of the sections noted in the index are applicable to every provider; some of the information requested simply does not exist. For example, not every provider has a brochure.

- PF1-1 Provider brochure
- PF1-2 Organization chart - list of key personnel
- PF1-3 Chart of accounts
- PF1-4 Date of construction; opening date of additions
- PF1-5 Provider administrative Policy and Procedure Excerpts

II. Accounting Policies

This section should contain all information resulting from our review of accounting procedures. The noted subsections are broken down by the major accounting cycles. These subsections should contain the documentation of the flow of the cycle from the original source documents to the posting to the general ledger.

- PF2-1 Method of recording and accounting for revenues
- PF2-2 Method of recording and accounting for payroll
- PF2-3 Method of recording and accounting for purchases and inventories
- PF2-4 Billing procedures and discount policies
- PF2-5 Provider Accounting Policy Manual

TITLE: WORKING PAPERS

III. Property, Plant, and Equipment

This section should contain all information regarding the Fixed Assets and Depreciation. Make sure you include the most updated schedules. These schedules should include any SAO adjustments.

- PF3-1 Depreciation schedules
- PF3-2 Lease agreements
- PF3-3 Memo on capitalization policies

IV. Bonds and Notes

This section should contain all information regarding the debt of the provider. Copies of the debt instruments, amortization schedules and any bond issues should be included in this section.

- PF4-1 Information concerning bond issues
- PF4-2 Copies of pertinent notes or mortgages
- PF4-3 Amortization schedules

V. Contracts and agreements

This section should contain copies of all major contracts entered into by the provider for services or personnel.

- PF5-1 Contracts with medical personnel; i.e. Medical Director
- PF5-2 Contracts for services "under arrangement"; i.e. Physical Therapy
- PF5-3 Contracts with outside suppliers or firms; i.e. Consultants
- PF5-4 Pension Plan, Profit Sharing Plan

VI. Related Organizations

This section should contain all information regarding transactions between the provider and any related organizations, including the Home Office.

- PF6-1 Schedule of related entities and type of control
- PF6-2 Analysis of shared services
- PF6-3 Carryforward schedules for computation of shared services costs; i.e. Statistics
- PF6-4 Information on chain organizations and home office cost

TITLE: WORKING PAPERS

VII. Insurance

This section should contain information regarding insurance policies including detail schedules showing the cost associated with each individual policy and the applicable prepaid amounts relating to future engagements.

PF7-1 Carry forward schedules of prepaid insurance

PF7-2 Copies of policies and extracts from policies

VIII. Miscellaneous

This section is not limited to the subsections noted in the index. This section is for any miscellaneous information the auditor feels is pertinent to future engagements.

PF8-1 Square Footage

PF8-2 Extracts from Board Minutes

PF8-3 Tour of Facility

PF8-4 Contracts & Amendments

PF8-5 Semi-Private Room Rate

TITLE: REPORT PREPARATION AND REVIEW PROCESS

REPORT PREPARATION

The in-charge auditor is responsible for preparing the initial report draft. As part of his on-the-job training responsibility, preparation of portions of the report draft should be assigned to junior auditors. The suggestions below should be kept in mind when drafting the initial report.

The pencil draft of the report should be prepared exactly as you want the finished product to appear:

1. Be sure that your capitalization is exactly as you want it to appear.
2. Spacing (within the constraints of work sheets) should be as accurate as possible. Don't make a page in your draft longer than will fit on a single typed page. If in doubt, consult the word processing supervisor.
3. Indentations should be exactly as you want them on the finished product.
4. All words should be spelled exactly as you want them to appear. Abbreviations should never be used in a report.
5. All single/double underscores, as applicable, should be shown on the drafts, both under numbers and column headings.
6. All references to other schedules should be shown such as "The accompanying notes..."
7. Don't do roundings on the face of the draft--numbers should be entered on the draft already rounded. Any net rounding differences (1 or 2 dollars) should be netted against cash or payables, as applicable.

Basically, everything should be 100% complete before submitting the report draft to the manager except for page numbers on the "Contents" page.

While neatness is very important, we should use realistic time-saving methods whenever feasible:

1. Use prior year report or a similar agency's report for a starting point.
2. Use consecutively numbered inserts to add data omitted in the first draft.
3. Clearly line out non-essential data and/or show changes rather than recopying an entire page.

In summary, neatness should be limited to concern for clarity, legibility and accuracy and not overly concerned with appearance.

TITLE: REPORT PREPARATION AND REVIEW PROCESS

REVIEW OF THE MEDICAID REPORT DRAFT

The in-charge auditor gives the pencil draft of the report and the working papers to the manager. The report draft is reviewed by the manager, following these minimum review procedures:

1. Critically read the draft for obvious omissions, errors, ambiguous language and noncompliance with office policy and appropriate cost principles.
2. Verify date of the report to work papers.
3. Trace all amounts which appear in more than one place in the report to insure internal consistency. Foot all columns and crossfoot all exhibits and schedules.
4. Read the work program and insure that:
 - a. Sufficient work was performed in the circumstances.
 - b. All steps are properly signed off.
 - c. The report agrees with and is supported by the working papers.
5. Examine all journal entries, verify adequacy of support, and trace postings to trial balance. Indicate completion of this step by placing a tickmark beside each amount.
6. Sign off on clerical work order. Insure that any unique report distribution requirements are clearly shown.
7. Initial all schedules reviewed.

As the manager performs these review procedures, review points should be written noting errors to be corrected, errors corrected by the manager and points for future use by the in-charge. The review points and draft should be returned to the in-charge for correction. After receiving corrected draft and review points, the manager should check clearance of his points. After he is satisfied that the draft is corrected, it is delivered to the word processing supervisor to be typed and logged.

After being typed and proofed by the word processing department, the draft is given to the manager.

TITLE: REPORT PREPARATION AND REVIEW PROCESS

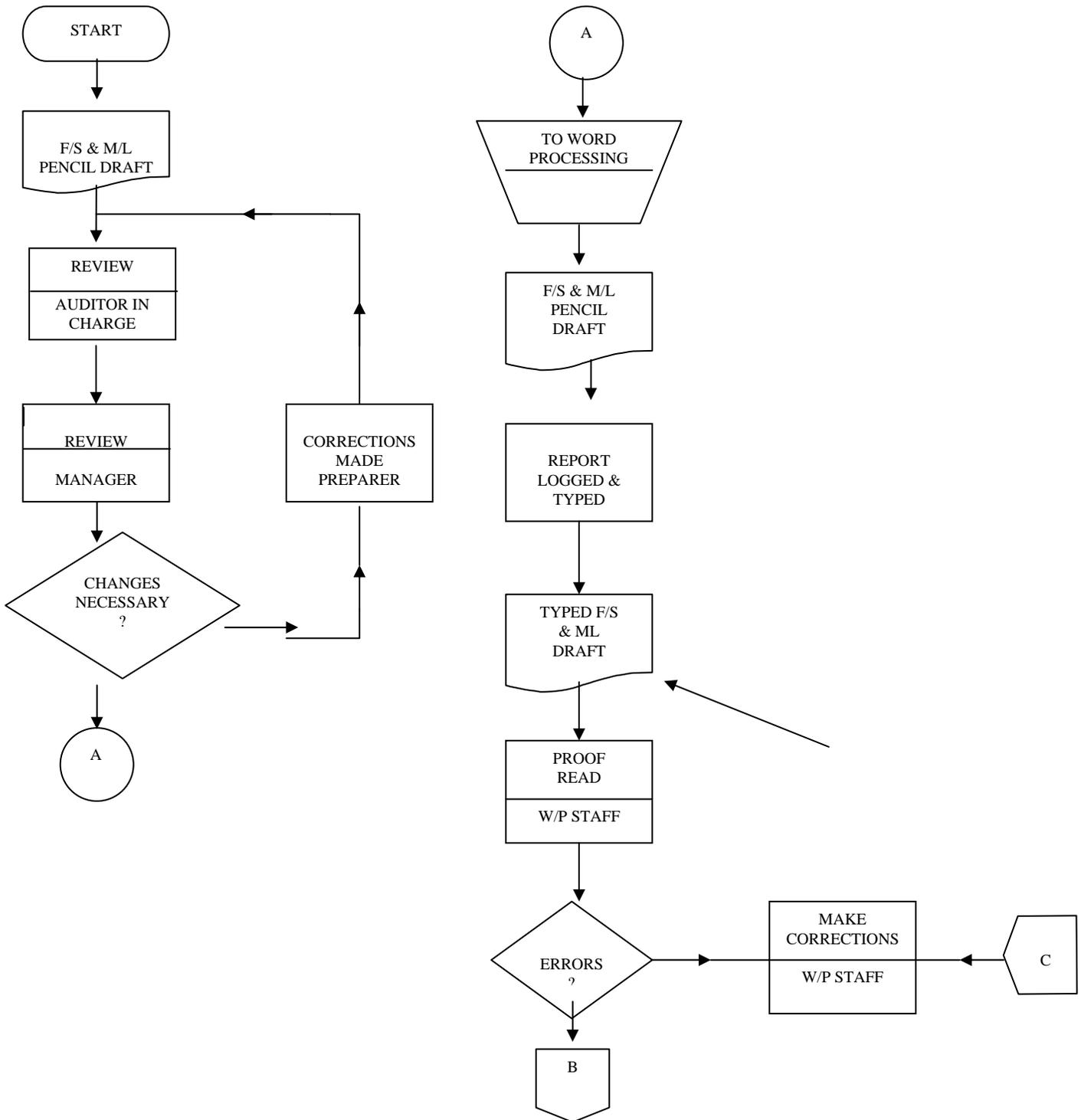
The manager reviews the typed draft. After the draft is corrected by the manager, it is returned to word processing. Word processing types and proofs corrections and returns the draft to the manager who reads and foots it. Once the manager is satisfied that the draft is correct, it is returned to word processing to prepare the preliminary draft and transmittal letter.

