Health District & Health Department Audit Planning Guide

March 2, 2023

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Planning Guide Information

Supercedes previous planning guide dated April 14, 2021. Please direct questions or suggestions to the Health District/Health Department Subject Matter Expert.

Note: This guide is intended for use when auditing stand-alone health districts, as well as county health departments that operate as a department in their respective county. Accountability issues should be the same; however, certain compliance requirements (such as bid laws) would be different.

Guidance is based on the extensive research, brainstorming and reviews conducted as part of the planning guide update process. Guidance is intended only for internal use to help auditors gain an understanding of health districts and county health departments. The guide is intended to enhance planning and risk assessment procedures, not replace them. Information in the guide should therefore be considered along with other planning and risk assessment procedures. While guidance is designed to be as comprehensive as feasible, auditors must be alert for audit issues and situations not specifically addressed.

This guide is used by the State Auditor's Office staff as they plan audit engagements. Information presented in this document does not represent policy or legal guidance. State agencies and local governments should contact their legal counsels with specific questions.

WHAT'S NEW

Auditors should be aware of the following significant updates:

- Single Audit - Pre-COVID most districts did not receive $750,000 or more in federal funding. However, as various federal coronavirus funding programs became available to health districts, some may be subject to a single audit that normally were not subject to this requirement.

REQUIRED RISKS TO ASSESS

The following risks must be documented as red flags and discussed during brainstorming to ensure sufficient consideration. They should be prioritized for audit to the extent they are applicable and significant to the entity.

EFT Controls

Payroll and vendor electronic file transfer (EFT) related cyber frauds continue to occur. Accordingly, controls over EFTs is a required risk to assess for all entities we audit. When assessing this area of risk, auditors should talk with the entity about its controls related to changing existing EFT contact information and associated bank account numbers. The approach perpetrators of these frauds use has evolved to include changing contact information for existing EFT transactions before requesting a change to the associated bank account numbers. Previously, entities were encouraged to follow up with the contact information known at the time of the request for changes to bank account information; however, a stronger control is to independently confirm any change to payroll or vendor profile contact information or banking account information. Individuals with the ability to change or add EFT accounts need to have clear guidance on the process to authorize these changes through a proper validation method.A testing strategy is available in TeamMate at Accountability | Expenses | EFT Disbursements | Controls over EFTs. Contact Team IT Audit at SAOITAudit@sao.wa.gov for additional clarification or guidance.

BACKGROUND

Health districts are formed for the purpose of supervising all matters pertaining to the preservation of the life and health of the population. The "board of health" function may be performed by either a county health department under Chapter 70.05 RCW or a separately formed health district covering one or more counties under Chapter 70.46 RCW. The resolution or interlocal agreement forming the district will specify the governing body.

Health districts and county health departments have authority to enforce state and local public health regulations, provide for control and prevention of disease, issue food handling permits and licenses to serve food for institutions/businesses, and provide public health and safety information. Health districts may also offer home-visit nurse programs, HIV clinics and methadone clinics.

One of the largest sources of revenue for districts and departments comes from providing medical services to patients and billing Medicare and Medicaid. In addition, districts are authorized to grant food handling permits, inspect public food handling areas, public swimming pool permits and oversee/approve drinking water well and septic system installation plans. The district or department also receives federal and state support of epidemic outbreak contingencies and bioterrorism attack preparation. Finally, they are responsible for storage and management of birth and death certificates and other documentation.

Industry, Regulatory and Other External Factors

Health districts and county health departments are regulated by the Department of Health for most of their services. Most of the operating grants the district or department receives are through the Department of Health.

Certain district and department activities are also regulated by the Center for Disease Control (disease prevention, outbreak and treatment) and the Department of Homeland Security (bioterrorism risks).

Measurement of Financial Health

Common indicators of declining or impaired financial health include:

- Increasing operating losses over prior years
- Declining year-end unreserved cash balances to meet increasing accounts payable
- Use of registered warrants to meet daily operation expenses
- Declining patient receivables balances where the average number of days receivables outstanding remains the same or increases

Since accounting for patient revenues involves a number of estimates, it is at higher risk for misstatement if the district or department is experiencing financial difficulty. Moreover, each health district's invoicing and collection practices related to patient billing can have a significant effect on the amount and collectability of patient revenues.

Under RCWs 70.46.085 and 70.05.130, counties are responsible for the cost of providing public health services incurred by the state, health district, or county in carrying out the provisions of Chapters 70.05 and 70.46 RCW. In other words, counties who are members of a particular health district are required to cover the expense of providing public health services should the district be unable to meet its obligations. For county health departments, the county's general fund is required to cover the expense should the department be unable to meet its obligations.

PLANNING & ADMINISTRATION

The standard frequency for accountability and financial audits is described in Audit Policy 1210.

