



ALABAMA DEPARTMENT OF MENTAL HEALTH PROVIDER AUDIT GUIDELINES

**For Audits by Examiners of Public Accounts,
CPAs, and CPA Firms**

Table of Contents

1. Purpose
2. Authority and Legislative Background
3. Applicability and Effective Date
4. Definitions
5. Audit Requirements
6. Subrecipient or Contractor Determination
7. Records Retention and Access Requirements
8. Auditor Procurement and Qualifications
9. Reporting Package
10. Due Date and Submittal of Audit Reports
11. Audit for Compliance with the ADMH Contract
12. Audit Findings, Questioned Amounts, and Resolution
13. Disallowed Amounts and Chargebacks
14. Corrective Action Plans
15. Sanctions
16. Federal Audit Requirements
17. Report on Compliance, Supplementary Schedules, and Audit Checklist

Effective January 1, 2026

AUDIT GUIDELINES

For Audits by the Examiners of Public Accounts, CPAs, and CPA Firms

1. PURPOSE

This document establishes independent audit requirements and contract compliance standards for recipients of Alabama Department of Mental Health (hereafter referred to as ADMH) funding. The document also defines and recommends procedures to be followed in the audit of contract activities and services. However, entities contracting with ADMH and their auditor are required to exercise professional judgment in determining the necessary audit steps to accomplish objectives.

2. AUTHORITY AND LEGISLATIVE BACKGROUND

These Audit Guidelines establish uniform auditing requirements and reporting standards under the cumulative powers granted by the Code of Alabama, 2009, Sections 22-50-2.1, 22-50-3, 22-50-9, 22-50-11, and 22-50-23. Additional Requirements are set forth by ADMH to comply with primary contract and federal grant requirements; thus audits must be performed in accordance with the following:

- a.** Generally Accepted Government Auditing Standards (Yellow Book) issued by the US Comptroller General in June 2003, or any subsequent revisions and amendments.
- b.** Single Audit Act Amendments of 1996 (Public Law 104-156), as amended.
- c.** The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”), CFR Part 200 issued by the Office of Management and Budget or any subsequent revisions.
- d.** Appendix XI to 2 CFR Part 200 - Compliance Supplement for Single Audit of State and Local Governments issued by the Office of Management and Budget or any subsequent revisions.
- e.** AICPA Audit and Accounting Guides and “Government Auditing Standards and Single Audits” or any subsequent revisions and amendments.
- f.** State of Alabama Medicaid Agency Administrative Code and related record-keeping, confidentiality, federal compliance, and billing procedures.

3. APPLICABILITY AND EFFECTIVE DATE

This document is effective starting January 1, 2026 for all entities that include these Guidelines in any of their ADMH contracts, grants, and/or other agreements. Due dates are detailed further in Section 10 of the ADMH Audit Guidelines.

4. DEFINITIONS

For purposes of these Audit Guidelines, the following definitions apply:

- a. **Federal Award** - federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors.
- b. **Subrecipient** - a non-federal entity that receives federal or state financial assistance to provide goods or services on behalf of ADMH to the general public to carry out or implement a program but does not include an individual that is a beneficiary of such assistance. A subrecipient provides goods or services on behalf of ADMH to the general public.
- c. **Contractor** - an entity that receives a contract that results in a vendor/procurement type relationship. Contractors provide services that are for the State's own use.
- d. **Subcontractor** - any individual, group, entity, vendor, etc., that receives ADMH funding for services through an entity paid through a ADMH contract, grant, and/or agreement.
- e. **Commissioner** - Commissioner, Acting Commissioner, and/or Commissioner's designee of the Alabama Department of Mental Health.
- f. **Corrective Action** - action by the entity/auditee that corrects identified deficiencies, produces recommended improvements, or demonstrates that audit findings are either invalid or do not warrant action by the auditee.
- g. **Materiality amount, material amount, material over collection** - amounts received through ADMH that are greater than the lesser of five percent (5%) or \$100,000 of eligible and/or allowable expenses/expenditures for each respective funding source. This specifically includes amounts from any ADMH cost-based, cost-reimbursement or prospective rate contract, grant, and/or agreement.

