**Section 434.7 Certified Audits, Cost Reports and Desk Reviews**

a) The Department's requirements for providers include the annual filing of a cost report in accordance with 89 Ill. Adm. Code 356 (Rate Setting) and an audit report in accordance with 89 Ill. Adm. Code 357 (Purchase of Service) and 360 (Grants-in-Aid).

b) The certified audit reports are reviewed by the Office of Field Audits and the cost reports are reviewed by the Rate Setting Unit and, when appropriate, a report on the certified audit or cost reports will be issued to Department officials who are responsible for the contracts. The general objectives of the desk review and report shall determine whether:

1) financial and service unit information is appropriately presented and is consistent with the generally accepted accounting principles;

2) costs incurred in operating the contracted service are not less than the revenues received directly for the program;

3) related party transactions are appropriately recorded and disclosed;

4) significant accounting practices and other information that require disclosure (as described by generally accepted accounting principles) are disclosed appropriately; and

5) funds were used in accordance with Department policy and whether the entity has received monies in excess of actual reimbursable costs.

c) The Office of Field Audits is responsible for answering all questions regarding the preparation of a certified audit. If the Department has not received the certified audit by the deadline of 180 calendar days after the completion of the entity's fiscal year, the Department will notify the entity of the delinquency and send a copy of the notice to the Department's Contracts and Grants unit and regional administrative staff.

d) All certified audit reports are logged in upon receipt by the Office of Field Audits and a check-in list is prepared for each audit received. If the audit does not contain adequate information, the Office of Field Audits will send a letter to the entity to request additional information. If the certified audit does not meet the standards set out in 89 Ill. Adm. Code 357.120 (Purchase of Service Fiscal Reports and Records), the entity will be given 10 business days to submit omitted items or 30 business days to submit a new certified audit.

e) The Office of Field Audits will prepare a desk review report that will highlight any deficiencies that are found in the audit and will contain specific recommendations for procedural changes in the preparation of certified audits. The completed desk review report will be sent directly to the entity, with a copy to appropriate Department regional staff.

f) Department regional staff are responsible for reviewing the recommendations contained in the desk review report and providing assistance as necessary to the entity in follow-up on the recommendations made. The desk review report may contain recommendations for contract or budget revisions that must be acted upon by the regional staff.

g) The desk review report may contain recommendations that require an additional response from the entity before the certified audit is accepted. The entity's response and concurrence with the recommendations of the desk review report will close the desk review process.

h) Effective with cost reports received for contract periods ending after July 1, 2003, excess revenue calculations shall be based on the information reported in the Cost Report or other suitable financial report accepted by the Department. The certified independent audit report may be used to develop excess revenue calculations if sufficient detail exists within the report to support the excess revenue calculations, and an accurate cost report or other suitable financial report is not available.

1) Programs Subject to Excess Revenue Determination:

The Department shall determine individual program excess revenues attributable to Department funding for contracted provider agency 24-hour substitute care programs. Examples of provider agency programs include, but are not limited to:

A) childcare institutions;

B) shelter care;

C) group homes;

D) independent living;

E) community integrated living arrangements;

F) agency foster care; and

G) other programs or contracted agencies, as determined by the Director or his/her designee.

2) Excess Revenue Determination Procedure

A) Excess revenue is the amount of purchase of service fees and governmental grant funding that exceeds total audited costs, less:

i) disallowable costs as listed in 89 Ill. Adm. Code 356.60

(Disallowable Cost and Reduced Reimbursement);

ii) fringe benefit costs, as defined in 89 Ill. Adm. Code 356.20 (Definitions), that exceed 25% of salaries and wages; and

iii) administrative costs that exceed 20% of all other allowable costs.

B) For excess revenue determinations, profit is considered as an allowable cost to the extent permitted in 89 Ill. Adm. Code 356 (Rate Setting).

C) Excess revenue attributable to Department funding is the amount of program excess revenues times Departmental revenue divided by all program purchase of service fees and government non-restricted grants.

3) Excess Revenue Amounts that May Be Retained

A) In each fiscal year, provider agencies may retain an amount of program excess revenues attributable to substitute care programs reimbursed through payments made according to standard reimbursement levels or through individual historical cost based program rates calculated consistent with the process and standards defined in 89 Ill. Adm. Code 356, provided that:

i) for programs with a licensed capacity, the total utilization is between 85% and 95% of the licensed or approved program capacity;

ii) for all programs receiving an enhancement, the provider agency demonstrates that the intended funding of the enhancement has been met without supplanting other contracted services or costs; and

iii) the provider agency demonstrates that program staffing level meets the minimum requirements defined in the contract program plan and licensing standards where applicable.

B) The amount retained may not exceed the DCFS portion of 7% of the program reimbursable costs less the DCFS portion of excess administrative costs. Programs reimbursed through rates containing an enhancement add-on (see 89 Ill. Adm. Code 356.80) are not eligible to retain excess revenue amounts in the year in which the enhancement was granted.

C) All DCFS identified program excess revenue amounts retained by the provider agency must be invested in direct service (non-administrative) activities in programs funded by the Department. Provider agencies unable to demonstrate that retained program excess revenue amounts have been invested consistent with the provisions of this subsection (h)(3) will be subject to forfeiture of the retained funds.

4) Amounts Returned to the Department

Amounts to be returned to the Department must be received within 60 days after the date the excess revenue amount has been finalized and notification is mailed to the provider agency's director or his/her designee or after a payment plan has been approved.

5) Program Excess Revenue Offsets

Program excess revenue may not be offset against other program deficits occurring in the year reviewed, or any other year, without the approval of the Director or his/her designee.

(Source: Amended at 31 Ill. Reg. 7625, effective May 31, 2007)