Additional Resources

Additional resources related to health districts and health departments can be found on the SAO intranet site under Audit | Reference Guide | Miscellaneous Entity Resources.

HIPAA Sensitive Data

Much of the information handled by health districts and departments deals with medical information and the district or department may request a confidentiality agreement to review information covered by HIPAA during the audit. Auditors must use the standard confidentiality agreement template on the SAO Intranet under Admin | General | Forms | Miscellaneous | Data Sharing Confidentiality Agreement. **If the district or department insists on the auditor signing their agreement, an assistant director must approve and sign the agreement.** Questions or changes to the template or HIPAA requirements should be directed to the Director of Legal Affairs.

Key Operational Information

Since programs can vary widely and will relate to unique revenue streams, expenditure systems and/or assets, a list of programs would provide key information about health district or department operations that the auditor should consider as part of planning and for permanent file documentation.

ACCOUNTABILITY

Under RCW 70.46.080, the County acts as the treasurer for health districts; districts may not act as their own treasurer. In a district composed of more than one county, the county treasurer of the county having the largest population shall be the custodian of the fund.

Revenues

Potential revenue streams at a health district or department may include:

- Decentralized clinics
- Permits
- Fines
- Donations
- Revenue for copies of medical records

- Federal/State operating grants

Billing/accounts receivable and cash receipting activities at the health district and remote locations (clinics) have been the most frequently cited areas for control weaknesses.

The Pierce-Tacoma County Health Department (PTCHD) operates an online system (www.foodworkercard.wa.gov) for issuing food handlers permits statewide. The system allows individuals to test and pay for the food handlers permit online using debit and credit cards. PTCHD collects payments for this service via a third party and distributes the payments, less an administrative fee, to the associated district or department related to the permit. The auditor should evaluate each district's or department's use of this service and gain and understanding of the internal controls if it receives a significant amount of revenue from this system. The district or department should have a control in place that ensures it receives all revenue for the food cards issued by PTCHD to individuals in the district's or department's region. Auditors should review the district/department's agreement with PTCHD before updating their understanding of internal controls. The agreement should define the method and how often PTCHD will remit revenues back to each health jurisdiction, which is likely quarterly. The remittance does not necessary have to comply with RCW 43.09.240 regarding timeliness of deposits because PTCHD is also a service provider, not just a receipting agent. Additionally, PTCHD's internal controls over food card system access, collections, reconciliations and remittance to districts and departments should also be evaluated on a regular basis to determine if they are sufficient.

Expenditures

Unique to some districts and departments is the Home Health Program for homebound patients. Nurses travel to homes to provide healthcare services. The risk is that these employees are not adequately monitored to ensure travel expenditures are valid (client visits were actually performed).

A variety of medical expenses are also paid directly to healthcare providers on behalf of eligible clients for services like cancer screening, AIDS screening or other preventative services. Generally, these expenses are paid through state or federal grants. A basic understanding of controls over these expenses should be obtained and auditors should consider including testing of these expenses if general disbursement testing is planned.

Assets

Common assets at risk of misappropriation or misuse include:

- Small and attractive assets, such as office equipment and computers.
- Vaccine inventories.
- If the district runs an HIV or Methadone clinic, the district will have high-risk drug inventories. All medications should be secured and subject to continuous inventory controls.

Compliance Requirements

General compliance requirements apply to health districts and departments, including Open Public Meetings Act, expenditure audit and certification, conflict of interest, limitation on compensation of public officials, insurance / bonding requirements and authorized investments.

Not Applicable – Limitation on Indebtedness and Budget Compliance - Since health districts have no taxing authority, they must secure their debt with property purchased and are not subject to budget requirements.

IT Risks

The Information Technology guide describes various general information system-related topics and identifies key primary risks related to computer systems that auditors should consider. Some relevant to health districts include:

- **User Access** – Appropriate user access can strengthen segregation of duties. Health districts of all sizes have historically faced challenges with maintaining adequate controls over User Access and Authentication. Particularly common issues are around segregation of duties, weak user

authentication controls, and removal of former employee accounts. Auditors should refer to the TeamMate steps in Accountability | IT Controls | User Access.

- **Data Backup and Recovery** - With ransomware and other attacks focused on denial of access to confidential and critical data becoming increasingly common in addition to the regular risks to data such as equipment failure, it is vital that districts have backups of all critical data. Typical weaknesses tend to be not retaining at least some of the backups "offline" so the backups do not fall victim to the attack. Additionally, it is not uncommon for offline backups to fail due to a configuration or storage issue. As such, it is important that backups be tested on a regular basis. Auditors should refer to the TeamMate steps in Accountability | IT Controls | Data Backup and Recovery.