5. AUDIT REQUIREMENTS

The level and type of audit to be performed must be determined by the combined funding from Federal, State, and County funds expended from all revenue sources that are subject to these requirements. Funds received directly from all federal agencies and pass-through entities such as ADMH and all other state or local government agencies should be included when assessing audit needs.

a. A listing of these requirements is as follows:

Federal Funding	Entity Type	Audit
Funding of \$1,000,000 or more	Subrecipient/ Contractor	OMB Single Audit & ADMH Contract Compliance Audit
Funding of greater than \$300,000 but less than \$1,000,000	Subrecipient/ Contractor	Yellow Book Audit & ADMH Contract Compliance Audit
Funding greater than \$100,000 but less than \$300,000	Subrecipient/ Contractor	ADMH Contract Compliance Audit
Funding less than \$100,000	Subrecipient/ Contractor	No audit required

Medicaid-only providers are considered contractors. As such, Medicaid-only providers are not subject to the Single Audit requirements. However, all other ADMH audit requirements are applicable to Medicaid-only providers.

Entities that expend less than \$100,000 obtained through ADMH are not required to have an audit by ADMH standards but may be subject to review by Medicaid or other funding agencies.

All entities, regardless of ADMH funding totals, are subject to on-site reviews for eligibility, life safety or other programmatic requirements as defined in the administrative code for the ADMH service provided. Entities contracting with ADMH are encouraged to review the administrative code relative to the service provided. Further, **all entities** must also comply with the records retention requirements described in Section 7 of the ADMH Audit Guidelines.

b. 310 Boards and Public Mental Health Centers Audit Requirements:

Auditing and reporting standards for 310 Boards and Public Mental Health Centers are published under the Alabama Department of Examiners of Public Accounts *Public Mental Health Centers Audit Guide*. The guide requires that all 310 Boards and Public Mental Health Centers that expend \$1,000,000 a year or more in federal awards adhere to the requirements of the Single Audit Act, as referenced in Subsection 5a. 310 Boards and Public Mental Health Centers are encouraged to refer to the Examiners of Public Accounts' guide for other reporting requirements. In addition, ADMH requires that Mental Health Centers and 310 Boards not subject to the Uniform Guidance Requirements shall submit, at a minimum, an audit in accordance with the Generally Accepted Government Auditing Standard ("Yellow Book"). All 310 Boards and Mental Health Centers must also submit a report from the ADMH Contract Compliance Audit.

310 Boards are responsible for monitoring their subrecipients. This includes assuring that their subrecipients that expend \$1,000,000 or more in a year in federal awards (excluding Medicaid funding) shall have a Single Audit or Program Specific Audit conducted for that year in accordance with the Uniform Guidance. All 310 Boards are responsible for reviewing these audits

and notifying ADMH Internal Audit Office of any audit findings reported in subrecipient audits that relate to ADMH funding that was passed through from the 310 Board to the subrecipient.

6. SUBRECIPIENT OR CONTRACTOR DETERMINATION

Entities contracting with ADMH may be classified as a subrecipient or a contractor depending upon the characteristics of the support provided. The Uniform Guidance assists in classifying the relationship by stating that subrecipients have their performance measured based upon federal program objectives; entities normally participate in programmatic decisions while contractors provide goods and services that are ancillary to the federal program objectives.

The goods and/or services provided by a contractor are not considered federal awards and are therefore not subject to the Single Audit Requirements. Federal awards expended by a subrecipient are subject to Single Audit Requirements. ADMH providers receiving block grant funding are typically classified as subrecipients with exceptions as determined by program management. All other providers are considered contractors.

7. RECORDS RETENTION AND ACCESS REQUIREMENTS

Entities that receive or expend funds through ADMH, regardless of funding source or amount, shall maintain and make available all books, papers, records, correspondence, and any other supporting documentation directly relevant to the services provided or the source and application of grant funds. This includes but is not limited to audit-related working papers, for at least three fiscal years beyond the end of the year the records were created (e.g., the date the audit was issued) or until completion and resolution of any related issues that may arise, whichever is longer. This supporting documentation shall be readily available to ADMH, Examiners of Public Accounts, federal agencies, etc., upon request and includes the right of federal agencies to obtain copies of audit documentation as is reasonable and necessary.