Word processing delivers the prepared report draft and transmittal letter to the Deputy State Auditor. The Deputy State Auditor reviews the report draft after which the State Auditor reviews the report and signs the transmittal letter.

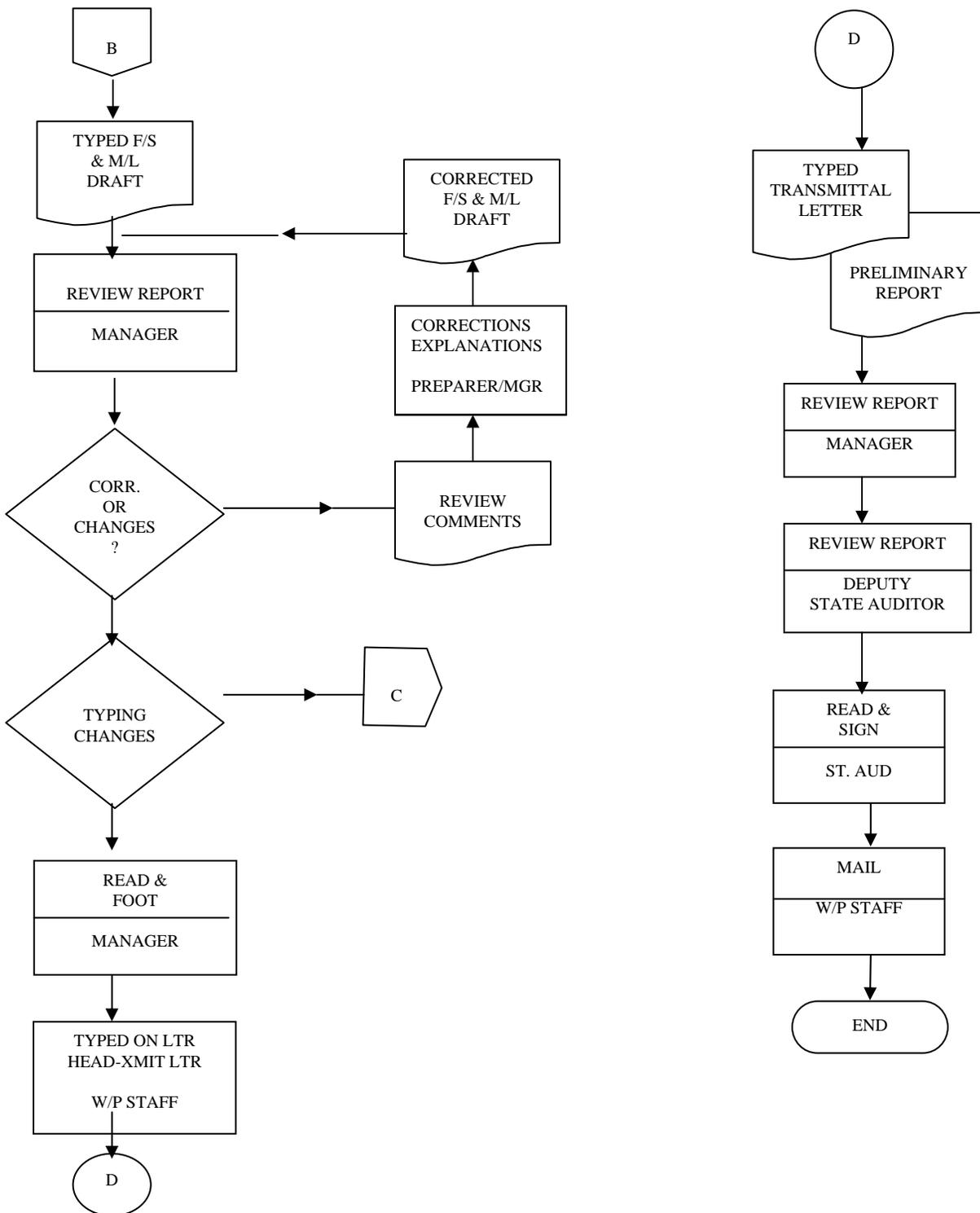
A flow chart showing the process from manager review through mailing the preliminary of the draft follows.

TITLE: REPORT PREPARATION AND REVIEW PROCESS

Work Flow/Responsibility – Report Pencil Draft to Preliminary Report Draft



TITLE: REPORT PREPARATION AND REVIEW PROCESS



TITLE: REPORT PREPARATION AND REVIEW PROCESS

Formal Exit Conference

The preliminary draft transmittal letter advises the auditee to contact the manager to arrange a formal exit conference if one is desired prior to the final issuance of the report. Normally, the audit manager and the in-charge will attend any exit conference. The Deputy may attend if he wishes.

Final Issuance of Report

When the report is ready for final issuance, the Manager will forward the draft copy of the report, with any changes, if necessary, and final transmittal letter to word processing. Word processing prepares the report and transmittal issuance and submits them along with the form dated and initialed by the Manager indicating authorization to prepare the report for final issuance to the Deputy State Auditor. The Deputy will ensure changes, if any, have been properly reflected in the final report and final transmittal letter is correct.

After approval of the final report by the Manager, Deputy State Auditor and signature by the State Auditor, word processing is notified to prepare, bind and mail the final reports.

TITLE: REPORT PREPARATION AND REVIEW PROCESS

REVIEW OF THE AGENCY REPORT DRAFT

The in-charge auditor gives the pencil draft of the report and the working papers to the manager. The report draft is reviewed by the audit manager, following these minimum review procedures:

1. Critically read the draft for obvious omissions, errors, ambiguous language and noncompliance with office policy and U.S. GAAP.
2. Verify date of the report to work papers.
3. Agree each number, including amounts in footnotes, in the draft to the appropriate workpaper schedule. Place a green dot by the right hand side of the amount on both the draft and the work paper.
4. Trace all amounts which appear in more than one place in the report to insure internal consistency. Foot all columns and crossfoot all exhibits and schedules.
5. Read the work program and work paper lead schedules. Insure that:
 - a. Sufficient work was performed in the circumstances.
 - b. All steps are properly signed off.
 - c. The report agrees with and is supported by the working papers.
6. Read the draft management's representation letter. Insure there are no conflicts between their representations and our report. Also, insure all necessary representations are included.
7. Examine all journal entries, verify adequacy of support, and trace postings to trial balance. Indicate completion of this step by placing a green dot beside each amount.
8. Sign off on clerical work order. Insure that any special report distribution requirements are clearly shown.
9. Initial all schedules reviewed.

As the manager performs these review procedures, review points should be written noting errors to be corrected, errors corrected by the manager and points for future use by the in-charge. The review points and draft should be returned to the in-charge for correction. After receiving corrected draft and review points, the manager should check clearance of his points. After he is satisfied that the draft is corrected, it is delivered to the word processing supervisor to be typed and logged.

After being typed and proofed by the word processing department, the draft is returned to the manager.

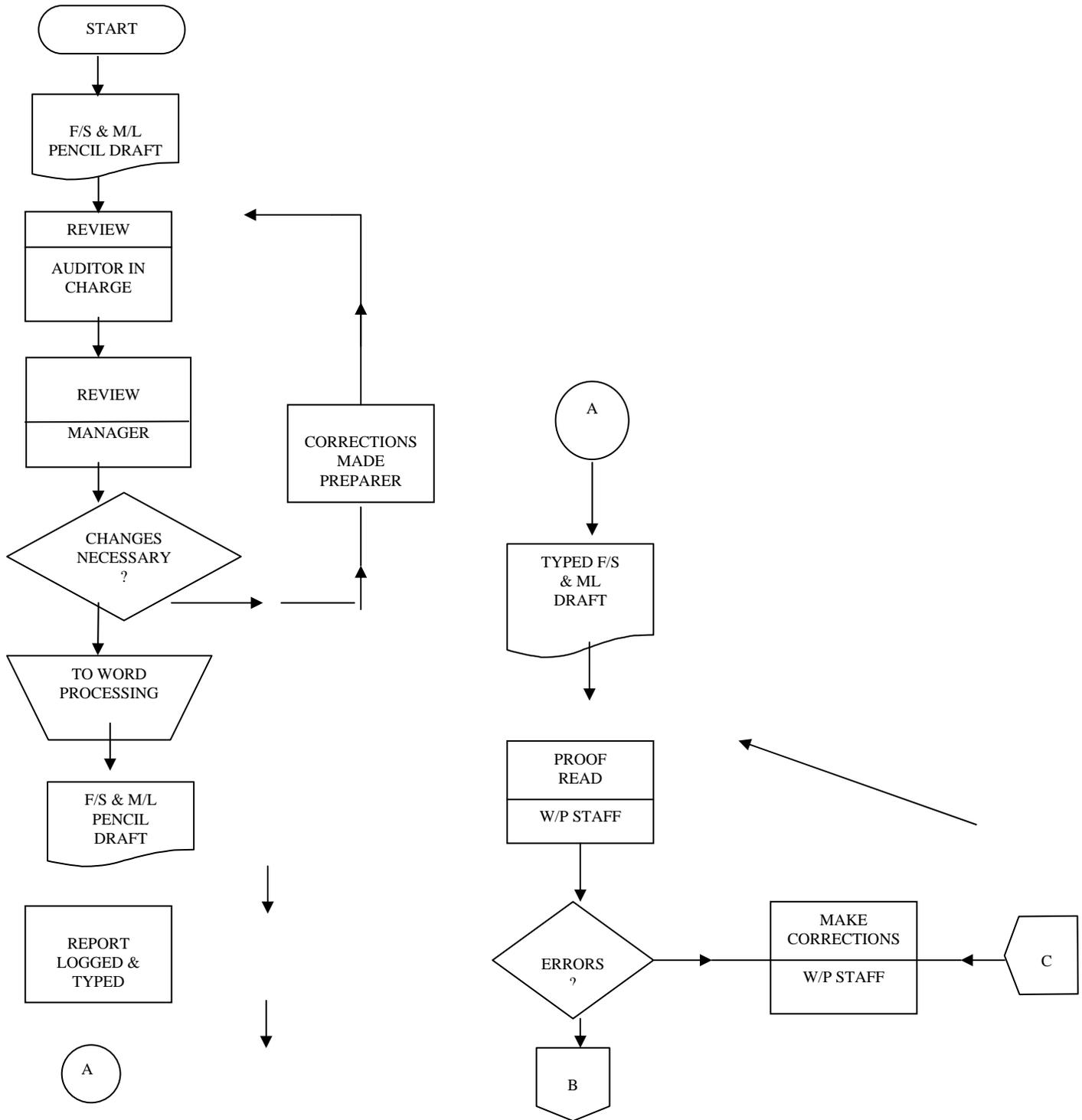
The manager reviews the typed draft. After the draft is corrected by the manager, it is returned to word processing. Word processing types and proofs corrections and returns the draft to the manager who reads and foots it. Once the manager is satisfied that the draft is correct, it is returned to word processing to prepare the preliminary draft and transmittal letter.

