STATE OF WISCONSIN
DEPARTMENT OF HEALTH SERVICES
DIVISION OF ENTERPRISE SERVICES
BUREAU OF FISCAL SERVICES

ACCOUNTING POLICY AND PROCEDURES (APP) MANUAL

TOPIC: Section 16 – Audit 5.0	EFFECTIVE DATE: 01/23/1984
TITLE: Financial Coverage of External Audit Disallowances or Noncompliance Sanctions	REVISION DATE: 12/13/2016
AUTHORIZED BY: Deputy Director, Bureau of Fiscal Services	

BACKGROUND

Because of its span of program authority, the Department of Health Services (DHS) is in a position of reviewing, responding and settling disallowances or sanctions from a variety of funding sources.

Identification of unallowable costs or unreimbursed expenses from prior years' grants or payments is a common issue in audits. After appeals are exhausted, the resolution process may require state or local coverage of unreimbursed or ineligible expenses because federal funding is not allowed or the funding source is no longer available.

The following policies are established to provide financial and payment procedures in the event of audit disallowances.

Applicability

1. Disallowances from federal audits and program compliance reviews.
2. Other independent or external audits that result in loss of federal or state funds (e.g., audits of funds granted by another state agency.)
3. Exclusions are audits performed by the Department, quality control or administrative reviews/disallowance applied by the Department.

POLICY

1. Disallowances must be administered in a reasonable and efficient manner in accordance with good business practices and financial stewardship responsibilities. It is the state's policy to make every effort to appeal the disallowance and minimize effects on state and local government if there are valid reasons to question or mitigate the proposed disallowance.
2. Payment will not be made for expenses in federal programs unless the federal reimbursement for those expenses has already been received or is still available.

   In the cases of jointly funded state-federal programs, such as Medical Assistance Administration, only the federal portion of the disallowance will be considered for coverage.

   When an audit identifies overpayments in a federal program, both the federal and state share (if any) will be recovered from a grantee if the overpayment or disallowance applies to a Department sub-recipient. When practical, the recovery will be offset from other eligible expenses in the program. If the federal grant is already finalized, the recovery will be deposited to the general fund. Any exceptions to this policy will be considered on an individual basis by the Bureau of Fiscal Services (BFS).

3. In certain instances where program "noncompliance" was cited or failure to correct known errors at the program level, the responsible program division may be required to pay all or a portion of the audit disallowance from divisional funds and appropriations. The amounts will be determined by the administrator of the Department of Enterprise Services (DES) and the program division involved.

Definitions

Specific Disallowance – a disallowance based on specific issues or cost by a specific state or county unit or provider agency. The reason and responsible entity can be clearly identified.

Projected Disallowance – a disallowance that represents a dollar sanction from a sample that is projected agency or program wide. This methodology is sometimes used by the federal government.

PROCEDURES

1. The Department audit liaisons or the program division knowledgeable about the audit will, at the earliest possible date, provide notice to the Secretary's Office or designee and, if impacted, local provider agencies, of the possible disallowance and amounts. (See APP Section 16 – Audit 1.0). When all state appeals have been exhausted, all affected parties will be notified.
2. BFS will determine the availability of federal funds or our ability to claim the expense as the outstanding issue is being resolved.

   If the questioned cost was claimed but the Department determines that the audit finding cannot be appealed further and a disallowance may have to be covered, DES/BFS and the Office of Policy Initiatives and Budget (OPIB) will recommend to the program division involved and the Secretary's Office how the costs would have to be covered and which appropriations are affected.

   Note: If it is determined that the reason for the sanction or disallowance was within the control of local agency administration, the disallowance may be passed on to the local agency involved.
3. Financing of the disallowance will be contingent upon appropriation and budget authority and in some cases will need the approval of Department of Administration (DOA) and the Joint Finance Committee. If applicable, an allocation of funding from the responsible division under Policy # 3 above will be considered. In addition, special Department funding to pay for a disallowance may be considered in compliance with APP Section 16 – 2.0 Excess Federal revenues if approved by the Department and DOA.
4. A method and timing to paying a disallowance shall be recommended by DES and OPIB and approved by the Secretary's Office. Local agencies and sub-recipients will be notified as to the extent of liability they share if involved. When there is ambiguous or shared responsibility, the cost may be distributed to both local and state entities. Generally, DES/BFS and OPIB will recommend such distribution.

CONTACTS

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