8. AUDITOR PROCUREMENT AND QUALIFICATIONS

ADMH and the State Examiners of Public Accounts are legally authorized to audit providers; however, entities contracting with ADMH must procure the services of an **independent and qualified Certified Public Accountant**. Each entity is responsible for procuring the services of an external auditor within the Procurement Standards prescribed by the Uniform Guidance. The objective of the Standards is to obtain high-quality audits, see CFR §200.509. In line with those standards, positive efforts should be made to use small businesses, minority-owned firms, and women's business enterprises, in procuring audit services.

Each entity required to have an audit (to comply with these guidelines) must enter into a formal written contract or have an audit engagement letter that references these audit guidelines and specifies the type of audit to be performed. Further, the auditor procured must meet the fundamental ethical principles set forth for the proper application of Generally Accepted Government Auditing Standard. The auditor should also be independent and exercise proper professional judgment in planning, conducting, and reporting the results of the audit. Further, it is the responsibility of each entity subject to the Generally Accepted Government Auditing Standard to ensure that the auditor who performs the audit has met the following:

- a.** Continuing education requirements as defined in Generally Accepted Government Auditing Standard (Yellow Book), and
- b.** Quality control requirements defined in the Generally Accepted Government Auditing Standard (Yellow Book).

It is suggested that the entity (auditee) obtain a certified statement from its auditor along with the required audit report that the auditor has complied with this requirement as of the audit report date. If it is later determined that the auditor was not in compliance with this requirement, the report submitted to ADMH shall be null and void. As such, the entity shall not have met the applicable reporting requirements.

9. REPORTING PACKAGE

- a.** Subrecipients expending \$1,000,000 or more in combined federal funds:
 - i.** Financial Statements prepared in accordance with Generally Accepted Accounting Principles,
 - ii.** Auditor's Report on the Financial Statements prepared in accordance with AICPA standards and the auditor must reference that the audit was done in accordance with Yellow Book standards,
 - iii.** Notes to the Financial Statements reflecting the necessary information as outlined by Governmental Accounting Standards Board (GASB),
 - iv.** Auditor's Report on Internal Control and Compliance based on the Audit of the Financial Statements,
 - v.** Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB requirements,
 - vi.** Schedule of Expenditures of Federal Awards that lists each program, CFDA number and amount of expenditures reported,
 - vii.** Schedule of Findings and Questioned Costs based on reportable conditions, compliance findings and questioned costs,
 - viii.** Summary Schedule of Prior Audit Findings and Questioned Costs that include the status of all findings included in the previous audit's Schedule of Findings and Questioned Costs,
 - ix.** Corrective action plan that addresses each of the current fiscal year's audit findings,
 - x.** ADMH Contract Compliance Report and Related Supplementary Schedules, and
 - xi.** Auditor Checklist (ADMH Audit Guidelines, Exhibit C).
- b.** For entities with funding less than \$1,000,000, contractors and other entities not subject to the Single Audit requirements, the reporting package should include one or both of the following reports:
 - i.** The Financial Statement Audit prepared in accordance with GAGAS (Yellow Book)
 - ii.** ADMH Contract Compliance Report and Related Supplementary Schedules, and Auditor Checklist (ADMH Audit Guidelines, Exhibit C).

10. DUE DATE AND SUBMITTAL OF AUDIT REPORTS

Entities contracting with ADMH are solely responsible for the timely submission of audit reports as prescribed by applicable Federal Laws, State Laws, and ADMH requirements. A completed copy of the final issued audit report must be submitted directly to the ADMH Internal Audit Office.