Word processing delivers the prepared preliminary draft, management's representation letter draft and transmittal letter to the State Auditor. The State Auditor reads the drafts, signs the preliminary letter and returns them to word processing to be mailed to the auditee for comment.

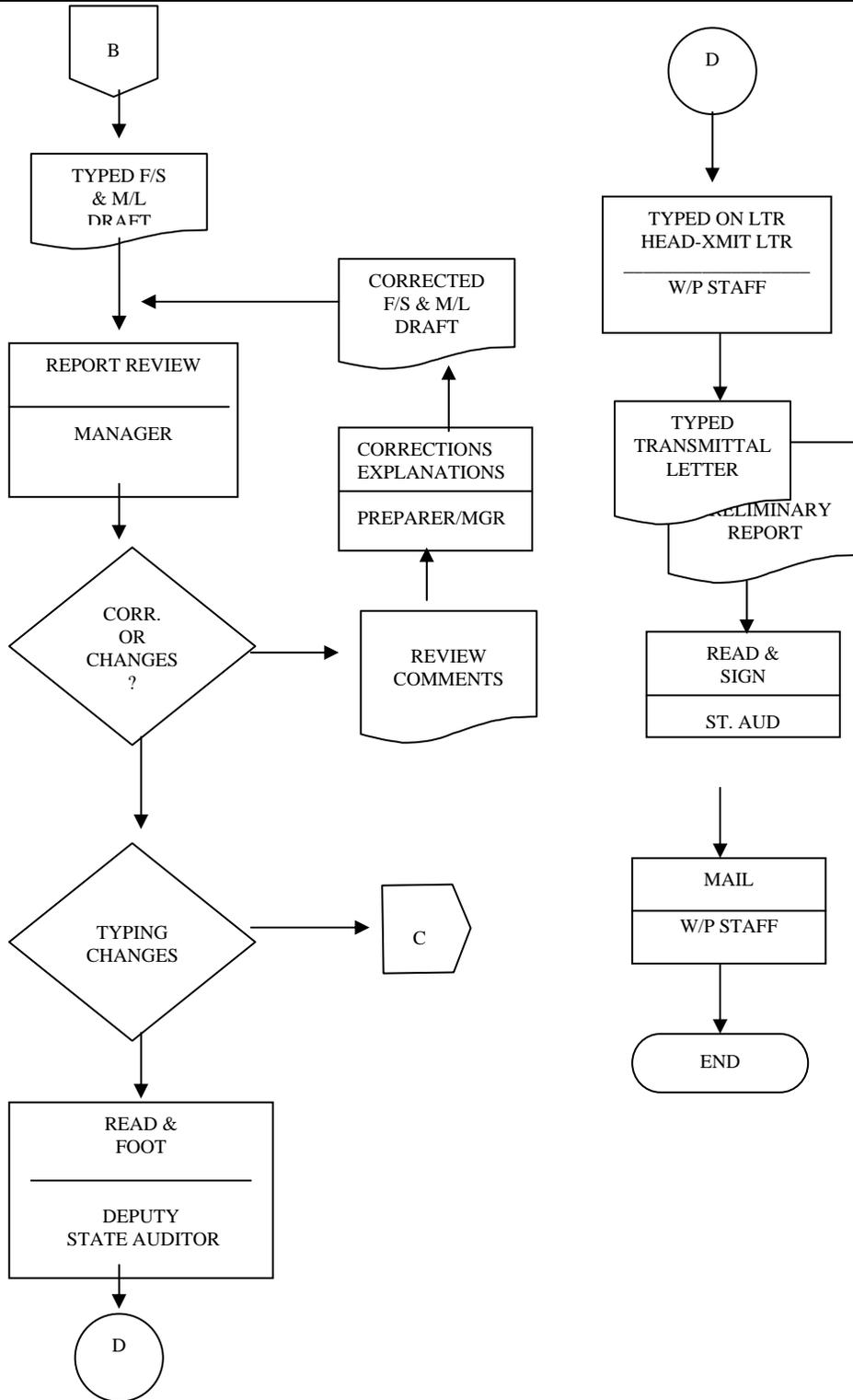
A flow chart showing the process from manager review through mailing the preliminary of the draft follows.

TITLE: REPORT PREPARATION AND REVIEW PROCESS

Work Flow/Responsibility – Report Pencil Draft to Preliminary Report Draft



TITLE: REPORT PREPARATION AND REVIEW PROCESS



TITLE: REPORT PREPARATION AND REVIEW PROCESS

Formal Exit Conference

The preliminary draft transmittal letter advises the agency to contact the audit manager to arrange a formal exit conference if one is desired prior to the issuance of the report. Normally, the audit manager and the in-charge will attend any exit conference. The Director may attend if he wishes.

Agency Response

The Director of State Audits is responsible for receiving management's response to the preliminary draft of the audit report and the management's representation letter. The Director is also responsible for insuring that:

1. The response is included in the bound report.
2. Word processing is notified to prepare, bind and mail the final reports.
3. Word processing is given the management's representations letter to file in the work papers at A-10.

TITLE: CHAPTER IV - AGENCY ENGAGEMENT ISSUES - INDEX

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MANAGEMENT REPRESENTATION LETTER

AU Section 333 requires the auditor to obtain written representations from responsible client officials. Chapter 7 of the PPC Guide to Audits of Local Governments (Guide) is incorporated here by reference and provides guidance and sample wording for preparing management representation letters.

ATTORNEY LETTERS

Attorney Letters should be sent to the Attorney General on all agency audits. In addition, by inquiry and analysis of disbursements, we should determine if the agency has used the services of private attorneys. If so, Attorney Letters should be sent to all attorneys (or firms) utilized.

The Attorney Letters should be sent as close as possible to the completion of our field work. Specifically we should avoid situations where the Attorney's response will be dated prior to our report date in order that their response will cover matters arising through that date.

Attorney Letters will be signed by the manager, who will monitor outstanding requests. The manager will assure that all required responses from attorneys have been received and liabilities and/or contingent liabilities adequately addressed in the financial statements.

The Deputy State Auditor will verify that the audit manager has completed this procedure prior to authorizing release of the final report.

Chapter 7 of the PPC Guide is incorporated here by reference.

TITLE: OTHER AUDIT EVIDENCE

RELIANCE ON THE INTERNAL CONTROLS OF THE COMPTROLLER GENERAL'S OFFICE AND OF THE TREASURER'S OFFICE

We have tested a sample of disbursements (vouchers and IDT's) and checks processed by the Comptroller General's Office and State Treasurer's Office during the fiscal years listed below, except those disbursements made for personal services, travel reimbursement made by direct deposit, income tax refunds, procurement card purchases and lump sum agencies.

FYE June 30

2007	2008	2009	2010	2011
2012	2013	2014	2015	2016

The conclusions reached as the result of our testing are that we can rely on the internal controls of the Comptroller General's Office and the Treasurer's Office to insure the presence of the attributes listed below and therefore should not test them at the agency level:

Paper Vouchers:

1. Agree payee, check number, warrant number, date and amount to copy of canceled check.
2. Examine check for proper endorsement.
3. Agree information from the Treasurer's check register to the voucher (e.g., warrant number, payee, and amount).
4. Examine voucher supporting documentation to ensure that the original source documentation or acceptable substitute (i.e., invoice, purchase order, receiving report, etc.) is present and agrees to voucher.
5. Examine voucher signature. Agree signature on voucher to list of authorized agency signatures on file with the Comptroller General.

SCEIS Entries:

1. *Valid payee* – Agree payee, check number, agency, check issue date, and check amount per State Treasurer's Paid Check Detail Screen.
2. *Valid endorsement* – Examine check for valid endorsement (e.g. payee endorsed check, check is restrictively endorsed).
3. *Check Detail Screen Entry equals SCEIS Entry* – Entry agrees as to payee, agency and amount.
4. *Adequate documentation* – Examine support documentation to ensure that original documentation or acceptable substitute is in agreement with the entry.
5. *Verified calculations, extension, etc.* - Recheck the clerical accuracy of the voucher support documentation (i.e. invoices, purchase requisitions, etc.).
6. *Authorized transaction* – Examine work flow to ensure transaction was properly authorized by agency personnel and comptroller general personnel.

Please note that the above listed attributes can only be relied upon at those agencies whose transactions are fully processed by the Comptroller General and State Treasurer. This does not include lump sum agencies. All other steps required by our standard disbursement test grid must be performed at each agency.

FEDERAL AUDIT REPORTS ON STATE AGENCIES

We have a special file of audit reports pertaining to State agencies as issued by or on behalf of various Federal agencies. Before going into the field on any State agency engagement, the auditor-in-charge should check the file to determine if any Federal audit reports are on file for the State agency scheduled for examination. Any Federal reports on file should be reviewed for possible effect on our State examination, such as a finding of ineligible costs requiring a refund to the Federal grantor. Copies of Federal reports are not to be removed from the file and taken into the field. Pertinent information should be obtained by extracting the required data or making photocopies as deemed necessary.