- **Patch Management & Updates –** One key defense to ransomware and other attacks is to minimize vulnerabilities within the network and various systems through patch management and udpates. Depending on how the system was developed and is supported by the vendor impacts how patches are communicated, analyzed and utilized by the districts. Auditors should refer to the TeamMate steps in Accountability | IT Controls | Patch Management.

FINANCIAL STATEMENTS

Health districts are considered a governmental fund and may report using GAAP or the BARS cash basis of accounting. Whether organized as a separate district or as a department of a county, the BARS Supplemental Handbook for Public Health prescribes accounting and supplemental reporting to Department of Health (DOH) for health district operations. The supplemental reporting to DOH is due no later than March 15 of each year. This reporting does not replace the required annual report to the State Auditor.

OPEB for Cash-Basis Local Governments

Beginning with the 2019 annual report to SAO, cash-basis local governments will report their defined benefit OPEB liabilities on the Schedule 9. Auditors can find a list of health districts that we would expect to see reporting this on the Pension & OPEB Resources page ("List of PEBB Member Employers"). For additional information, see the Pension and OPEB planning guide.

GAAP reporting changes

All new GASBs are identified and evaluated by the Financial Audit Committee (FAC), as summarized on the GASB Tracker available on the FAC Sharepoint page. When evaluating implementation of new GASBs for Health Districts, auditors should specifically consider:

- *GASB 87* (Leases, originally effective FYE 12/31/20, now effective FYE 6/30/22) is expected to have an impact on health districts and require re-evaluating and changes to reporting for leases, such as leases for equipment or buildings. We would expect this to require significant effort and analysis. We would not expect any early adoption of this GASB. A TeamMate testing strategy workpaper is available in Financial Statement | GAAP | Workpapers.

Vaccine Program

Health districts and health departments receive vaccines from the Washington State Department of Health. Districts using GAAP can choose to recognize an expenditure for supplies inventories in governmental funds either at the time of purchase/receipt (purchases method) or when the supplies are actually used (consumption method). Under the purchases method, the entity would not report an asset on its balance sheet *unless* the balance was significant. If the balance is significant the entity would have to report an asset on the balance sheet and make a direct adjustment to fund balance (rather than reducing expenditures).

Recent analysis of health district financial statements identified inconsistency in how districts are reporting unused vaccines at year-end on their financial statements. There is a risk that districts are not reporting unused vaccine inventory on their balance sheets. Auditors should inquire with the district about how it:

- Acquires vaccine inventory
- Monitors vaccine inventory
- Records an expenditure for the use of vaccine inventory
- Reports unused inventory at year-end, if applicable.

If unused vaccine inventory at year-end is significant to the financial statements, auditors should consider selecting the balance for further substantive procedures.

Patient Billing

There are unique accounting issues related to patient billing (revenues and related receivables and payables). Due to the level of estimation involved with components of patient revenues, receivables and payables, these balances would typically be assessed as high inherent risk. Districts typically rely on automated controls to track services and calculate bills.

Third Party Settlements (may be reported as either a receivable or a payable)

These are amounts which have been calculated by Medicare and Medicaid that either the district owes to or is due from the insurance program based on the contractual agreement and "Cost Report" prepared annually (due May 31st each year). If expenditures for providing patient care services are higher than used to calculate the rate in the annual cost report, the program will send the entity the difference (receivable). If it costs the entity less money to provide the care than that used to establish the rate, the agencies recoup the money when the entity pays the difference back (payable).

Classification of Grant Revenues as Operating or Non-operating

Generally speaking, grants are not considered to be an operating revenue source; however, there are some exceptions. GASBS 9, paragraph 17c allows grants to be reported as operating revenue if they are for specific activities that are considered to be operating activities of the grantor government (a grant arrangement of this type is essentially the same as contract for services). Grants that are essentially the same as a **contract for services**, should be reported as **operating** revenues. Grants primarily benefit particular grantee furthering grantees own purpose or program. Grantor involvement is limited to administration and monitoring. It also benefits the grantor own program directly (e.g., federal government providing Medicare by law). This is in substance an *exchange transaction*.

These grants may occur in health districts or departments. There are certain arrangements often called grants (e.g., trauma grants, etc.) which are more like payments for services performed by districts than "traditional" grants. In such cases, when a grant is a result of health district or department operations (i.e. it's a form of payment either from the state or federal government), it should be reported as operating revenue. Similarly, if a grant is generated by health district or department operations and resembles a payment for services, it should be reported as operating revenue. What the grant can be spent on – e.g. operations – is not a criterion for classification as operating revenue. Please note that if a grant is used consistently to cover an operating deficit, it should be treated as non-operating revenue.