- a.** In accordance with the Single Audit Act (July 1996), single audits must be delivered to ADMH within one month of issuance and no later than nine (9) months after the entity's fiscal year end. This is the requirement even if the audit must be reviewed and/or approved by some other entity.
- b.** All other audit reports (Yellow Book, stand-alone ADMH Contract Compliance Reports) are due one month after issuance and are preferred within six months after the entity's fiscal year end. They must be received by ADMH no later than nine months after the entity's fiscal year end (e.g., due June 30, 2025 for fiscal year that ended September 30, 2024 or due September 30, 2025 for fiscal year that ended December 31, 2024).
- c.** Audit reports for Mental Health Centers and other entities established under Alabama Acts 1967, Act Number 310 must be first submitted to the Examiners of Public Accounts for release. All entities required to have an audit under these Guidelines shall provide a copy to the State of Alabama, Examiners of Public Accounts, Audit Report, PO Box 302251, Montgomery, AL 36130-2251 (see Act 94-414, Alabama Legislature).
- d.** A copy of the yearly audit should be sent to the State Medicaid Agency. Contact appropriate Medicaid personnel for direction on the submission of reports.

Late delivery of an audit report shall be considered an instance of noncompliance. Sanctions may be considered and may be implemented as determined by the Commissioner for noncompliance (see Section 15) when audit reports have not been received. In addition to sanctions, late or non-delivery of an audit/report may require ADMH to initiate fiscal and/or programmatic site reviews and analyses of the entity.

11. AUDIT FOR COMPLIANCE WITH THE ADMH CONTRACT

The auditor is required to determine whether the auditee has complied with the ADMH contract, grant, and/or agreement, applicable State Ethics Law, applicable Federal, State, and Local laws, and fiscal and programmatic policies.

Among the requirements and guidelines that must be addressed are:

- a.** The auditor shall, at a minimum test and analyze a representative number of charges from the total ADMH funded universe for the respective contracts. Testing should be of sufficient depth and detail to render an opinion on whether the charges are legitimate for the contract. This means that the amounts charged are:
 - i.** Allowable, necessary, and reasonable based upon grant regulations, 2CFR § 200.403,
 - ii.** In accordance with Medicaid eligibility and billing criteria, see Alabama Medicaid Provider Billing Manual, and
 - iii.** In compliance with the Provider Agreement and contractual terms and conditions.

- b.** Financial reports and claims for reimbursements are adequately documented and provide an audit trail. Reports and claims should be: (1) supported by the entity's books and records from which the basic financial statements have been prepared, and (2) the entity's reports, claims, books, and records are in accordance with the applicable accounting principles (e.g., Medicaid ID Waiver Manual, GAAP).
- c.** Amounts collected were not in excess of actual, allowable, and/or reasonable costs of the required or available matching funds. Note: Material over collections shall be reported as instance(s) of material noncompliance and shall subject the entity to ADMH sanctions.
- d.** The entity has an appropriate and enforced conflict of interest policy. Violations of the State of Alabama Ethics Law, bid laws, should be reported as noncompliance.
- e.** All related party transactions are disclosed in accordance with AS 2410, and properly classified as allowable or unallowable costs in accordance with the applicable OMB Cost Principles (e.g., OMB Super Circular).
- f.** The entity has implemented or is in the process of implementing an adequate system of internal controls in the financial management of funds and property related to the ADMH contracts, grants, and/or agreements.
- g.** The entity has adequate internal controls over client funds and maintains documentation to support expenditures and revenues related to client funds. Also, the entity must show evidence of providing clients with financial statements at least quarterly.
- h.** The entity has implemented or is in the process of implementing an Internal Compliance Program relative to federal funding received through ADMH contracts, grants, and/or agreements.
- i.** The contractor has not entered into a subcontract for more than ten percent of the amount indicated in the ADMH financial exhibit page of the contract for the specified programs/services.
- j.** Applicable bid laws (State of Alabama Laws and/or Federal Laws including competitive bid laws) in purchasing supplies and equipment.
- k.** Legal judgments or governmental actions or other matters that may affect the ADMH contractor's ability or its subcontractor's ability to carry out the terms and conditions of the agreement are fairly and properly disclosed.