TITLE: WORK PROGRAM CONCLUSIONS

Work Program Conclusions

Every audit program must contain a conclusion which makes a positive statement concerning the objectives, without restating each objective, such as: the control features are being followed, the amount is fairly stated, etc.

The objectives are listed at the beginning of the work program so it is not necessary to list them again in the conclusion. However, the conclusion must state the auditor's conclusion about the work performed.

Below is an example from the General Procedures Work Program that can be used as a guide.

EXAMPLE

CONCLUSION

We have performed procedures sufficient to achieve the general program objectives, and the results of these procedures are adequately documented in the accompanying workpapers.

AIC _____
DATE _____
MGR _____
DATE _____

If the procedures were not sufficient to achieve the objective, you would alter your conclusion. **Talk with your manager about the appropriate wording.**

TITLE: TESTING OF FEDERAL FUNDS

When performing a U.S. GAAS audit for the purpose of giving an opinion on U.S. GAAP financial statements, our responsibility for testing of federal funds transactions is set forth in AU Section 317, which requires that the auditor design the audit to provide reasonable assurance that the financial statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. Additional guidance may be found in AU Section 801.

We perform a Statewide Single Audit annually, generally following the Practitioners Publishing Company "Guide To Single Audits" which is incorporated here by reference. Our copy of the guide is kept in the office of the manager assigned responsibility for the Statewide Single Audit.

TITLE: AGREED-UPON PROCEDURES REPORTS

Agreed-Upon Procedures

We will comply with Statement on Standards for Attestation Engagements No. 10 "Attestation Standards: Revision and Recodification," Chapter 2: Agreed-Upon Procedures Engagements at most agencies and boards. This approach was adopted for the following reasons:

- . These agencies and boards do not need individual GAAP basis financial statements.
- . They are incorporated in the state's CAFR and, if applicable, single audit each year.
- . Performing a full scope financial and compliance audit and preparing financial statements in accordance with GAAP at each of these agencies and boards is not an efficient or effective use of our scarce audit resources.
- . We believe a timely performance of the agreed-upon procedures, which relate primarily to compliance with state finance related laws, accompanied by relevant auditor's comments will prove to be of much more value to agency and state management than GAAP basis financial statements.

It will be mandatory that an engagement letter specifying the agreed-upon procedures to be performed be submitted to the same individuals at each agency from whom we would require a management representations letter in a full scope audit. A copy of the engagement letter must be returned to us after being signed by those individuals indicating their understanding of and agreement with the scope of the engagement. This copy will be filed in the planning section of the workpapers.

Agencies which will receive full scope audits will be those incorporated into the CAFR from audited statements, those which issue bonds, and any others determined by the State Auditor.

TITLE: AGREED-UPON PROCEDURES REPORTS

Agreed-upon procedures work programs to be used in these engagements may be found in the forms file.

NOTE

Throughout the work programs, the term "sample" is used. Sample is defined for use in performing AUPs as:

The random selection of at least 25 items from the population being tested for the purpose of gaining an understanding of internal control, including knowledge about the design of relevant policies, procedures, and records, and whether they have been placed in operation.

It is important to remember several key points:

1. We are not going to project the results of our testing to the population. Therefore, we are not using statistical sampling.
2. We are, in effect, performing a walk-through of internal control to gain an understanding of relevant policies, procedures, and records, and whether they have been placed in operation. We will not conclude on the effectiveness of those controls.
3. Even though we use the PPC forms for sample determination, materiality, and determination of individually significant items, concepts which relate to an Audit designed to result in expressing an opinion on GAAP financial statements, you must remember we are only going to report on the results of the specific agreed-upon procedures.

The report will be an Agreed-Upon Procedures report which will consist of:

- . Independent Accountant's Report on Applying Agreed-Upon Procedures.
- . Accountant's Comments (if required).
- . Management's Response.

An example of the agreed-upon procedures report is in Chapter V, Section X.

CHAPTER V - TECHNICAL POSITIONS: AGENCY AUDITS

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CHAPTER V - TECHNICAL POSITIONS: AGENCY AUDITS

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TITLE: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The first standard of reporting requires an auditor who has audited financial statements in accordance with U.S. generally accepted auditing standards to state in the auditor's report whether the statements are presented in accordance with U.S. generally accepted accounting principles. The phrase "generally accepted accounting principles" is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time in the U.S. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations.

SAS 69 "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report," discusses the sources of established accounting principles that are generally accepted in the United States (AU Section 411.05).

The auditor should follow the applicable hierarchy established by AU Section 411.12 for governmental entities in determining whether an entity's financial statements are fairly presented in conformity with U.S. generally accepted accounting principles.

TITLE: CASH, DEPOSITS AND INVESTMENTS

STATE TREASURER'S POOLED INVESTMENT FUNDS

The State Treasurer's Office (STO) administers an internal cash management pool in which most agencies participate. (An entity owns a percentage of the pool instead of specific identifiable investments.) The STO has been able to convert the majority of the entity portfolios into pools; however, there are still some entity portfolios that have not been merged into pools because of restrictions. Agencies can have investments in both STARS and non-STARS portfolios and may have more than one account in each.

The majority of the State's investments are accounted for in a single general ledger account or cash management pool. The cash management pool is comprised of all STARS accounts. The pool, which is not recorded in any one fund, is further broken down into separate portfolios on the State Treasurer's investment management system (IMS) in order to facilitate the distribution of earnings as required by law, bond indenture, and other trust documents. Deposits in the pool are invested in various securities and certificates of deposit as required by State law. The investments are liquidated as the cash is needed and new investments are acquired when there is excess cash. The investments are such that they are sold as needed without penalty or notice. Therefore, deposits managed by the State Treasurer included in the cash management pool should be reported as cash and cash equivalents. There are a few exceptions to this general statement.

Definitions:

Cash includes not only currency on hand, but also demand deposits with banks or other financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty. (GASB Statement 9)

Cash equivalents are defined as short-term, highly liquid investments that are both

- a. Readily convertible to known amounts of cash.
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet this definition. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools.

Investments are securities not meeting the definition of cash equivalents.

TITLE: CASH, DEPOSITS AND INVESTMENTS

See the GASB Codification for required disclosures.

Accounts which are not included in the cash management pool have been excluded primarily because the accounts are not on STARS. These accounts should be analyzed to determine if they are cash and cash equivalents or investments based on the above definitions. The investment portion would be reported as "Investments Held By The State Treasurer."

Clemson and SC State College have agricultural perpetual stock that is held in the STO vault but this stock does not appear on any STO printout. The stock is guaranteed 6% income each year which is appropriated by the State. This stock should be reported as "Investments Held By The State Treasurer."

The State's cash management pool consists of a general deposit account and several special deposit accounts. All earnings of the general deposit account are recorded in the General Fund of the State. Interest earned by the entity's special deposit accounts is retained by the entity. Interest earned is allocated based on the percentage of an entity's accumulated interest receivable to the total interest received by the pool.

TITLE: CASH, DEPOSITS AND INVESTMENTS

ACCOUNTING FOR CASH AND CASH EQUIVALENTS AND INVESTMENTS

The account balance reflected on the STO's books for an agency is comprised of cash and investments managed by the State Treasurer. The agency's Special Deposit account will accrue investment income daily, but it will not be distributed and reflected on the agency's books until a sale occurs or interest income is received. Income received is posted to the agency's account at month end.

Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, requires that most investments of governmental entities be stated at fair value rather than at cost or amortized cost. For internal (and external) investment pools, this Statement requires the equity position of each fund (and component unit of the reporting entity) that sponsors the pool to be reported as assets in those funds (and component units). Because the account balance reflected on the STO's books for an agency is recorded at cost, the agency's deposits in the special deposit accounts must be adjusted to fair value at year end.

To determine the amount of the adjustment, use the State Treasurer's TIM814NY - Year end Report and the TIM807NY – Year end Report (available in late August or early September). The TIM814NY report reflects the Account Balance, Accrued Interest, Book Value, Amortized Premiums and Discounts, Market Value, and Cash Income Received. The TIM807NY report reflects the Cost of Investments, the Account Balance and the Cash Balance.

If the entity records investments at cost, the difference between the Market Value (TIM814NY Report) and Cost of Investments (TIM807NY Report) will be the adjustment to reflect fair value. This adjustment should be reversed at the beginning of the next year.

If the entity records investments at amortized cost the adjustment will be the difference in Market Value and Book Value. This entry would also be reversed at the beginning of the next year.

The Account Balance includes the agency's cash and investments in the pool as recorded by the State Treasurer at June 30. The cash balance can be either positive or negative and results from the State Treasurer's investment of available funds in the bank. The Book Value is the amortized cost of the investments as recorded by the State Treasurer at June 30. It is not necessary to use these amounts in adjusting the entity's investments to Market Value.

TITLE: CASH, DEPOSITS AND INVESTMENTS

GASB 31 states that realized gains and losses cannot be displayed separately from the net increase(decrease) in the fair value of investments. GASB 31 allows entities to report investment income separately from the net increase (decrease) in the fair value of investments. However, because the State Treasurer does not separately identify realized gains/losses from investment (or interest) income that it reports to the participant monthly, all investment (or interest) income, realized gains/losses, and unrealized gains/losses will be reported as investment (or interest) income.

The GASB 31 Implementation Guide also clarifies in the answer to question 71 that if overall investment income is negative, the entity should report negative revenue.

TITLE: CASH, DEPOSITS AND INVESTMENTS

STATE TREASURER REPORTS

TIM141NM – INVESTMENT STATUS REPORT

MONTHLY REPORT

Provides a listing of investments managed by the Treasurer. Report is sorted by location (bank), type security and portfolio ID.