To determine whether or not the district or department has correctly classified their grants as operating or non-operating revenues, we can ask: what the purpose of the grant is, what kind of expenditures are made with the grant and if they receive the grant every year to help cover their costs.

SINGLE AUDIT

Pre-COVID, most districts did not receive $750,000 or more in federal funding. However, as various federal coronavirus funding programs became available to health districts, some may be subject to a single audit that normally were not subject to this requirement.

Below are some common (major) federal grants, grants that are particularly risky, or grants with unique considerations or sources of requirements.

Childhood Immunization Program (ALN 93.268)

This is a HHS program administered by the WA Department of Health (DOH). Funding can be awarded in the form of Discretionary Section 317 cash grants and non-cash assistance (vaccines). The discretionary grants are awarded for activities such as research, public information, education and training. The vaccine program supplies immunizations for children. Both forms of assistance must be reported on the SEFA.

Medicaid (ALN 93.778)

The Medicaid program is administered by WA DSHS. The majority of Medicaid funds are paid to medical providers for services rendered to individuals.

Per 2 CFR §200.502:

(i) *Medicaid.* Medicaid payments to a subrecipient for providing patient care services to Medicaid eligible individuals are not considered Federal awards expended under this part unless a State requires the funds to be treated as Federal awards expended because reimbursement is on a cost-reimbursement basis.

DSHS enters into various contracts with hospitals, health districts, schools, areas on aging, etc., to perform tasks that may not fall under the "patient care services to Medicaid eligible individuals" classification. A majority of the activity for this grant is often fee-for-service revenue, while a smaller portion of the grant is on a cost-reimbursement basis. DSHS typically considers the auditee to be a vendor with regards to activities funded on a fee-for-service basis (**see note below on "fee-for-service"**), but designates them as a subrecipient with regards to activities funded on a cost-reimbursement basis. Accordingly, only the portion received on a cost-reimbursement basis is considered a grant and should be reported on the SEFA. Districts typically rely on automated controls to track services and calculate bills.

NOTE: not all "fee-for-service" type revenues are excluded from SEFA reporting! DSHS has clarified that the "service type" is the defining factor. For example, if the fee-for-service is considered administration, then the federal portion must be included on the SEFA, whereas patient care services are not reported. Use the following chart as a guide:

Federal Medicaid (TXIX) & Money Follows the Person (MFP) Funds received by the auditee that should be included in the SEFA

Funding Source	*Service*	*Reimbursement Type*	*Service Type*	*Include on the SEFA?*
TXIX & MFP	*Health Insurance or Caregiver Training*	*Cost Reimbursement*	*Patient Care*	*No*
TXIX & MFP	*TXIX & MFP Contract Management (federal portion only)*	*Cost Reimbursement*	*Administration*	*Yes*
TXIX & MFP	*TXIX & MFP Case Management/Nursing Services (CMNS)**	*Unit Rate/Fee for Service*	*Administration*	*Yes **
TXIX & MFP	*TXIX Nursing Services, e.g. DDD or HCS (federal portion only)*	*Cost Reimbursement*	*Administration*	*Yes*
TXIX & MFP	*TXIX Information and Assistance (federal portion only)*	*Cost Reimbursement*	*Administration*	*Yes*

* CMNS is paid based upon a unit rate. The auditee must report the federal only portion of the unit rate on the SEFA and not their actual expenditures.

Women, Infants and Children (ALN 10.557)

This is a USDA program administered by the WA Department of Health (DOH). DOH uses both federal and state funds to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income women who are at nutritional risk and who are pregnant, have just given birth, or are

breastfeeding. The program also serves infants and children up to age five who are determined to be at nutritional risk.

About 75 percent of the WIC Program's annual appropriation is used to provide WIC participants with monthly food benefits. The remainder is used to provide additional services to participants and to manage the program. Additional services provided to WIC participants include nutrition education, breast-feeding promotion and support activities, and client services, such as diet and health assessments, referral services for other health care and social services, and coordination activities.

DOH contracts with subrecipients to determine eligibility and to enter eligibility data electronically into the DOH Client Information Management System (CIMS). The subrecipients also print and deliver checks to recipients from CIMS. A primary risk in the WIC program is payments of duplicate benefits. This can occur when a participant enters the program and payment system at more than one location (only if the name documented is different). Staff are trained to ask for identification such as a driver's license prior to documenting a name in CIMS so this process should minimize duplicate payments. Checks that are declared stolen can be replaced only with a police report. Checks that are destroyed in a fire can be replaced only with a fire report. If duplicate payment is discovered it is investigated. Checks that are lost are no longer replaced.

PERFORMANCE AUDIT

Information on ongoing performance audits can be found on SAO website at: https://www.sao.wa.gov/performance-audits/performance-audits-in-progress. For all other inquiries please contact the Assistant Director for Performance Audit.