12. AUDIT FINDINGS, QUESTIONED AMOUNTS, AND RESOLUTION

Entities are responsible for resolving audit findings, questioned costs, and practices (e.g., amounts received in excess of authorized/eligible costs, fees, expenses/expenditures, etc.) in accordance with applicable laws and regulations and/or to ADMH's satisfaction within six (6) months from the issue date that the discrepancy is reported.

This same responsibility and resolution period applies to the entity for audit findings, questioned amounts, and practices of the entity's subcontractors that received funds through any ADMH contract, grant, and/or agreement.

13. DISALLOWED AMOUNTS AND CHARGEBACKS

In instances where an entity cannot document the eligibility, reasonableness, or allowableness of a cited or questioned amount/practice ADMH has no recourse but to disallow such amounts or practices. Amounts billed as cost-based or reimbursements that are more than the actual, reasonable, and eligible cost in accordance with applicable laws, regulations, contractual terms and conditions, and fiscal procedures are not allowed and must be refunded to ADMH. Further, such over collections shall subject the entity to ADMH sanctions as delineated in these Audit Guidelines.

The auditor shall report all material over collections as instance(s) of material noncompliance. Chargebacks, penalties, sanctions, etc., as related to ADMH State funds may be reduced or eliminated only by the Commissioner, in writing, for reasonable cause. Federal chargebacks can only be eliminated by the responsible federal agency. If a chargeback or an imposed sanction is not handled to ADMH's satisfaction within sixty (60) days of the occurrence or due date, additional sanctions may be imposed. Also, since entities are accountable and responsible for their subcontractor, sanctions are applicable to relative subcontractor(s).

14. CORRECTIVE ACTION PLANS

Each entity contracting with ADMH is responsible for follow-up and corrective actions on all audit findings. As part of this responsibility, the entity shall prepare and submit a corrective action plan; corrective action plans must accompany audit reports. This plan must be delineated on the entity's stationery and signed by the appropriate entity official. Also, the corrective action plan must include a plan of corrective action(s) taken or planned on all audit findings with a date of implementation or estimated completion of the corrective actions, and name(s) of the contact person(s) responsible for the corrective action.

Late delivery of a corrective action plan and/or failure to complete corrective actions as required shall be considered an instance(s) of noncompliance. Sanctions (including the withholding of current funds) will be considered and may be implemented as determined by the Commissioner for noncompliance.

15. SANCTIONS

ADMH may apply sanctions for the following instances of noncompliance:

- a.** Failure to remit disallowed charges,
- b.** Noncompliance with applicable federal and state procedures and laws, including the ADMH Audit Guidelines,
- c.** Noncompliance with contractual terms and conditions (including the Provider Agreement),
- d.** Noncompliance with terms of the Commissioner's written decision(s),
- e.** The collection of material amounts of revenue in excess of allowable expenses.

Possible sanctions include, but are not limited to:

- a. Exclusion from participation in any programs or funding through ADMH,
- b. Termination of current ADMH contracts, grants, and/or agreements or a portion thereof,
- c. Suspension of funding or payments relative to any ADMH contracts, grants, and/or agreements,
- d. Suspension of funding and/or payments until correct reports are received,
- e. Require that all excess amounts be refunded or a reduction in ADMH State funding,
- f. Report findings, chargebacks, sanctions, etc., to federal and/or state agencies,
- g. Legal action,
- h. Submission of the names of entities and principal parties to the applicable federal grantor agencies, recommending that these names should be included in the U.S. General Services Administration's publication *Lists of Parties Excluded from Federal Procurement or Non-procurement Programs*.

Any federal program that has specific requirements regarding sanctions will require compliance with those sanction procedures in lieu of, or in addition to, those requirements, as applicable on a case-by-case determination by ADMH.

16. FEDERAL AUDIT REQUIREMENTS

Nothing contained in these Audit Guidelines shall be construed to limit the authority of federal agencies to make, or contract for, audits and evaluations of federally funded programs; nor do they limit the authority of any federal agency Inspector General or another federal audit official.