Report includes the following data:

Portfolio ID	Dollar Price
Maturity date	Accrued Interest Cost
Cusip Nr.	Principal Cost
Description of Security	Net Cost
Par Value	Purchase Date
Interest Rate	Issue Date

TIM410NM – ACCOUNT ACCRUED INCOME ALLOCATION REPORT

MONTHLY REPORT

Provides monthly totals for accrued interest, gains/losses, premiums/discounts, deferred yield and other income. Reports rolls up data from the security file. Amounts are allocated to accounts based on total portfolio breakdowns. Report is sorted by Portfolio ID and account.

Report includes the following data:

Account Number	Deferred Yield
Accrued Interest	Other Income
Gain/Loss	Total Amount Allocated
Premium/Discount	

TITLE: CASH, DEPOSITS AND INVESTMENTS

TIM511NM – ACCOUNTING INCOME RECEIVABLE REPORT

MONTHLY REPORT

Provides information pertaining to monthly transactions affecting interest receivables. Report is sorted by Portfolio ID and account. Accrued interest in this report represents the sum of interest earned and amortized premium/discounts.

Report includes the following data:

Account Number	Beg. Balance (MTD/YTD)
Account Name	Accrued Income * (MTD/YTD)
Rate Type (F-Fixed/V-Variable)	Cash Rcvd. (MTD/YTD)
Cash Dist. Method (A-Accrued C-Cash Sweep)	Inc. Rcvd. (MTD/YTD)

* Accrued income equals the sum of accrued interest, amortization of premiums and discounts, deferred yield and other income.

TIM530NM – GAAP INVESTMENT EARNINGS STATEMENTS (ACCRUAL BASIS)

MONTHLY REPORT

Report provides monthly totals of interest earned, premium/discounts amortized and gains/losses realized. Report is sorted by Portfolio ID and account.

Report includes the following data:

Account number	Gain/loss
Interest Earned	Total
Amortized Premium/Discount	

TIM534NM – ANALYSIS OF AMORTIZATION OF PREMIUM/DISCOUNT

MONTHLY REPORT

Report provides life to date information on amortization of premiums and discounts. Report is sorted by Portfolio ID, and type of information. Report does not provide information about specific accounts.

Report includes the following data:

Cusip Number	YTD Amortization
Description of Security	Original Unamort.
Interest Rate	Curr. Month Amort.
Purchase/maturity Date	Current Unamort.
Par Value	Total Amort. (Life to date)
Dollar Price	
Principal Cost	

TITLE: CASH, DEPOSITS AND INVESTMENTS

TIM535NM – CURRENT BOOK VALUE

MONTHLY REPORT

Report shows the current book value of the investment portfolio. Report is sorted by Investment ID, Cusip Number and Type Security.

Report includes the following data:

Cusip Number	Principal Cost
Description of Security	Book Value Field
Purchase /Maturity Date	Accumulated Prem/Disc.
Interest Rate	Unamort. Deferred Yield
Dollar Price	Book Value w/o deferred yield
Par Value	Book Value w/ deferred yield

TIM538NM – GAIN AND LOSS ON SALE OF SECURITIES

MONTHLY REPORT

Report provides information pertaining to gains and losses realized on monthly sales. Report is sorted by Portfolio ID, Cusip Nr. and type of security.

Report includes the following data:

Cusip Nr.	Principal Cost
Purchase date	Principal Sales Price
Sales date	Amortized Cost
Interest Rate	Unamortized Deferred Yield
Description of Security	Net Gain/loss
Par Value	

TIM542NM – MONTHLY ACCRUED INTEREST REPORT

MONTHLY REPORT

Provides information on monthly activities pertaining to accrued interest transactions which affect individual securities. The report is sorted by Portfolio ID, Cusip number and security.

Report includes the following data:

Cusip Nr.	Payment Date
Description of Security	Beg. Monthly Balance
Interest Rate	Monthly Accrued Int.
Freq. Of Payment	Monthly Cash Recvd
Purchase/maturity date	Ending Monthly Balance
Dollar Price	
Par Value	

TITLE: CASH, DEPOSITS AND INVESTMENTS

TIM560NM – ANALYSIS OF CHANGES TO PAR, PREM/DISC & DEF YLD

MONTHLY REPORT

Report provides information about monthly charges in amortization of premiums and discounts and deferred yields which affect the carrying value of investments. Report is sorted by portfolio ID, type security and cusip number.

Report includes the following data:

Cusip Number	Additions
Purchase/maturity date	Deletions
Deferred yield	Amortizations
Beginning Balance	Ending Balance

TIM562NM – ZERO COUPON BONDS REPORT

MONTHLY REPORT

Report is used by management to identify the number of zero coupon bonds held by each portfolio. Report is sorted by portfolio and security maturity date.

Report includes the following data:

Cusip Number
Maturity date
Par value
Principal cost

TIM563NM – SECURITIES YIELD REPORT

MONTHLY REPORT

This report provides information pertaining to the effective yields of each investment. The report is sorted by Portfolio ID and maturity date.

Report includes the following data:

Cusip number	Principal cost
Description of security	Interest rate
Maturity Date	Effective interest rate (yield)
Par value	

TIM705NM – PORTFOLIO STRATIFIED BY MATURITY REPORT

MONTHLY REPORT

This report is used by management. The report stratifies investments by date of maturity. The report is sorted by portfolio ID and date of maturity.

Report includes the following data:

Type security (class)
Total value of securities held by class and
Maturity period (e.g. <6 mo, 1-2 yrs, etc)

TITLE: CASH, DEPOSITS AND INVESTMENTS

TIM710NM – PORTFOLIO ANALYSIS OF PURCHASES AND SALES

MONTHLY REPORT

This report provides information about monthly sales and purchases transactions occurring within each portfolio. This report is sorted by portfolio ID, type of transaction (e.g. purchase, sale) and date of transaction. The end of the report shows total portfolio cost beginning balance, total purchases, total sales, total purchased accrued interest and total portfolio cost ending balance.

Report includes the following data:

Beginning Balance	Par Value
Maturity Date	Dollar Price
Description of Security	Total Cost/Sale
Cusip Number	Principal Cost/Income
Interest Rate	Purchase Accr. Int. Rcvd.
Trade Date	Ending Balance
Transaction Date	

TIM801NY – YEAR END REPORT

ANNUAL REPORT

This report provides information relating to life to date amortization and year end accrued interest. The report is sorted by portfolio ID and account number.

Report includes the following data:

Portfolio ID	YTD Amortized Prem/Disc.
Account Number	YTD Accrued Interest
GAAP Code	

TIM806NY – INVESTMENTS COST AND MARKET VALUE BY ACCOUNT – YEAR END REPORT AS OF 7/1/XX

ANNUAL REPORT

This report provides market value information for each account. The report is sorted by portfolio ID and account number.

Report includes the following data:

Portfolio ID	Purchased Accrued Interest
Account Number	Principal Cost
GAAP Code	Market Value
Account Name	

TITLE: CASH, DEPOSITS AND INVESTMENTS

TIM807NY – YEARLY ACCOUNT BALANCE

ANNUAL REPORT

This report provides information about entity ownership in the portfolio. The report is sorted by portfolio ID and account number. The report shows the value of investments held at June 30, 20XX, at cost. FOR STARS ACCOUNTS – The account balance represents STARS cash at June 30, 20XX. (Note – the account balance will generally not agree with the FM12 STARS cash balance because of timing differences).

Report includes the following data:

Portfolio ID	Total Investment Cost
Account Number	Account Balance
GAAP Code	Cash Balance
Account Name	

TITLE: FINANCIAL REPORTING

FINANCIAL STATEMENTS: AGENCY TITLE

The auditor should consult the GASB Codification section 2200 for general guidance on financial reporting and financial statement presentation.

The statements should contain the title of the agency as contained in the legislative manual or on the agency's letterhead (ex. Criminal Justice Academy). The one standard modification to this rule is that the agency's formal title should be used; thus the prefix "South Carolina" should be routinely included (ex. South Carolina State Treasurer's Office). However, unless a college or university's name includes "South Carolina," it would not be appropriate to add it to that entity's name.

TITLE: NOTES TO FINANCIAL STATEMENTS

NOTE DISCLOSURE SEQUENCE

Note disclosures should be presented in a logical order (GASB Codification 2300.109). Codification paragraph 2300.106 lists the notes essential to fair presentation at the combined level. Section 2300.107 identifies additional disclosures which should be made if applicable. Paragraph 2300.901, although nonauthoritative, provides a suggested disclosure sequence.

Policy

The summary of significant accounting policies (SSAP) should be presented as Note 1. In Note 1, the description of fund accounting should be immediately followed by the descriptions of fund categories, fund types, and account groups.

The order of presentation for the other notes will vary depending on the materiality, relationship, and nature of the reporting entity's disclosures. Notes on commitments, changes in general long-term debt, and changes in general fixed assets are generally presented sequentially as are those for retirement and other employee benefits. Notes on related party transactions, contingencies, litigation, and subsequent events are usually found near the end of the presentation.

Because the combined financial statements are liftable and include the notes, the notes should not contain any references to statements presented outside the combined statements.

If a single note is separated into various subsections, such as the SSAP, the subsections should be marked accordingly and the method for identification of subsections should be followed consistently throughout the notes.

TITLE: NOTES TO FINANCIAL STATEMENTS

FUND BALANCES

The AICPA Audit and Accounting Guide Audits of State and Local Governmental Units Section 12.20 states the following:

Note disclosures should include identification of a negative fund balance in any individual fund and the plans for how it will be liquidated. Designated or reserved balances not evident in the financial statements should be presented in the notes.

In Note 1 or elsewhere in the notes, reserved and/or designated fund balances should be defined if the balance sheet reports either or both. The amount and basis for determining the amount, the purpose and intent, and the authority for each fund balance restriction should be explained elsewhere in the financial statements. This information should be presented in the notes if it is not evident from descriptions of designations and reserves in the statements.

The following sample note shows how the terms and policy would be explained in Note 1. Generally, reserves for State appropriations authorized for carryforward are disclosed in the State appropriation note.

Note 1 - Summary of Significant Accounting Policies

Fund Balance:

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the fund balance that is not appropriable for future discretionary expenditures. The reserve for inventory identifies the existence of an asset that, because of its nature represents a financial resource which is not available for current expenditure. Designations of unreserved fund balances are established to identify tentative plans for or restrictions on the use of financial resources. Such plans are subject to change and may never be legally authorized or result in expenditure.

CAPITAL LEASE TRANSACTIONS AND INSTALLMENT PURCHASES

As required by U.S. GAAP, when a capital lease represents the acquisition or construction of a general fixed asset, at inception of the lease the acquisition or construction of the general fixed asset should be reflected as an expenditure and other financial source, consistent with the accounting and financial reporting for general obligation bonded debt. Subsequent governmental fund lease payments should be accounted for consistently with the principles for general obligation debt. The unmatured principal of GL TD does not require current appropriations and expenditure of governmental fund financial resources and therefore should be recognized as an expenditure when due.

Installment purchases will be reported in the same manner.

In the year of acquisition, the applicable budgetary comparison statement will contain adjustments to budgetary basis for both the expenditure (equipment purchases under capital lease and installment purchase agreements) and the other financing source (capital lease and installment purchase proceeds). The elimination of these entries is necessary to adjust from the modified accrual basis to the legal basis of accounting.

TITLE: AUDITOR'S REPORT

ADDRESSEE

The auditor's reports on the financial statements, federal schedule, internal controls, compliance, and agreed upon procedures should be addressed to the Governor and the governing body or responsible elected official
EXCEPT FOR -

Constitutional Officers - addressed to the officer

Audits done by contract with the State Auditor - addressed to the State Auditor

AGREED-UPON PROCEDURES REPORTS

This section gives an example of the report which will be issued on those state agencies at which we perform an Agreed-Upon Procedures (AUP) engagement.

Required Elements

The accountant's report on agreed-upon procedures should be in the form of procedures and findings. The accountant's report should contain the following elements:

- a. A title that includes the word independent
- b. Identification of the subject matter and the character of the engagement
- c. Identification of specified parties
- d. Identification of the responsible party
- e. A statement that the subject matter is the responsibility of the responsible party
- f. A statement that the procedures performed were those agreed to by the specified parties identified in the report
- g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants
- h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
- i. A list of the procedures performed (or reference thereto) and related findings (the accountant should not provide negative assurance)
- j. Where applicable, a description of any agreed-upon materiality limits

TITLE: AUDITOR'S REPORT

- k. A statement that the accountant was not engaged to and did not conduct an audit of the subject matter, the objectives of which would be the expression of an opinion, a disclaimer of opinion on the subject matter; and a statement that if the accountant had performed additional procedures, other matters might have come to his or her attention that would have been reported
- l. A statement of restrictions on the use of the report because it is intended to be used solely by the specified parties
- m. Where applicable, reservations or restrictions concerning procedures or findings
- n. Where applicable, a description of the nature of the assistance provided by a specialist.
- o. The manual or printed signature of the Office
- p. The date of the report

SSAE No. 10, Chapter 2.25, requires the accountant to report all findings from application of the agreed-upon procedures. The concept of materiality does not apply to findings to be reported unless the definition of materiality is agreed to by the specified parties. Any agreed-upon materiality limits should be described in the accountant's report.

SOUTH CAROLINA AGENCY
COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, ____

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TITLE: AUDITOR'S REPORT

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

(Date)

The Honorable Mark Sanford, Governor
and

(Governing Body of Agency)

(Agency Name)
_____, South Carolina

We have performed the procedures described below, which were agreed to by the (governing body and) management of _____ (Agency), solely to assist you in evaluating the performance of the _____ (Agency) for the fiscal year ended June 30, 20____, in the areas addressed. The (Agency's) management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. **[Specify any additional procedures performed - add or delete items as required]** The individual transactions selected for testing were chosen randomly. (We found no exceptions as a result of the procedures. -or- Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)

REVISED 01/16/03

TITLE: AUDITOR'S REPORT

The Honorable Mark Sanford, Governor
and

(Governing Body of Agency)

(Agency Name)

(DATE)

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the _____ (Agency), and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. **[Specify any additional procedures performed - add or delete items as required]** The individual transactions selected for testing were chosen randomly. (We found no exceptions as a result of the procedures. -or- Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; (and) comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. **[Specify any additional procedures performed - add or delete items as required]** The individual transactions selected for testing were chosen randomly. (We found no exceptions as a result of the procedures. -or- Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)

REVISED 01/16/03

TITLE: AUDITOR'S REPORT

The Honorable Mark Sanford, Governor
and
_____ (Governing Body of Agency)
_____ (Agency Name)
_____ (DATE)

4. We tested selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected for testing were chosen randomly. (We found no exceptions as a result of the procedures. –or– Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)

5. We tested selected entries and monthly totals in the subsidiary records of the _____ (Agency) to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. (We found no exceptions as a result of the procedures. –or– Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)

6. We obtained all monthly reconciliations prepared by the _____ (Agency) for the year ended June 30, ____, and tested selected reconciliations of balances in the _____'s (Agency's) accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the _____'s (Agency's) general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the _____'s (Agency's) accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. (We found no exceptions as a result of the procedures. –or– Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)

7. We tested the _____'s (Agency's) compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year _____. (We found no exceptions as a result of the procedures. –or– Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)

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TITLE: AUDITOR'S REPORT

The Honorable Mark Sanford, Governor
and

(Governing Body of Agency)

(Agency Name)

(DATE)

8. We reviewed the status of the (deficiency/deficiencies) described in the finding(s) reported in the Accountant's Comments section of the State Auditor's Report on the _____ (Agency) resulting from our engagement for the fiscal year ended June 30, ____, to determine if adequate corrective action has been taken. (We applied no procedures to the _____'s accounting records and internal controls for the year ended June 30, ____. **[Note: This sentence is used whenever we have skipped the previous fiscal year]**) (We found no exceptions as a result of the procedures. -or- Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)
9. We obtained copies of all closing packages as of and for the year ended June 30, ____, prepared by the _____ (Agency) and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. (We found no exceptions as a result of the procedures. -or- Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, ____, prepared by the _____ (Agency) and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. (We found no exceptions as a result of the procedures. -or- Our finding(s) as a result of these procedures is/are presented in _____ (comment titles) in the Accountant's Comments section of this report.)

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

REVISED 01/16/03

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESS(ES) AND/OR VIOLATION(S) OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition(s) described in this section has/have been identified as (a) material weakness(es) or violation(s) of State Laws, Rules, or Regulations.

[The comment(s) would be on the next page(s).]

SECTION B - OTHER WEAKNESS(ES) NOT CONSIDERED MATERIAL

[The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.]

The condition(s) described in this section has/have been identified as (a) weakness(es) subject to correction or improvement but it/they is/are not considered (a) material weakness(es) or violations of State Laws, Rules, or Regulations.

(Omit paragraph one if that explanation is included on the Section A page.)

(Comments(s) would be on next page(s))

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the _____ for the fiscal year ended June 30, 19__, and dated _____. (We applied no procedures to the _____'s accounting records and internal controls for the year ended June 30, ____.) **[Note: This sentence is used whenever we have skipped the previous fiscal year]** {We determined that the _____ has taken adequate corrective action on each of the findings (except for the following:) (, except we have repeated ...)} In response to our inquiries, we were told that the _____ has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, ___, we did not perform tests to determine if the new procedures are operating effectively.

(Auditor will add suitable specific comments concerning the implementation of recommendations from prior reports.)

AUDITOR'S REPORTS ON A DEPARTMENT OR AGENCY

The AICPA committee on governmental accounting and auditing has concluded that independent accountants may issue an unqualified opinion on the financial statements of a department or agency that constitutes less than a fund. The accountants' report should indicate that the statements present information for only a portion of the funds and account groups of a larger governmental reporting entity on a basis that conforms with generally accepted accounting principles.

There has been some controversy over reporting on portions of a fund such as a fund of a component unit that is a portion of a fund for the statewide entity. The AICPA committee's decision settles the issue and it suggested appropriate language for the opinion letter.

Policy

All opinion letters should include appropriate language similar to the following:

As described in Note 1, the financial statements of the _____ are intended to present the financial position and results of operations (and changes in financial position of proprietary and similar trust fund types) of only that portion of the funds and account groups of the State of South Carolina that is attributable to the transactions of the _____.

This normally should be the 3rd paragraph of the opinion letter followed by the opinion paragraph. In addition, it is not necessary to refer to this paragraph in the opinion paragraph.

The funds referenced in the new paragraph are the funds of the department or agency. When the department or agency is the reporting entity, the fund classifications do not have to be the same fund types as those at the statewide level.

In order for the auditor's opinion letter to reference the appropriate note (which is our introductory note) it will be necessary to number this information. The entity description note will be moved to be the first item in Note 1 under the subsection heading Reporting Entity.

TITLE: REPORT PROCESSING

Reports ready for typing are forwarded to the word processing supervisor. Each report must have attached:

A. A clerical work order. When showing the number of finished reports needed on the clerical work order be sure to include all the following:

1. Six copies - our standard distribution list - plus
2. The number of copies desired by the auditee plus
3. One copy for each Federal Funding Agency and the Cognizant Audit Agency

Make sure that you attach current lists with addresses of those included in items 2, 4, and 5 above.

B. Draft Report Transmittal Letter. It is addressed to the chief executive officer of the agency and found in forms file.

C. Final Report Transmittal Letter

When preparing multi-column statements and schedules, consideration should be given to limitations on typing width imposed by our word processing equipment and report binding requirements.