All subrecipients that \$1,000,000 or more of federal financial assistance during any fiscal year shall submit to the central clearinghouse designated by OMB one copy of the reporting package(s) as described in OMB Super Circular. The address of the central clearinghouse currently designated by OMB is: <https://facides.census.gov/>

Submission of audit reports or questions should be addressed to:

Internal Audit

Alabama Department of Mental Health

PO Box 301410

Montgomery, AL 36130-1410

Email: InternalAudit.dmh@mh.alabama.gov

17. REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH CONTRACT

(WHEN THE AUDITOR'S PROCEDURES DISCLOSE NO MATERIAL INSTANCES OF NONCOMPLIANCE)

(Addressee)

Report on Compliance

We have audited contract/grant/agreement numbers_____between the Department of Mental Health (ADMH) and (name of organization) as of and for the fiscal year ended_____.

Management's Responsibility

Compliance with ADMH contract(s)/grant(s)/agreement(s), Provider Agreement, and all applicable laws, rules, and regulations applicable to (name of organization) is the responsibility of (name of organization's) management.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Alabama Department of Mental Health Audit Guidelines. Accordingly, the audit included such tests of the accounting records and other auditing procedures we considered necessary in the circumstances.

The Alabama Department of Mental Health Audit Guidelines covers each category of compliance to be tested as outlined in Section 11, **Audit for Compliance with the Contract of the ADMH Audit Guidelines**. Revenues and expenditures were analyzed to determine if they were in compliance with the applicable terms and conditions of the contract. Transactions were supported by proper documentation and provided an audit trail, charges were legitimate to the contract, and the entity had adequate internal control over all funds including client funds, if applicable. Also, where applicable, federal funds were matched and determined to be allowable and adequate to the contract.

The results of our tests indicate that the items tested complied with material terms and conditions of applicable compliance provisions, except as described below (or in the Schedule of Findings):

This report is intended for the information of management and ADMH. However, this report is a matter of public record and its distribution is not limited.

(Signature) _____ (Date) _____

(EXHIBIT A)
SUPPLEMENTARY SCHEDULE REQUIRED BY
THE ALABAMA DEPARTMENT OF MENTAL HEALTH

(PROVIDER NAME)

OFFICERS AND BOARD MEMBERS

FOR THE FISCAL YEAR ENDED _____, 20_____

<u>NAME</u>	<u>OFFICIAL TITLE</u>	<u>TERM EXPIRES</u>
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1.

2.

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4.

5.

6.

(EXHIBIT B)
SUPPLEMENTARY SCHEDULE REQUIRED BY
THE ALABAMA DEPARTMENT OF MENTAL HEALTH

(PROVIDER NAME)

(NAME OF PROVIDER'S SUBCONTRACTOR)

SUBCONTRACTOR OFFICERS AND BOARD MEMBERS

FOR THE FISCAL YEAR ENDED _____, 20_____

<u>NAME</u>	<u>OFFICIAL TITLE</u>	<u>TERM EXPIRES</u>
1.		
2.		
3.		
4.		
5.		
6.		

(EXHIBIT C)

This checklist must be completed and signed by the provider's Executive Director and the External Auditor.

ALABAMA DEPARTMENT OF MENTAL HEALTH

AUDIT REVIEW

FOR THE FISCAL YEAR ENDED _____, 20_____

Provider: _____

Auditor of Record: _____

YES NO

1. Two copies of audit report and supplemental information enclosed?
2. Was a management letter issued? If yes, a copy must be enclosed.
3. Is management's response to the management letter enclosed?
4. Is a corrective action plan necessary?
5. Is a copy of the corrective action plan enclosed?
6. Are there any reportable conditions or material weaknesses?
7. Are there any questioned costs?
8. Is the current Board of Directors listing included with audit package, if applicable?
9. Was the date of the audit presented and reviewed with the provider's Board of Directors, if applicable?
10. A Statement of Revenue and Expense is included with the package?
(Entities not subject to single audit or yellow book requirements)
11. Is the provider currently meeting CCBHC certification requirements?

BY: _____

Auditor

Date: _____

BY: _____

Executive Director

Date: _____