TITLE: CHAPTER VI - MEDICAID ENGAGEMENT ISSUES

<u>Section</u>	<u>Reference</u>	<u>Page</u>
A - Facility Codes	VI-A	1-1
B - Control Numbers	VI-B	1-1

TITLE: FACILITY CODES

The following codes are being used to reference medicaid engagements on workpapers and related document. As new facilities come online, additional facility codes will need to be established for them. Please notify your director when new codes are formulated so that they will be included in this manual.

STATE AUDITOR'S OFFICE
CURRENT ENTRIES ON MEDICAID TABLE

NURSING HOMES

A. SAM KARESH LONG TERM CARE	ASK
ABBEVILLE NURSING HOME	ABV
AGAPE NURSING AND REHAB	ANR
ANNE MARIA REHAB AND NURSING CENTER	AMM
AZALEA WOODS (AIKEN NURSING HOME)	ANH
BAMBERG COUNTY MEMORIAL NURSING HOME	BMB
BARNWELL COUNTY NURSING HOME	BNN
BAYVIEW MANOR, LLC	BAY
BETHEA BAPTIST HEALTH CARE CENTER	BBH
BLUE RIDGE NURSING CENTER	BNC
BRIAN CENTER OF ST. ANDREWS	BCS
BRIAN CENTER OF COLUMBIA (CENTRAL CAROLINA H&R)	BCC
BRIARWOOD NURSING CENTER	BWD
BROOKSIDE NURSING CENTER	BKS
BROOKVIEW HEALTHCARE CENTER	BKV
CALHOUN CONVALESCENT CENTER	CAL
CARRIAGE HILLS PLANTATION	CAR
CHERAW HEALTHCARE, INC.	CHW

TITLE: FACILITY CODES

CHESTER COUNTY NURSING CENTER	CHE
CHESTERFIELD CONVALESCENT CENTER	CSF
CHS TRANSITIONAL CARE UNIT	CTC
COMMANDER HEALTH CARE FACILITY	CMD
CONWAY MANOR, LLC	CON
COOKE ASSOCIATES OF FLORENCE (CLARKE)	FLR
DILLON HEALTHCARE (PINES)	DHC
DR. RONALD E. MCNAIR MEMORIAL NURSING HOME	RMM
DUNDEE MANOR, LLC	DUN
EASLEY NURSING CENTER, INC.	ENC
EBENEZER SENIOR SERVICES & REHAB CENTER	EBN
EDGEFIELD HEALTHCARE CENTER	EHC
ELLEN SAGAR NURSING HOME	ELS
ELLENBURG NURSING CENTER	ELB
FAIRFIELD HEALTHCARE CENTER	FFD
FAITH HEALTHCARE CENTER	FAI
FOUNTAIN INN CONVALESCENT CENTER	FTN
GCI JOLLEY ACRES, INC.	JOL
GEORGETOWN HEALTH CARE REHABILITATION (WINYAH)	WIN
GOLDEN AGE – INMAN, INC.	GAI
GRAND STRAND HEALTHCARE, INC.	GRA
GREENVILLE NURSING CENTER	GNC
HALLMARK HEALTHCARE CENTER	HAL
HARPER NURSING FACILITY	SMH

TITLE: FACILITY CODES

HARVEY'S NURSING HOME	HAR
HCRC OF AMERICA D/B/A OAKMONT OF UNION	OKU
HEARTLAND HEALTHCARE OF CHARLESTON (EAGLE LANDING)	ELH
HEARTLAND OF COLUMBIA (MANOR CARE OF COLUMBIA)	MCC
HEARTLAND OF WEST ASHLEY REHAB (MANOR CARE OF CHARLESTON)	MNC
HERITAGE HOME OF FLORENCE	HHF
HERMINA TRAEYE NURSING CENTER	HER
HONORAGE NURSING HOME	HNH
HOPEWELL HEALTH CARE CENTER	HPW
INMAN HEALTHCARE, INC.	IHC
INTEGRATED HEALTHCARE, INC. (DRIFTWOOD)	DRF
J. F. HAWKINS NURSING HOME	JFH
JOHN EDWARD HARTER NURSING CENTER	JEH
KINGSTON NURSING CENTER	KNC
KINGSTREE NURSING FACILITY	KGS
LAKE CITY - SCRANTON HEALTHCARE	LCS
LAKE MARION NURSING FACILITY, INC.	LAK
LAKE MOULTRIE NURSING HOME	LKM
LANCASTER CONVALESCENT CENTER	LAN
LAUREL BAYE HEALTHCARE OF BLACKVILLE	LBB
LAUREL BAYE HEALTH CARE OF GREENVILLE	LBG
LAUREL BAYE HEALTHCARE OF ORANGEBURG (EDISTO CONVALESCENT)	EDI

TITLE: FACILITY CODES

LAUREL BAYE HEALTH CARE OF WILLISTON (SILVER SPRINGS)	LBW
LAUREL HILL, INC.	LHI
LEXINGTON MEDICAL CENTER EXTENDED CARE	LMC
LIFE CARE CENTER OF CHARLESTON	LCH
LIFE CARE CENTER OF COLUMBIA	LCC
LIFE CARE CENTER OF HILTON HEAD	LHH
LILA DOYLE NURSING CENTER (OCONEE MEMORIAL HOSPITAL)	LLD
LORIS EXTENDED CARE CENTER	LRS
LOWMAN HOME, INC.	LMN
MAGNOLIA MANOR - CAMP CARE	MCP
MAGNOLIA MANOR - COLUMBIA, INC.	MCL
MAGNOLIA MANOR - GREENVILLE	MGV
MAGNOLIA MANOR - GREENWOOD	MGW
MAGNOLIA MANOR - INMAN, INC.	MIN
MAGNOLIA MANOR - MONCK'S CORNER	MMM
MAGNOLIA MANOR - ROCK HILL	MRH
MAGNOLIA MANOR - SPARTANBURG	MSP
MAGNOLIA PLACE - GREENVILLE	MPG
MAGNOLIA PLACE, INC. AT SPARTANBURG	MMP
MANOR CARE REHABILITATION & NURSING CENTER (LEXINGTON)	MAN
MARINER HEALTH CARE OF SENECA	MAS
MARINER HEALTH CARE OF SUMTER	MAE
MARION NURSING CENTER, INC.	MAR

TITLE: FACILITY CODES

MARTHA FRANKS BAPTIST RETIREMENT CENTER	MFB
MATTIE CHAFFIE HALL HEALTH CARE	MCH
MCCORMICK HEALTH CARE CENTER	MHC
MCCOY MEMORIAL NURSING CENTER	MCY
MEDFORD PLACE	MEP
MORREL NURSING CENTER, LLC	MMC
MOUNT PLEASANT MANOR (CHARLESTON NURSING CENTER)	CHS
MOUNTAINVIEW NURSING HOME	MTN
MULLINS NURSING CENTER	MHD
MYRTLE BEACH MANOR	MBM
NHC HEALTHCARE - ANDERSON	AND
NHC HEALTHCARE - GARDEN CITY	GAC
NHC HEALTHCARE - GREENVILLE	GNV
NHC HEALTHCARE - GREENWOOD	GNW
NHC HEALTHCARE - LAURENS	LNC
NHC HEALTHCARE - LEXINGTON	LEX
NHC HEALTHCARE - MAULDIN	MLD
NHC HEALTHCARE - NORTH AUGUSTA	NAG
NHC HEALTHCARE - PARKLANE	PKN
NHC HEALTHCARE - SUMTER	NHS
NHC OF CLINTON	CLN
OAKBROOK HEALTH AND REHABILITATION	OKB
OAKHAVEN, INC.	OKH
OAKMONT EAST	OKE

TITLE: FACILITY CODES

OAKMONT WEST	OKW
ORANGEBURG NURSING HOME	OBG
PEACHTREE CENTRE (CHEROKEE COUNTY LONG TERM CARE FACILITY)	CKC
PEPPER HILL NURSING CENTER	PPH
PIEDMONT NURSING & REHABILITATION	PDM
PRINCE GEORGE HEALTHCARE	PGV
RIDGELAND NURSING CENTER	RDL
RIDGEVIEW MANOR NURSING FACILITY	RDM
RIVERSIDE NURSING CENTER	RIV
ROCK HILL HEALTHCARE	RHH
ROGER HUNTINGTON NURSING CENTER	ROG
ROSEMOND NURSING CENTER	RMD
SALUDA NURSING CENTER	SAL
SANDPIPER CONVALESCENT CENTER	SDP
SOUTHERN MEDICAL OF RIDGEWAY	SMR
SOUTHERN MEDICAL OF WALTERBORO	SMW
SOUTHLAND HEALTHCARE CENTER	SHC
SPRINGDALE HEALTHCARE CENTER	SDV
ST. GEORGE HEALTH CARE CENTER	STG
STROUD NURSING HOME	STD
SUMMIT PLACE	SUM
SUNNY ACRES NURSING HOME	SUN
THE METHODIST HOME	MHO
VALLEY FALLS TERRACE	VFT

TITLE: FACILITY CODES

WESLEY COMMONS	MHG
WESTSIDE NURSING CENTER	WHC
WHITE OAK ESTATES	WOE
WHITE OAK MANOR - CHARLESTON	WCH
WHITE OAK MANOR - COLUMBIA	WOC
WHITE OAK MANOR - LANCASTER	WOL
WHITE OAK MANOR - NEWBERRY	WON
WHITE OAK MANOR - ROCK HILL	WOR
WHITE OAK MANOR - SPARTANBURG	WOS
WHITE OAK MANOR - YORK	WOY
WILLOW CREEK NURSING CENTER	WIL
WINDSOR MANOR, LLC	WND
WOODRUFF MANOR, LLC	MWR

TITLE: CONTROL NUMBERS

Control numbers are used on workpapers and related documents to identify each engagement. The control numbers have several components which includes a service code, a facility code, and the fiscal month and year ended.

Thus the control number 3-ABV-J2 is used to identify a medicaid engagement "3" of Abbeville Nursing Home "ABV" for the fiscal month and "J2" for the year ended September, 2002.

Each fiscal month has been assigned an alphabetic code. The letter "I" was not assigned to avoid confusion. Please use the following chart when developing control numbers.

January	A	July	G
February	B	August	H
March	C	September	J
April	D	October	K
May	E	November	L
June	F	December	M

TITLE: CHAPTER VII TECHNICAL POSITIONS: MEDICAID - INDEX

<u>Section</u>	<u>Reference</u>	<u>Page</u>
A - Agreed-Upon Procedures Reports	VII-A	1-1

TITLE: AGREED-UPON PROCEDURES REPORTS

This section gives an example of the report which will be issued on those Medicaid providers at which we perform an Agreed-Upon Procedures (AUP) engagement. A typical AUP report will include the items listed on the sample table of contents at VII-A 1-4.

Required Elements

The accountant's report on agreed-upon procedures, should be in the form of procedures and findings. The accountant's report should contain the following elements:

- a. A title that includes the word independent
- b. Identification of the subject matter and the character of the engagement
- c. Identification of specified parties
- d. Identification of the responsible party
- e. A statement that the subject matter is the responsibility of the responsible party
- f. A statement that the procedures performed were those agreed to by the specified parties identified in the report
- g. A statement that the agreed-upon-procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants
- h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
- i. A list of the procedures performed (or reference thereto) and related findings (the accountant should not provide negative assurance)
- j. Where applicable, a description of any agreed-upon materiality limits

TITLE: AGREED-UPON PROCEDURES REPORTS

- k. A statement that the accountant was not engaged to and did not conduct an audit of the subject matter, the objectives of which would be the expression of an opinion, a disclaimer of opinion on the subject matter; and a statement that if the accountant had performed additional procedures, other matters might have come to his or her attention that would have been reported

- l. A statement of restrictions on the use of the report because it is intended to be used solely by the specified parties

- m. Where applicable, reservations or restrictions concerning procedures or findings

- n. Where applicable, a description of the nature of the assistance provided by a specialist.

- o. The manual or printed signature of the Office

- p. The date of the report

SSAE No. 10, Chapter 2.25, requires the accountant to report all findings from application of the agreed-upon procedures. The concept of materiality does not apply to findings to be reported unless the definition of materiality is agreed to by the specified parties. Any agreed-upon materiality limits should be described in the accountant's report. The materiality limits are not described in each procedure of the accountant's report since the State Auditor's Office contract with the specified party of the report, the South Carolina Department of Health and Human Services, states that the State Auditor's Office has the responsibility to determine the materiality limits for the selection of and adjustment to costs or areas tested, or as otherwise directed by the Department.

TITLE: AGREED-UPON PROCEDURES REPORTS

NURSING HOME COVER SHEET

_____ (Agency Name)
_____, SOUTH CAROLINA

CONTRACT PERIOD(S)

AC# _____

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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ADJUSTMENT REPORT	1	
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TITLE: AGREED-UPON PROCEDURES REPORTS

(this report format to be used when rate is adjusted)

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

(Date) _____

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with _____, for the contract period(s) beginning _____, and for the _____ month cost report period ended _____, as set forth in the accompanying schedules. The management of _____ is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by _____, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, **Summary(ies)** of Costs and Total Patient Days, and Cost of Capital Reimbursement **Analysis(es)** sections of this report .
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract(s) between the South Carolina Department of Health and Human Services and _____ dated as of _____ as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and **Computation(s)** of Adjusted Reimbursement Rate sections of this report.

TITLE: APPLYING AGREED-UPON PROCEDURES REPORTS

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

TITLE: AGREED-UPON PROCEDURES REPORTS

Exhibit A

Computation of Rate Change
For the Contract Periods
Beginning _____
AC# _____

Interim (Adjusted) reimbursement rate (1)	_____	_____
	\$__	\$__
Adjusted (Interim) reimbursement rate	_____	_____
Decrease (Increase) in reimbursement rate	\$__	\$__

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated _____

TITLE: AGREED-UPON PROCEDURES REPORTS

Exhibit B

Computation of Adjusted Reimbursement Rate
 For the Contract Period _____ Through _____
 AC# _____

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$__	\$__	\$__	\$
Dietary	—	—	—	—
Subtotal	==	—	—	—
Laundry/Housekeeping/Maintenance	\$__	—	—	—
Administration & Medical Records	—	—	—	—
Subtotal	\$==	—	\$==	—
<u>Costs Not Subject to Standards:</u>				
Utilities		—		—
Special Services		—		—
Medical Supplies & Oxygen		—		—
Taxes and Insurance		—		—
Legal Fees		—		—
TOTAL		\$==		—
Inflation Factor (%)				—
Cost of Capital				—
Cost of Capital Limitation				—
Profit Incentive (Max. 3.5% of Allowable Cost)			—	
Cost Incentive - For General Service & Dietary			—	
Effect of \$2.00 Cap on Cost/Profit Incentives and Cost Sharing				—
OTC/Nonlegend Drug Reimbursement				—
ADJUSTED REIMBURSEMENT RATE				\$==

TITLE: AGREED-UPON PROCEDURES REPORTS

Exhibit C

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended _____
 AC# _____

<u>EXPENSES</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments Debit	Adjusted Credit	<u>Totals</u>
General Services	\$ _____	\$ _____	\$ _____	\$ _____
Dietary	_____	_____	_____	_____
Laundry	_____	_____	_____	_____
Housekeeping	_____	_____	_____	_____
Maintenance	_____	_____	_____	_____
Administration & Medical Records	_____	_____	_____	_____
Utilities	_____	_____	_____	_____
Special Services	_____	_____	_____	_____
Medical Supplies & Oxygen	_____	_____	_____	_____
Taxes & Insurance	_____	_____	_____	_____
Legal Fees	_____	_____	_____	_____

TITLE: AGREED-UPON PROCEDURES REPORTS

Exhibit C

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended _____
 AC# _____

<u>EXPENSES</u>	<u>Totals (From Schedule SC 13) as Adjusted by DH&HS</u>	<u>Adjustments Debit</u>	<u>Adjusted Credit</u>	<u>Totals</u>
Cost of Capital	_____	_____	_____	_____
Subtotal	_____	_____	_____	_____
Ancillary	_____	_____	_____	_____
Non-Allowable	_____	_____	_____	_____
Total Operating Expenses	\$_____	\$_____	\$_____	\$_____
Total Patient Days	=====	=====	=====	=====
Total Beds	=====			

TITLE: AGREED-UPON PROCEDURES REPORTS

Schedule 2

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended _____
AC# _____

Original Asset Cost (Per Bed)	\$_____
Inflation Adjustment	_____
Deemed Asset Value (Per Bed)	_____
Number of Beds	_____
Deemed Asset Value	_____
Improvements Since 1981	_____
Accumulated Depreciation at _____	_____
Deemed Depreciated Value	_____
Market Rate of Return	_____
Total Annual Return	_____
Return Applicable to Non-Reimbursable Cost Centers	_____
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	_____
Allowable Annual Return	_____
Depreciation Expense	_____
Amortization Expense	_____
Capital Related Income Offsets	_____
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	_____
Allowable Cost of Capital Expense	_____
Total Patient Days (Minimum 98% Occupancy)	_____
Cost of Capital Per Diem	\$_____

TITLE: AGREED-UPON PROCEDURES REPORTS

Schedule 2

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended _____
AC# _____

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ _____
Adjustment for Maximum Increase	_____
Maximum Cost of Capital Per Diem	\$ _____
Reimbursable Cost of Capital Per Diem	\$ _____
Cost of Capital Per Diem	_____
Cost of Capital Per Diem Limitation	\$ _____

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified (a) certain condition(s) that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

I. _____

II. _____

TITLE: AGREED-UPON PROCEDURES REPORTS

(this report format to be used for our Settled as Paid Report based on our agreed-upon procedures applied only to costs for the main cost reporting period)

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

(Date)

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

RE: AC# _____ - _____

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with _____, for the contract period(s) beginning _____, and for the _____ month cost report period ended _____. The management of _____ is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by _____, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. We found no material exceptions as a result of these procedures.
2. We considered the results of our procedures and determined that there was no material effect on the provider's interim Medicaid reimbursement rate(s) as listed below:

CONTRACT PERIOD(S)

INTERIM MEDICAID RATE

TITLE: AGREED-UPON PROCEDURES REPORTS

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina
(Date) _____

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

TITLE: APPLYING AGREED-UPON PROCEDURES REPORTS

(this report format to be used for our Settled as Paid Report based on our agreed-upon procedures applied to costs for a prior or subsequent cost reporting period and limited analytical procedures applied to costs for the main cost reporting period)

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

(Date) _____

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

RE: AC# _____ - _____

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to determine the reimbursement rate to be used by the Department in determining the reimbursement settlement with _____, for the contract period(s) beginning _____ and for the _____ month cost report period ended _____. The management of _____ is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We considered the results of agreed-upon procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by _____, for the cost report period ended _____, to determine if the results, when applied to the cost report period ended _____, would have a material effect on the interim Medicaid rate(s). We found no material effect on the applicable rate(s) as a result of these procedures.
2. We applied limited analytical procedures to the statistical data and reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by _____, to identify significant changes in costs or statistics, if any, that would warrant the application of additional procedures. We found no significant changes as a result of these procedures.

TITLE: AGREED-UPON PROCEDURES REPORTS

Department of Health and Human Services
State of South Carolina

Date _____

3. We considered the results of our procedures and determined that there was no material effect on the provider's interim Medicaid reimbursement rate(s) as listed below:

<u>CONTRACT PERIOD(S)</u>	<u>INTERIM MEDICAID RATE</u>
_____	_____
_____	_____
_____	_____

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider