

Counseling/Fiscal Agency (CFA) Initial Readiness, Mid-Year and Annual Review Manuals

FOR:

The Arkansas Division of Aging and Adult Services
Independent Choices Program

SUBMITTED BY:

EP&P CONSULTING, INC. February 5, 2002

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¹ The “Counseling/Fiscal Agency (CFA) Initial Readiness, Mid-Year and Annual Review Manuals” were prepared by Susan Flanagan of EP & P Consulting, Inc (Engquist, Pelrine, and Powell) for the Arkansas Independent Choices Cash and Counseling Demonstration Program under contract with the University of Maryland Center on Aging. This Center serves as the National Program Office for the Cash and Counseling Demonstration Project. **As it contains dated, state-specific tax and labor law information, it would need to be adapted for use in other locales.** Any questions about the information contained in this manual should be directed to the Division of Aging and Adult Services, 1-888-682-0044.

**ARKANSAS DIVISION OF AGING AND ADULT SERVICES
INDEPENDENT CHOICES PROGRAM**

COUNSELING/FISCAL AGENCY (CFA) INITIAL READINESS REVIEW

STATE PREPARATION MANUAL

I. Purpose of the Counseling/Fiscal Agency (CFA) Initial Readiness Review

The purpose of the Counseling/Fiscal Agency (CFA) Initial Readiness Review is to determine whether the vendor selected by the Division has developed and implemented the systems and policies and procedures necessary to act as a CFA in accordance with the provision of the State's RFP and the CFA contract. The primary goal of the Review Team is to determine *if* the CFA is ready to perform the CFA functions rather than reviewing records and procedures to determine *how well* the vendor is performing the CFA functions. The latter will be assessed when the Review Team conducts a CFA Mid-Year or Annual CFA Review. It should be noted that this review does not constitute a formal financial or program "audit." However, a state program agency could use this protocol as the basis for developing a formal audit protocol for a CFA.

II. What are Counseling/Fiscal Agencies (CFAs)?

CFAs operate as household employer agents (or "agents") under IRS Chapter 25; General Provisions Relating to Employment Taxes, Section 3504; Acts to Be Performed By Agents. CFAs that are vendor organizations operate under IRS Revenue Procedure 70-6 whereas, government entities operating as CFAs operate under IRS Revenue Procedure 80-4. A copy of the above mentioned documents are included in Attachment A. CFAs also provide counseling services under the same organizational umbrella.

Currently, there is no one cite where the IRS describes in depth how a household employer agent should perform the tasks associated with representing a participant/household employer for federal tax purposes. However, there are a few citations throughout IRS code, notices, publications, forms and instructions where the IRS does describe the relevant policies and procedures to be used by agents. For example, IRS Notice 95-18, Question 5 clarifies how government and vendor organizations should report the wages for household employees. A copy of this Notice is included in Appendix B.

The January 2000 version of IRS Publication 15-A; Employer's Supplemental Tax Guide, Section 8: Special Rules for Paying Taxes; Reporting Agents, discusses some reporting procedures to be used by agents however, it is not comprehensive. It references the IRS Form 2678, the agent rules pertaining to the filing of the IRS Form W-2, magnetic tape filing of Forms 940 and 941 and electronic filing of Form 941. The IRS Forms SS-4 and W-2 and W-3 have specific instructions for agent filing, whereas, the IRS Forms 940 and 941 do not. Thus, the policies and procedures for agents are not always clear and in many cases they are evolving. For example, no where in the IRS Code does it allow or prohibit employer agents from delegating some of their tasks (e.g., payroll function) to another entity (e.g., a payroll company that is a subcontractor to the CFA). In this case, we have had to craft a method that is logical and achieves tax payment compliance. However, new instructions issued by the IRS in the future related to employer agent policies and procedures could modify how this and other tasks are currently being conducted by employer agents and how they are described in this document. As long as federal and state tax compliance is being achieved, financial liability for the state, agent, individual and worker should be limited to none.

As of December 2001, IRS Central Office staff is preparing an information bulletin that hopefully will clarify a number of gray areas related to employer agent policies and procedures. In addition, IRS updates many of its forms and publications annually. Thus, individuals who staff an CFA Review Team must stay current with IRS employment tax rules pertaining to household employers and agents (CFAs) and modify any Review protocols and procedures as necessary.

III. Who Should Perform the Initial Readiness Review?

Program staff who is knowledgeable of the State requirements of the CFA (e.g., the provisions of the RFP and the CFA contract) and familiar with counseling tasks and federal and state income and employment tax and insurance requirements for domestic employees and employer agents, should be assigned to perform the CFA Initial Readiness Review. It is recommended that a two-person Review Team be formed and be responsible for conducting the Review. It would be advantageous if at least one person on the Review Team has some systems and finance/accounting knowledge. It is also recommended that a lead person be designated for each Review Team. This person will be responsible for conducting the entrance and exit conferences during the onsite visit, for fielding any questions from the CFA during or after the onsite visit and regarding Review findings. The lead person can be rotated between the members of the Review Team so each person gets the experience of leading a Review.

IV. How Long Should the Readiness Review Take?

It should take two to three days to complete the onsite visit component of the Review (depending on how well prepared the CFA and program agency staff is and how in depth the program agency wants the Review to be). It should take two days to write up the report including a summary of the Review findings. The CFA should be given at least a summary of the Review findings (and preferably the full report that includes a summary of the findings) as soon as possible so that staff can successfully develop and implement a plan of correction and address all findings before going “live.”

V. Initiating a CFA Initial Readiness Review

A. Notice of Onsite Visit Letter

The lead person on the Review Team should contact the CFA in writing informing them of the date and time of the onsite visit for the Initial Readiness Review and what the CFA should prepare and/or have available to the Review Team to review during the visit. Items that should be available include, but are not limited to:

- AR Medicaid Provider Number
- IRS notification and copy of the CFA’s separate federal identification number (FEIN)
- Policies and Procedures Manual that includes all required CFA functions and forms
- Examples of all forms, documents, participant enrollment and worker application packages, manuals and evaluation protocols that will be used by the CFA and examples of completed forms, when appropriate

- ❑ Examples of mock reports to be generated

The CFA should also be able to:

- ❑ Walk the Review Team through the policies and procedure for each required CFA functions
- ❑ Demonstrate all required technologies including key information systems and accounting software programs (e.g., participant accounts, payroll, payment of non-labor related invoices)
- ❑ Describe and demonstrate the features of the customer service, counseling services, record security and confidentiality and disaster recovery systems and any training and/or evaluation protocols as required.

One option for the Division is to give the CFA a copy of the Readiness Review Check List in advance of the onsite visit. This will provide the CFA with an outline of what they will be required to address during the onsite review. The CFA should use the Check List as a guide for preparing itself for going “live.” The goal of the Review is for the CFA to be as prepared as possible before going live and not necessarily punitive.

The Review Team should work with CFA staff to determine a date and time for the Review that works for both parties.

B. Section I: Entrance Conference and Initial Observations

The Review Team should always start a CFA Readiness Review by conducting an Entrance Conference with CFA staff. It is important that at least one member of the CFA’s executive staff be present along with the key staff that will be performing the CFA functions.

During the Entrance Conference, the lead person on the Review Team should:

- ❑ Introduce themselves and their role.
- ❑ Thank CFA staff for their time and cooperation.
- ❑ Introduce the members of the Review Team and CFA staff.
- ❑ Provide CFA staff with an overview of the day’s events.
- ❑ Identify the CFA staff that the Review Team will be working with during the onsite visit and ask how the Team should reach them during the day.
- ❑ Remind CFA staff that the Readiness Review is to assist the CFA in getting ready to go “live” rather than punitive. “This is a collaborative effort.”
- ❑ Inform the CFA that the Review Team will conduct an Exit Conference at the end of the onsite visit to review any preliminary findings with CFA staff and to answer any questions CFA staff may have.
- ❑ Inform CFA staff that they will receive a copy of the report by a certain date (determined by the Review Team). Once received, the CFA will be expected to develop a plan of correction and

address the findings to the satisfaction of the Division, based on the time frames established by the Division.

- ❑ Ask CFA staff what the most significant challenges have been for them in implementing the CFA function to date.
- ❑ Ask CFA staff if they have any questions or comments regarding the onsite visit, the Initial Readiness Review or any other issues at this time.

The Review Team should also document any initial observation it may have at this point in the Review including completing the key information at the top of the Check List.

VI. Check List Instructions by Section

Attachment C includes the Initial CFA Readiness Review Check List. The Check List includes all of the tasks and issues that the Review Team should examine during the onsite visit. The Review Team should use the Check List as an organizational guide, as a data collection tool and as the format for its report. An electronic copy of the Check List has been provided to the Division for the Review Team to use. The following provides a step by step approach for examining each of the items on the Check List by section.

A. CFA Information and Entrance Conference Sections

The information section at the top of the Check List and Section I, Entrance Conference Discussion and Initial Observations, should be completed during the Entrance Conference.

B. Section II: Status of Physical Plant, Equipment, Information Systems and Other Technologies

The purpose of this section is to determine whether the CFA has the physical plan, equipment, information systems and other technologies in place, per the State RFP/CFA contract and as stated the CFA's proposal, to be able to perform the CFA function. (Question II.1)

The first step for the Review Team is to take a *walking tour* of the physical plant. In some cases, things may be different than described in the CFA's proposal and these changes may or may not meet the requirements of the State RFP/CFA contract. The Review Team must make a determination whether the changes are acceptable to the Division or if the CFA is deficient in an area. For example, the CFA may have moved its physical location since it submitted its proposal and was awarded the contract. The Review Team will want to assess how the move might effect the CFA's ability to provide services effectively to the participant population and to meet the Division's requirements per the State RFP/CFA contract.

Other issues the Review Team should review during the walking tour include:

- ❑ Can the physical plant adequately accommodate the number of staff who will be performing the CFA function and the tasks that must be performed initially and over the period of the contract?
- ❑ Does the physical lay out make sense from an operations and management perspective (e.g., can the space accommodate secure files and are there places where participants can discuss their issues private and/or attend educational sessions in a quiet place) (Question II.1)?

- ❑ Are all of the pieces of equipment as stated in the CFA’s proposal and required by the RFP/CFA contract purchased and in place (e.g., phones, faxes, computers, printers, copying machines)?
 - Are the computers at the required power/capacity?
- ❑ Are all the information systems (e.g., hardware, software) purchased and in place (e.g., number and capability level of computers, software) as stated in the CFA’s proposal and required by the State RFP/CFA contract? (Question II.2)
- ❑ Are all other required technologies and accommodations arranged for and in place (e.g., toll free number, TDD line, answering machine, paging system, large print and foreign language capabilities) as stated in the CFA’s proposal and required by the RFP/CFA? (Question II.3)

The Review Team should use the Check List to document their findings. If the required items and functions are not in place, they should ask why and document any deficient areas and the reasons for any deficiencies.

C. Section III: Staffing

The Review Team should determine whether the level of fiscal and counseling staffing is appropriate for the initial period of the contract per the State RFP/CFA contract. In addition, the CFA should have a plan for recruiting the required and necessary staff throughout the contract period. Equally as important, the Review Team should determine if the staff presented at each job level is the same staff as was proposed in the CFA’s proposal. If not, the Team should examine the new staff’s resumes compared to the staff proposed by the CFA in its proposal to determine whether the replacement staff has comparable qualifications and experiences. In some cases, proposed staff may have to be replaced for legitimate reasons (e.g., staff left the organization after the proposal was submitted). However, the Review Team should be on the look out for any “baiting and switching” on the part of CFAs; for example, replacing more qualified and experienced staff described in the proposal with entry level less experienced staff.

Other issues the Review Team should examine should include, but are not limited to:

- ❑ CFA’s overall organizational chart and organizational chart for the CFA function; have any changes been made? Do the changes and current organizational charts make sense from an operational perspective? (Question III.1)
- ❑ Is the level of staffing (FTEs) for the initial period of the contract in place as stated in the CFA’s bid proposal and the key staff in place? (Question III.2 and III.3) This includes any subcontractors that may have been proposed. Are they still on board? If not, why and is their replacement comparable to what was proposed?
- ❑ Does the CFA have a system in place and a written policy and procedure for hiring counselors who meet the minimum qualifications (degree in humanities, social sciences or a related field plus two years experience in social service or community work pertaining to adults with disabilities and chronic conditions or a related field. Other job related education and/or experience may be substituted for all or part of the basic requirements with approval from the Division). A minimum ratio of 75 participants to one counselor must be maintained. (Question III.4)
- ❑ Regarding job descriptions for CFA staff, are they written and do they appropriately reflect the tasks that will be performed? Is there any unnecessary overlap or gaps in job functions? Do the job functions facilitate the implementation of internal controls related to the CFA functions when

appropriate (i.e., reasonable segregation of duties - staff responsible for preparing checks for payroll and non labor related invoices are not responsible for reviewing these checks for accuracy and for signing them)? (Question III.5)

- ❑ Has the CFA has developed and documented an ongoing training curriculum for its staff that reflects the philosophy of participant-direction and is there a plan for conducting counselor training at least every 90 days? (Question III.6)
- ❑ Has the CFA experienced or foresee any challenges in recruiting staff in the future and how does the CFA plan to address these challenges? (Question III.7)
- ❑ Does the CFA have a plan in place for recruiting additional staff as needed? (Question III.8)
- ❑ Has the CFA developed a system and have a written policy and procedure in place for evaluating staff that performs CFA functions? (Question III.9)

The FI should have methods that they will use to evaluate staff that perform all CFA functions including conducting initial phone contacts and enrollment presentations.

D. Section IV: CFA Administration

- ❑ An accurate and complete policies and procedures manual is the key to a successful CFA. Therefore, it is important that the Review Team determine whether the manual (Question IV.1):
 - Addresses all of the CFA tasks
 - Contains all relevant forms (blank or completed as examples)
 - Contains the CFA's Quality Management Plan (QMP)
 - Is organized in a logical and user friendly manner
 - Has been reviewed and approved by the Division (Question IV.1a)

However, it is doubtful that the CFA will have its policies and planning manual in perfect order at the time of the Readiness Review. Therefore, it will be important for the Review Team to reexamine the policy and planning manual during subsequent mid-year and annual reviews during the first and subsequent years of operation to make sure it is complete and up-to-date.

The Division historically has required CFAs to also prepare a Quality Management Plan (QMP) (Question IV.2). It should be included in the CFA's policies and procedures manual.

- ❑ It is important that the CFA's disaster recovery plan for computer files be developed and implemented when the CFA goes "live." (Question IV.3) The disaster recovery plan should address:
 - The rapid return to limited operation
 - The accuracy of software and data at return to operation
 - The ability to return to full capacity as soon as possible

The plan should include, at a minimum:

- A complete backup of all non-software data sets at the end of each production day.

- The resultant tape(s) will be removed to an external secure site. These back-up tapes should be cycled on a weekly basis.
- Upon the installation of any software (new or upgraded) a complete back-up (copy) of the software should be made with the resultant tape(s) removed to an external secure site. The backups should be retained in the grandfather, father, son scheme.
- The server should be designed to employ a method of redundancy for operational integrity and production.
- All workstations attached to the network should have sufficient processing capability to be used interchangeable and should be able to backup one another until repair or replacement can be affected on a failed workstation.
- Server should be connected to a UPS system which will condition incoming power to the server and provide sufficient processing time for the server to be correctly shutdown in the event of a power failure.
- In the event of damage to the primary operational site of sufficient magnitude the second company location should be able to be modified to accommodate the system.
- There should be a description of the change of communication and command in the case of a systems or power failure by level.

The Division should have reviewed and approved the CFA's disaster recovery plan. (Question IV.3a)

- ❑ Record confidentiality must be adequately maintained and the CFA should have a system in place and a written policy and procedure to address this. (Question IV.4) Electronic program files should be password protected. Access to all hard copy and electronic files should be limited to staff who are responsible for their preparation and maintenance. The CFA should be able to ensure that access to Medicaid information will be limited to counseling and fiscal staff within the CFA and that safeguards will be put in place to protect against unauthorized disclosure of Medicaid information.
- ❑ It is also important that the CFA has the ability to store current and archived program records in a secure location. (Question IV.5 and 5a) Security pertaining to storing archived program records is sometimes overlooked by CFAs.
- ❑ The CFA must have a system in place and a written policy and procedure for responding to requests for information and it should be coordinated with the Division.
- ❑ Although the Independent Choices Advisory Council will not have been convened by the time of the Readiness Review is conducted, the CFA should have a plan and a written policy and procedure for its development and implementation. (Question IV.6) The CFA should have an idea of who will be invited to participate (in coordination with the Division) and when the first meeting will be convened. It should be noted that in general, CFAs have not been good about getting these types of groups up and running. The CFA should work closely with the Division to complete this task.

- ❑ The Division should have developed a worker time sheet with instructions and they should have been approved by the Division. (Question IV.7 and IV.7a). It should have a space for the worker and the participant to sign.
- ❑ The Division has required the CFA to generate information/reports for program participants, the Division and Mathematica (during the Demonstration). In general, reports generated by FIs for participants have been problematic. Often if the report is timely it tends not to be accurate. In addition, when the report is accurate it tends to be out dated. Finally, FIs have had difficulty generating participant reports that present the essential information in a user-friendly format. AR CFAs need to work with the Division to develop formats for disseminating information to participants, the Division, and Mathematica that are acceptable to all parties. The CFA should be able to produce mock table shells and report formats for the Review Team’s examination and they should meet the requirements of the Division. (Questions IV.8, IV.9, IV.9a, IV.12) The CFA should also be able to produce information for participants, the Division and Mathematica upon request and within the prescribed time period. (Question IV.8a, IV.9b, 13)
- ❑ CFAs must have a system in place and a written policy and procedure for transmitting data to the Division in the established format (Microsoft WORD Table-latest version). (Question IV.10)
- ❑ It is imperative that the counseling and fiscal staff at a CFA communicate effectively. The CFA must have developed a system and a written policy and procedure for accomplishing this objective (Question IV.11)
- ❑ The CFA must have a system in place and a written policy and procedure for gathering information and proving reports upon request of the Division and Mathematica.
- ❑ The CFA must have a system in place and a written policy and procedure for maintaining all records and information required by DHS and the Division and for immediate review by the Division.

E. Section V: Customer Service System

An effective customer service system has been found to be essential in developing an effective participant-directed support service programs. The Team should have the CFA walk through its entire customer service system. Essential elements required by the Division, timeliness, courtesy and the appropriate application of participant-directed principles should be stressed. At the time of the Readiness Review, the system and the policies and procedures are the only pieces that can be examined. Actual performance will be assessed during subsequent Mid - Year and Annual CFA Reviews. (Questions V. 1- 8)

F. Section VI: Counseling Services

Counseling services that effectively reflect the philosophy of participant-direction are key to implementing an effective participant-directed support service program. The Review Team should review all required counseling services to make sure that the CFA meets the Divisions’ requirements. (Questions VI. 1- 13)

G. Section VII: Training, Evaluation and Monitoring the Progress of Participants

Training

- ❑ Skills training curricula and manuals for Option 1 participants should ensure that participants' knowledge and capabilities are sufficient to perform all employer-related activities. (Question VII.1) Training for Option 1 participants should be available on a one-to-one-basis, and reflect the philosophy of participant-direction. (Question VII.3) Materials and/or manuals should be available to participants within 15 days of their being selected to the Treatment Group. (Question VII.4)
- ❑ It is important that CFA staff pre-test its training materials with individuals who best represent the participants and representatives that will be using them to assess effectiveness (e.g., at least four people of varying age and gender). (Question VII.2)
- ❑ The CFA should also have a system and a written policy and procedure for orienting all participants and their representatives about the program and participant-direction including their and the CFA and Division's roles and responsibilities, their risks. The orientation should be conducted in a manner that reflects the philosophy of participant-direction. (Question VII.5)

The Review Team should obtain a copy of the training and orientation curricula and manuals for review.

Evaluation

- ❑ The CFA should have developed a system and a written policy and procedure for assessing the level of participant/representative understanding of information relayed during orientation and training sessions. (Questions VII.1 and 2)
- ❑ The CFA should have developed a system and a written policy and procedure for evaluating all of its materials and sessions (including initial phone contacts and enrollment presentations). (Question VIII.4) The CFA should evaluate its materials and sessions for content, effectiveness and for whether they were conducted in a manner that reflects the philosophy of participant-direction.

Monitoring

- ❑ The CFA should have developed a system and a written policy and procedure for monitoring Option 1 participants' performance in conducting employer-related tasks, in particular, fiscal and payroll that is effective and reflects the philosophy of participant-direction. (Question VII.1)

The participant or representative will be filing an IRS Schedule H rather than an IRS Form 940 and 941 for the purpose of filing and paying federal income and FICA and FUTA taxes for his or her worker. The protocol for payroll should be based on IRS Publication 926; Household Employer Guide (See Attachment D) using the IRS Schedule H and state income and employment tax filing and depositing forms and procedures for domestic service employers.

- ❑ The CFA should have developed a system and a written policy and procedure for monitoring the progress of all program participants that is effective and reflects the philosophy of participant-direction. (Question VI.14)

G. Section VIII: State and Federal Requirements to Be a CFA

There are a number of federal and state procedures that an organization must complete to become a CFA in Arkansas. In particular, the Review Team must determine that the CFA has a system developed and a written policy and procedure to execute each of the tasks listed in Section VIII of the Check List. It should be noted that the CFA may be unsure about how to complete the various IRS forms. The Initial Readiness Review is

the Division's chance to make sure these forms are completed correctly from the start. Issues in particular for the Review Team to examine include:

- Is the CFA enrolled with the Arkansas Medicaid Program as a Medicaid provider? (Question VIII.1)
- The IRS Form SS-4; Application for Employer Identification Number was used by an CFA to obtain its separate FEIN (for the sole purpose of filing federal employment taxes and forms). Attachment E includes an example of a completed IRS Form SS-4 for the purpose of the CFA getting its separate FEIN. Can the CFA demonstrate that it completed the form correctly and has its FEIN? (Question VIII.2)
- The IRS Form 2848: Power of Attorney, allows the CFA to obtain an FEIN, file an IRS Form 843: Claim for Refund and Request for Abatement for a participant and to represent a participant before the IRS. The CFA should file an IRS Form 2848 for each Option 2 participant it represents. An example of a completed Form 2848 is included in Attachment F. There are a number of issues that the Review Team should be aware of regarding the Form 2848. (Question VIII.3)
 - Line 2 should include a person's name. The best person would be the person in charge of the fiscal tasks for the CFA
 - Item H should be checked
 - The year(s) or period(s) reported in Line 3 (c) should include the applicable tax quarters of the relevant tax years from the time the participant enters the program and is served by the CFA through a period not more than three years after the date that the Form 2848 is received by the IRS. The CFA may list any prior years and/or periods but for future periods it is limited to the three future periods described above.
 - Line 4 should be checked since the CFA will be using the Form 2848 to file with the participant's IRS Form SS-4 to get his or her FEIN on his or her behalf and to possibly file the IRS Form 843 on behalf of participants when necessary.
 - The Form 2848 expires three years from the date it is received by the IRS. Does the CFA have a system developed and a written policy and procedure in place to track participants whose IRS Forms 2848 are up for renewal and a process to renew them? (Questions VIII.4 and VIII.5)
- Arkansas also requires CFAs to have an executed AR Limited Power of Attorney with each participant it represents. A copy of this Form may be found in Attachment G. (Question VIII.6)
- The IRS Form SS-4 must be filed to obtain an FEIN for household employers. The CFA can do this on behalf of Option 2 participants it represents as long the participants' IRS Forms SS-4 are filed with their completed, signed IRS Form 2848. Attachment H includes an example of a completed IRS Form SS-4 to obtain a consumer's FEIN (Question VIII.7).
- The IRS Form 2678; Employer Appointment of Agent is the form that, when completed, signed and filed, notifies the IRS that the Option 2 participant has appointed the CFA to be his/her household employer agent. Attachment I includes an example of a completed IRS Form 2678.

When filing the IRS Forms 2678, the forms can be submitted individually or batched, however, they must always be accompanied by a letter to the IRS requesting to be the IRS employer agent for the participant(s) noted on the IRS Forms 2678 being submitted. The letter must request authority to do all that is required of the employer for wages the CFA pays on the employer's behalf per the instructions box on the IRS Form 2678. The CFA also must notify the IRS when it no longer represents a consumer as his/her agent for any reason per Rev. Proc. 70-6.

It is recommended that all documents and correspondence be sent to the IRS “return receipt requested.” In addition, the CFA should not wait to initiate CFA activities for a participant until it receives written approval from the IRS because in some cases, it can take a while to receive formal written approval from IRS.

- Can the CFA demonstrate that it can complete the IRS Form 2678 correctly? (Question VIII.8)
 - Does the CFA have a form letter prepared that includes the required language (See IRS Form 2678 instructions and IRS Rev. Proc. 70-6) that will be prepared and submitted with all IRS Forms 2678 that are submitted to the IRS? (Question VIII.8)
 - Does the CFA have a system developed and a written policy and procedure for tracking the submission of IRS Forms 2678 and receipt of approval letters from the IRS for each participant it represents and notifying the IRS when the CFA has not received notification of IRS approval after a specific period of time (e.g., 30 days)? (Question VIII.8a)
 - Does the CFA have a form letter prepared (per IRS Rev. Proc. 70-6), a system developed and a written policy and procedure for notifying the IRS when it no longer represents a participant as his/her employer agent/CFA and for maintaining this information in the participant's file? (Question VII.9)
- The AR Form AR4ER: AR Department of Finance and Administration Withholding Registration, must be filed by the CFA for each Option 2 participant in order to obtain a state income tax identification number for participants, A copy of the AR Form AR4ER is included in Attachment J. (Question VIII.10)
 - The ESD-ARK-201: AR Employment and Security Division's Status Report must be filed by the CFA for each participant in order to obtain state unemployment insurance tax identification numbers for Option 2 participants. A copy of the ESD-ARK-201 is included in Attachment K. (Question VIII.11)

The Review Team should review the relevant language in the CFA's policies and procedures manual for accuracy and completeness and make sure that the methods used to complete all required forms is correct.

H. Section IX: Participant Manual and Participant Enrollment and Worker Application Packages

- The CFA should have prepared a manual that orients both Option 1 and 2 participants to the program. The manual should be user-friendly, reflects the philosophy of participant-direction and be available in alternative formats. (Question IX. 1)
- The CFA should have developed a training manual for Option 1 participants who wish to self-direct all of the employer-related tasks (including fiscal and payroll). This manual should be user-friendly, reflect the philosophy of participant-direction and be available in alternative formats. (Question VII.1-Training).

- ❑ The CFA should have developed participant enrollment and worker application packages for Option 1 and 2 participants that include the elements required by the Division, reflect the philosophy of participant-direction, are user-friendly and available in alternative formats. (Questions IX. 2, 3, 4, 5, 6, 7).

I. Section X: Operations Tasks

The CFA should have developed a system and a written policy and procedure for: (Question X.1)

- ❑ Obtaining Option 1 and 2 participants' grant funds monthly from the State via electronic transfers

The Review Team should compare the CFA's proposed system to the system that the State has established to make sure it adequately reflects the State's system. The Review Team should also make sure that the CFA has the date that each transfer took place and a system and a policy and procedure for tracking this information.

- ❑ Determining Option 1 and 2 participants' cash allowance based on the plan of care hours

The CFA should also have a system in place for notifying the Division for review and approval when a participant's plan hours increase 10 percent or more as a result of a reassessment.

- ❑ Notifying the Division within 10 calendar days if an Option 1 or 2 participants' cash allowance changes

This notification process should reflect Division requirements.

- ❑ Disbursing and tracking grant funds transferred to Option 1 participants

The CFA's system should be logical and should be able to track each participant's funds by individual and in the aggregate by month and year to date.

- ❑ Establishing, maintaining and tracking Option 1 and 2 participants' accounts including any savings and earned interest

The Review Team should determine if the account(s) established can easily identify each participant's benefit amounts (including tracking any interest income earned). In addition, does the method used not cause a participant to appear to have accumulated funds that might be considered income and/or assets that might jeopardize a participant's eligibility for this or other publicly-funded programs?

The CFA may have established a "master" account that includes all participants' funds from which it draws down from as needed. This approach can prevent a participant from appearing to have accumulated income/assets as described above. The CFA must be able to show the Review Team how it can track individuals funds and any savings or earned income for each participant in an accurate, complete and timely manner.

- ❑ Tracking the "Pot of Gold" (POG) effectively

Historically, CFAs have had difficulty doing this. The Division needs to decide whether it wants to continue using this method or retire it.

- ❑ Establishing and maintaining Option 1 participants' files/records
- ❑ Establishing and maintaining Option 2 participants and workers' files/records

The Review Team should make sure that each system is logical and facilitates the proper management and auditing of all required forms and documents.

- How will the CFA address the issues of file size and converting files into a new calendar year?
- What process will the CFA use to close out files when a participant leaves the program for whatever reason?
- Does the CFA have sufficient secure space to store files for participants who have left the program and prior year participant files for the required time period?
- ❑ Conducting criminal background checks for Option 1 and Option 2 participants' workers upon request from the participant
 - What process will the CFA use to conduct criminal background checks?
 - How will it distribute, maintain and discard criminal background information?

Criminal background information should be kept confidential and secure. It should be accessed by the participant/representative and CFA staff on a need to know basis. It should be noted that few participants have requested criminal background checks.

- ❑ Collecting, verifying and maintaining workers' timesheets for Option 2 participants

The CFA's system should be able to ensure that hours reported do not exceed approved hours as stated in a participants' CMP or per approval of the Division.

- ❑ Verifying that workers' hourly wage for regular and overtime hours are in compliance with federal and state DoL Wage and Hour rules for domestic service workers

The CFA should have a system in place and a written policy and procedure for verifying that workers' hourly wage for regular and overtime hours are in compliance with federal and state DoL Wage and Hour rules for domestic service workers including the companionship and live-in exemptions.

- ❑ Computing, withholding, filing, depositing and tracking federal income taxes for Option 2 participants

This task should be performed per IRS withholding, filing and depositing rules. It should be noted that the Division has decided to have the CFA perform this function for all workers even though it is technically an option for household employees and their employers.

- ❑ Computing, withholding and filing Social Security and Medicare taxes (FICA) in the aggregate quarterly in accordance with IRS Form 941 rules for employer agents and depositing FICA taxes in accordance with IRS depositing rules

The CFA should have a system and a written policy and procedure for filing FICA using the IRS Form 941, using the CFA's separate FEIN and filing in the aggregate for all participants represented by the CFA during

the quarter (See Attachment M). The CFA should also have a system in place and a written policy and procedure for adjusting the IRS Form 941, using an IRS Form 941(c), when appropriate (See Attachment L), in particular, when making adjustments for over collected FICA.

The CFA must also be able to ensure that it is not withholding FICA taxes on any family members who are providing paid support service to the consumer but are exempt from paying FICA (See Attachment Z). According to the IRS and the Social Security Administration, parents employed by children and spouses employed by spouses, who do not provide support services as a formal business, are exempt from and are not allowed to pay FICA.

FICA taxes should be deposited at a frequency based on the size of Option 2 participant's deposits in the aggregate and in accordance with IRS depositing instructions (e.g., next day, semiweekly, monthly). The CFA should be able to tell the Review Team what they predict their depositing schedule will be for at least the first two quarters of operation and what the corresponding IRS depositing schedule will be.

IRS rules pertaining to the depositing of federal taxes are in Section 11 of 2002 IRS Publication 15 – Circular E, Employer's Tax Guide. This has been included in Attachment M.

- ❑ Computing, withholding, filing, depositing and tracking federal unemployment tax (FUTA) in accordance with IRS Form 940 annual filing and employer agent rules and IRS depositing rules for Option 2 participants

Taxes (IRS Form 940) should be filed using the CFA's separate FEIN and in the aggregate for all Option 2 participants represented by the CFA annually.

Some CFAs may wish to use the IRS Form 940 EZ to file FUTA on behalf of the participants it represents. One problem is that line B at the top of the Form 940EZ asks for the state unemployment tax identification number. Many states do not require FIs to get a separate state unemployment tax identification number even though the participants do get one. States also require that FIs file individually rather than in the aggregate for the participants they represent. The IRS has advised FIs to use the IRS Form 940 since it does not ask for a state tax identification number. However, some FIs have filed IRS Forms 940EZ by putting "Household Employer Agent" in line B with good success. A copy of the IRS Forms 940 and 940 EZ are included in Attachment N.

The CFA must also be able to ensure that it is not withholding FUTA taxes on any family members who are providing paid support service to the consumer but are exempt from paying FUTA (See Attachment Z). According to the IRS and the Social Security Administration, parents employed by children and spouses employed by spouses, who do not provide support services as a formal business, are exempt from and are not allowed to pay FUTA.

FUTA taxes are deposited at a frequency based on the size of Option 2 participants' deposits in the aggregate and in accordance with IRS depositing instructions. The CFA should be able to determine what its FUTA depositing schedule will be by estimating its FUTA withholding in accordance with IRS depositing rules (See Attachment M).

- ❑ Processing and tracking federal advanced earned income credit as requested by qualifying workers per IRS instructions for Option 2 participants

Only workers who complete and submit an IRS Form W-5 to the CFA and are eligible to receive advanced earned income credit should be processed (See Attachment O). This function will be used infrequently but the CFA still has to have a system and a written policy and procedure for performing the function.

- Computing, withholding, filing, depositing and tracking state income taxes (AR Form 941M) for Option 2 participants

The CFA should complete this task using the AR Form 941M and in accordance with Department of Finance and Administration rules for Option 2 participants. A copy of the AR Form 941M is included in Attachment P.

- Computing, withholding, filing, depositing and tracking state unemployment taxes in accordance with AR Employment and Security Division rules for Option 2 participants (Form ESD-ARK-20B)

The CFA should complete this task per AR Employment and Security Division rules. A copy of the ESD-ARK-209B is included in Attachment Q.

- Preparing and distributing workers' payroll checks including a pay stub that reports hours worked, gross wages, withholding by type, and salary for the current pay period and year to date for Option 2 participants

The CFA should be able to produce a "mock" version of a check and the stub and have a system and a written policy and procedure in place for producing and distributing payroll checks that include direct deposit for those workers who request it.

- Processing direct deposits of paychecks for Option 2 participants' workers upon request
 - What type of arrangement has the CFA made with local banks to provide this service?
 - Has the CFA documented its system and policy and procedure for direct deposits?
 - What will the cost be for the CFA, Option 2 participant or worker?
- Processing all judgements, garnishments, tax levies or any related holds on workers' pay as may be required by local, state and/or federal laws

This happens infrequently but the CFA must have a system and a written policy and procedure that addresses the task.

- Generating out of cycle payments to workers and vendors

Does the CFA's system and written policy and procedure address the following issues:

- How frequently out-of-cycle payments will be generated?
- What will the process be?
- What will the cost be to the Option 2 participant (if any)?
- Processing, issuing and tracking the payment of cash amounts to Option 2 participants upon request up to twice a month and for up to 10 percent of a participant's monthly benefit

Does the CFA's system and written policies and procedures address the following issues:

- Can requests be made by phone?
- How will the CFA confirm that the person on the phone is the participant or a person eligible to make the request (e.g., representative) and that the funds are available to be distributed?
- Preparing and issuing annual IRS Forms W-2 and W-3 in accordance with IRS instructions for agents

The IRS instructions for agents under the section entitled: *Special Reporting Situations for Form W-2; Agent Reporting*, describe how agents should complete the IRS Forms W-2 and W-3 including where the agent's FEIN and the participant's FEIN should be reported on the IRS Forms W-2 and W-3. A copy of the instructions are included in Attachment R. The CFA should be aware of these instructions and have a system and a written policy and procedure that will ensure that the forms will be completed in accordance with these instructions.

Please note the following regarding the completion of the IRS Form W-3. Boxes f and g (Employers name and address) should be completed in the same manner as they were filled out on the IRS Form W-2. In addition, the instructions for agents state that box e (Employer Identification Number) should be completed with the agent's separate FEIN and box h (Other EIN used this year) should be completed with the consumer's FEIN. Box 15 requires the employer's state ID number. Since the agent does not have a state ID number, it is advised that the agent complete Box 15 with the consumer's state ID number. Then the agent should attach a letter stating how it has completed these boxes, in accordance with IRS agent instructions, so there is no confusion on the part of the IRS. This is an area that needs to be further clarified by the IRS in the future.

- Refunding Option 2 participants' workers for the employee portion of over collected FICA taxes (employee's contribution) when the worker has not earned the threshold wage amount for paying FICA in the applicable calendar year

The Review Team should know that the FICA wage threshold has changed yearly over the past few years. In calendar year 2001, it was \$1,300. The Review Team needs to check the IRS web site (in particular, IRS Publication 926) to determine the wage threshold for the year in which they are conducting the Review. There are three methods that the CFA can use to refund over collected FICA in accordance with the December 18, 2000 letter from Marie Cashman at the IRS (See Attachment S). It is up to the CFA to select the method that is appropriate for them to use.

The FI must make sure that refunds are only sent to employees (or their estates) that the FI has valid contact information for. If the FI does not have valid contact information and can not locate the person or his/her estate, the taxes should be paid to the IRS.

- Refunding Option 2 participants for over collected FICA taxes (employer's contribution) when the participants workers have not earned the threshold wage amount for paying FICA in the applicable calendar year

The CFA should have a system and a policy and procedure for refunding over collected FICA to the State based on the one or more of the methods described in the December 18, 2000 IRS memo.

The FI must make sure that refunds are only sent to employers (or their estates) that the FI has valid contact information for. If the FI does not have valid contact information and can not locate the person or his/her estate, the taxes should be paid to the IRS.

- ❑ Refunding Option 2 participant for over collected FUTA when the participant's workers in the aggregate do not earn the threshold amount for paying FUTA in the current or previous year

Over collected FUTA taxes is a challenge to track and refund because the wage threshold applies to the current and the preceding calendar years. For example:

- An employer meets the FUTA threshold in the preceding calendar year but not in the current calendar year, he/she has to pay into FUTA for current calendar year
- An employer does not meet the FUTA threshold in the preceding year but meets FUTA threshold in current calendar year, he or she has to pay FUTA for the current year
- An employer does not meet the FUTA threshold in the previous or current year, he/she does not have to pay FUTA in current year
- An employer did not have workers in the preceding year and did not meet the FUTA threshold in the current year, he/she does not have to pay FUTA in the current year

It is important that the CFA has a system in place and a written policy and procedure for tracking FUTA payments and any potential over collection of FUTA for refunding purposes.

Because the CFA is required to file in the aggregate, the size of the withholding may require the agent to deposit more frequently than annually. The CFA should be able to demonstrate how it will track any over collections of FUTA and how it will make and document the necessary adjustments and refunds. The FI must make sure that refunds are only sent to employers (or their estates) that the FI has valid contact information for. If the FI does not have valid contact information and can not locate the person or his/her estate, the taxes should be paid to the IRS.

- ❑ Processing and paying non-labor related invoices for Option 2 participants

The CFA should have a system and a written policy and procedure for paying non-labor related invoices for Option 2 participants using a segregation of duties approach. The approach should have different people receiving and reviewing the invoice compared to the participant's Cash Management Plan (CMP), preparing the check and reviewing and signing the check. Payment of all non-labor related invoices should be in compliance with the participant's CMP.

- ❑ Identifying and documenting the misuse or misappropriation of participants' cash allowance, when applicable

The CFA should have a system and a written policy and procedure for completing this task.

J. Section X: Internal Controls

The purpose of establishing internal controls is to develop a system of checks and balances that verifies that the CFA functions are being performed in an accurate, complete and timely manner. There is no one method for doing this. It is up to the CFA to determine how it develops its internal control procedures for the CFA tasks. However, the CFA should have developed internal controls at least for the items listed below. At the Review, the CFA should be able to describe each internal control procedure developed and how it can verify that the task is being performed in an accurate, complete and timely manner. In addition, the CFA should have a system in place and a written policy and procedure for each internal control developed (Question X.1).

- Monitoring its customer service system for effectiveness

Developing an effective and efficient customer service system has been a challenge for CFAs. Issues that should be addressed for this internal control should include, at a minimum:

- How is a participant call processed? Level of courtesy and responsiveness?
- How frequently is the voice messaging option being used during business hours?
- How quickly are program related and participant calls returned that are received during and after business hours?
- How quickly and effectively are participant issues resolved?
- How quickly can interpreter services be available?
- How quickly can alternative formats be provided?
- How is participant and representative satisfaction being measured and monitored?

- Monitoring its counseling services for effectiveness

The Division should provide guidance to the CFA on how it wants the CFA to conduct this task.

- Monitoring its participant training, evaluation and monitoring system

The Division should provide guidance to the CFA on how it wants the CFA to conduct this task.

- Maintaining the accuracy and currency of Option 1 participants' files/records
- Maintaining the accuracy and currency of Option 2 participants' and workers files/records

The CFA should have a system in place and an internal control documented for "auditing" Option 1 and 2 participant and worker files for accuracy and currency. One method could be for the CFA to conduct a file review of a certain percentage of files each month on a rotating basis so that all files are reviewed at least once annually (or more frequently depending on total volume and error rate).

- Filing and maintaining IRS Form 2678 and Request for Approval Letter, the receipt of IRS approvals, and contacting the IRS when the CFA is no longer the employer agent for each Option 2 participant.

The CFA should have a system in place and an internal control documented for "auditing" this information.

- Has the IRS Form 2678 been completed correctly and is there a copy in the participant's file?
- Is there a copy of the IRS Request for Approval Letter filed with the IRS Form 2678 in the participant's file?
- How is the CFA tracking the submission of IRS Forms 2678 and approval letters?
- Is there a copy of the IRS approval in the participant's file?
- How is the CFA tracking the receipt of IRS approvals?
- How is the CFA following up on pending/outstanding IRS approvals?
- When the CFA is no longer the employer agent for a participant, has a notification letter been sent to the IRS per IRS Rev Proc 70-6?
- How is the CFA tracking these notifications?
- Is there a copy of the notification letter in the participant's file?
- Is there a copy of the IRS' reply to the notification letter in the file?

- Is the CFA tracking the receipt of IRS replies to notification letters and those pending/outstanding?
- Filing the IRS Forms SS-4 and obtaining and maintaining a copy of the IRS Form SS-4 and FEIN for each Option 2 participant

How will the CFA's internal control ensure the following:

- The IRS Form SS-4 been completed correctly and is there a copy in the participant's file?
- There a copy of the participant's IRS FEIN notification letter in the participant's file?
- The CFA tracking the filing of IRS Forms SS-4 and the receipt of FEINs for participants?
- Filing the IRS Form 2848 for each Option 2 participant and tracking expiration dates and processing renewals per IRS instructions

The CFA should have a system in place and an internal control documented for determining if the IRS Forms 2848 are being completed correctly, that a copy is maintained in each participant's file, that each IRS Form 2848's expiration date is tracked and that the renewal process occurs in a timely manner per IRS instructions. Please note, IRS Forms 2848 may be effective for prior years or periods. However, for future periods, the CFA is limited to three future periods that end no later than three years after the date the IRS Form 2848 is received by the IRS (See IRS Form 2848 instructions in Attachment F).

- Making sure that INS Forms I-9 are completed correctly and maintained in each worker's file for Option 2 participants.

The CFA should have a system in place and an internal control documented for making sure that INS Forms I-9 are completed correctly and maintained in each worker's file for Option 2 participants. The CFA must make sure that all pertinent sections of the form are completed. For example, even if the CFA takes a copy of the verification documents (e.g., license or passport) the information from the documents should be completed in Section 2 of the form. In addition, the CFA must make sure that the Certification part of Section 2 is consistently completed and signed. Attachment T includes a copy of the INS Form I-9.

- Filing the Form ESD-ARK-201 and obtaining and maintaining a copy of the form and the participant's state unemployment insurance identification number for each Option 2 participant

The CFA's internal control should ensure the following:

- The Form has been completed correctly and filed for each Option 2 participant per instructions AR Employment Security Division rules.
- A copy of the completed Form is in the participant's file.
- A copy of the state unemployment insurance registration number notice is in the participant's file.
- The system that the CFA is using to track the filing of the Form and the receipt of participants' state unemployment insurance registration numbers is effective.
- The system used by the CFA to notify the State Employment Security Division when a participant is no longer an employer in order to "retire" his or her state unemployment insurance registration number.

- The CFA is tracking participants' status regarding the receipt and retirement of state unemployment insurance registration numbers.
- Filing the Form AR3ER and maintaining a copy of the form and the participant's state income tax identification number in each Option 2 participant's file.

The CFA's internal control should ensure the following:

- The Form has been completed correctly and filed for each Option 2 participant per instructions AR Department of Finance and Administration rules.
- A copy of the completed Form is in the Option 2 participant's file.
- A copy of the state income tax identification number notice is in the participant's file.
- The system that the CFA is using to track the filing of the Form and the receipt of participants' state income tax identification numbers is effective.
- The system used by the CFA to notify the AR Department of Finance and Administration when an Option 2 participant is no longer an employer in order to "retire" his or her state income tax identification number.
- The CFA is tracking participants' status regarding the receipt and retirement of state income tax identification numbers.
- Filing the AR Limited Power of Attorney Form and maintaining a copy of the Form for each Option 2 participant
 - How does the CFA's internal control ensure that a copy of completed and signed AR Limited Power of Attorney is in each Option 2 participant's file and that it is updated as necessary?
- Tracking and maintaining criminal background check information on potential workers for participants that request them
 - How does the CFA's internal control ensure the proper tracking, maintenance and confidentiality of criminal background information (e.g., limiting access to the participant/representative requesting it and CFA staff on a need to know basis)?
 - How does the CFA monitor the discarding of criminal background information.
- Tracking and maintaining records on Option 1 participants who have been evaluated for their ability to perform the employer-related tasks, (including fiscal and payroll) and the results of the evaluation

The CFA should have a system in place and an internal control documented for tracking and maintaining training and evaluation information for each participant who receives it. The results of evaluations should be kept confidential.

- Tracking and maintaining records on CFA's evaluations of Option 1 participants' performance in managing the employer-related tasks (including fiscal and payroll) on an ongoing basis

The CFA should have a system in place and an internal control documented that verifies, at a minimum, the following:

- Is the system developed and documented for the ongoing evaluation process being applied completely and consistently?
- Is there a system for tracking the results and any corrective action in a complete and consistent manner?
- Reconciling and tracking monthly cash grant distributions with any remaining liability
- Reconciling and tracking monthly cash grant distributions by participant's enrollment status (e.g., after randomization to the treatment group, enrolled or not enrolled)
- Reconciling and tracking monthly cash distributions when a participant disenrolls from the program

One suggested method for developing internal controls for these tasks might be to create monthly cash summaries and reconcile them with state disbursements and participant account balances for the three scenarios. It should be noted, however, the first and second tasks may not be applicable once the Demonstration Grant is over.

- Reconciling and tracking Option 2 participants' request for cash up to twice a month and up to 10 percent of the participant's monthly benefit

The CFA should have a written internal control for this task that includes a cross-check for the various functions (e.g., reasonable segregation of duties). For example there should be a separate person in charge of the following activities:

- Taking the check request
- Processing the check request
- Approving and signing the check
- Does the request exceed any limits per Division rules or the participant's CMP?
- Reconciling the "Pot of Gold" (POG)

CFAs have had difficulty developing and implementing internal controls that effectively track the use and balance of the POG. The Division may want to consider retiring the concept of the POG.

- Reconciling and tracking time sheets for Option 2 participants' workers

The CFA should have a system in place and an internal control documented for tracking and reconciling time sheets with biweekly payroll statements and participants' case management plans (CMP) for Option 2 participant. What is the mechanism that the CFA is using to verify that participants do not submit timesheets for more hours than have been approved in the participants' CMPs?

- ❑ Reconciling and tracking wage rates paid for regular and overtime pay to Option 2 participants' workers to make sure that wages are paid in compliance with federal and state DoL Wage and Hour rules for domestic service workers.

The CFA should have a system in place and an internal control documented for verifying that all Option 2 participants' workers are paid hourly wages in accordance with federal and state DoL Wage and Hour domestic service worker rules including the companionship and live-in exemptions.

- ❑ Reconciling and tracking federal income taxes withheld and deposited for Option 2 participants
- ❑ Reconciling and tracking state income taxes withheld and deposited for Option 2 participants

One method the CFA could use in developing this internal control could be to reconcile federal and state income taxes withheld, filed (using the AR Form 941M) and deposited with monthly payroll summaries and deposit documentation.

- ❑ Reconciling and tracking the amount of federal employment taxes (IRS Form 941 for FICA and IRS Form 940 or 940 EZ for FUTA) withheld, filed and deposited.

One method the CFA could use in developing this internal control could be to reconcile federal employment (FICA and FUTA) taxes withheld, filed and deposited with monthly payroll summaries and deposit documentation.

- ❑ Reconciling and tracking state unemployment taxes withheld, filed (ESD-ARK-209B) and deposited for Option 2 participants

One method the CFA could use in developing this internal control would be to reconcile state employment taxes withheld, filed and deposited with monthly payroll summaries, state forms and deposit documentation.

- ❑ Reconciling and tracking all judgements, garnishments, tax levies or any related holds on workers' pay as may be required by local, state and/or federal law for Option 2 participants

This does not happen with great frequency but the CFA should have a system in place and an internal control documented to verify that the task is being performed in an accurate, complete and timely manner.

- ❑ Reconciling and maintaining payroll checks and summary stubs for Option 2 participants' workers

The internal control developed and documented by the CFA should reflect a reasonable segregation of duties (e.g., the person who prepares the check should not be the same person who reviews and signs the check). Optimally, two different people should perform these functions.

- ❑ Tracking direct deposits of Option 2 participants' workers' who request it

The internal control developed and documented by the CFA should monitor and verify the timeliness and accuracy of this depositing method, any error rates and/or deposit delays and the reasons why.

- ❑ Reconciling and tracking federal advanced earned income tax payments processed for Option 2 participants' workers

The internal control developed and documented by the CFA should monitor and verify that the task is being performed in an accurate, complete and timely manner.

- ❑ Reconciling information on workers' annual IRS Forms W-2 and tracking that the forms were filed timely for Option 2 participants

One possible method for reconciling the information contained on workers' IRS Forms W-2 is with monthly and annual payroll summaries prepared by the CFA. The CFA should also have a tracking system in place that describes when the IRS Forms W-2 were sent to the appropriate parties. What process was followed when IRS Forms W-2 were returned to the CFA unopened? Was there any instances where a worker did not qualify to receive a W-2 (i.e., had not state or federal withholdings in the calendar year)?

- ❑ Reconciling information on Option 2 participants' annual IRS Forms W-3 and tracking that the forms were filed timely

Information reported on the IRS Form W-3 can also be reconciled using monthly and annual payroll summaries. The CFA should also be able to track when all IRS Forms W-3 were sent to the appropriate parties. What process was followed when IRS Forms W-3 were returned to the CFA unopened?

- ❑ Reconciling and tracking refunds of over collected FICA (employees' contributions) to Option 2 participants' workers who did not earn the FICA wage threshold in the appropriate calendar year

The CFA's internal control developed and documented by the CFA for this task must be able to verify the accuracy of amount determined, the appropriateness of the IRS refunding method used, the timeliness of the refunds and the documentation related to the date and amount of the refund received by each eligible worker. No refund should be issued unless the CFA has a valid contact for the employee or his/her estate.

- ❑ Reconciling and tracking refunds of over collected FICA (employers' contributions) to Option 2 participants for workers who did not earn the FICA wage threshold in the appropriate calendar year

The internal control developed and documented by the CFA for this task must be able to verify the accuracy of amounts determined, the appropriateness of the IRS refunding method used and the timeliness of the refund to the State. No refund should be issued unless the CFA has a valid contact for the employer (or his/her estate).

- ❑ Reconciling and tracking FUTA tax refunds to Option 2 participants' for workers who in the aggregate did not meet the FUTA wage threshold for the current or previous year

It should be noted that the determination of the FUTA wage threshold applies the current and previous year's activity. It is important that the internal control process developed by the CFA effectively monitors and verifies the CFA's reconciliation and tracking process for this activity. In addition, unlike FICA, the IRS has yet to develop a written protocol to be used by employer agents for the refunding of any over collected FUTA. No refund should be issued unless the CFA has a valid contact for the employer (or his/her estate).

- ❑ Monitoring out-of-cycle payments to workers and vendors

The CFA should have an internal control developed and documented that can verify the number of out-of-cycle payments made, the date of the payments, the name of the workers and vendors paid and the amounts.

- ❑ Monitoring direct deposits of Option 2 participants' workers' payroll checks

The CFA should have an internal control developed and documented that can verify when and for whom direct deposits were made, the depositing bank and the amount deposited for each direct deposit made.

- ❑ Reconciling and tracking invoices and payments for non-labor related invoices for Option 2 participants

The internal control developed by the CFA for this task should be able to monitor and verify the accuracy and appropriateness of these invoices and payments and verify that they are in accordance with the participant's CMP and that a segregation of tasks exist for the processing and payment functions (e.g., separate individuals receive the invoices, prepare the payments, approve payments and sign check).

- ❑ Monitoring and tracking communications with and complaints received from consultants, participants, workers and any action taken

The internal control developed by the CFA for this task must be able to monitor and verify the CFA's systems used to accomplish these tasks. Is there any automation in place for these functions? Is it still a paper process?

- ❑ Monitoring and tracking the misuse or misappropriation of participants' cash allowances, when applicable

The CFA should have developed and documented an internal control for this tasks.

VII. Exit Conference

The Review Team should conduct an exit conference at the end of the onsite portion of the CFA Initial Readiness Review. The Exit Conference should be conducted with the staff that was present at the Entrance Conference. During the Exit Conference, the Leader of the Review Team should:

- ❑ Present a summary of outstanding items that the CFA will be providing to the Review Team over the next 72 hours
- ❑ Verbally summarize any key preliminary findings that the Review Team has identified as of the completion of the onsite visit
- ❑ Answer any questions that CFA staff may have at that time and provide them with a phone number where the Leader of the Review Team can be contacted to provide additional comments and information and ask any further questions
- ❑ Thank all CFA staff for their time and efforts related to the Review
- ❑ Repeat that the Review is meant to provide technical assistance and support to the CFA in becoming operational and to be punitive.

VIII. Summary of Key Readiness Review Findings

Once the Review Team is back in the office, it should prepare a report that summarizes the key readiness review findings and areas where corrective action must be taken by the CFA to resolve the issues identified. It is recommended that the Team use the Check List document as the basis for the Review Team's report.

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Attachment E	Example of Completed IRS Form SS-4 for Agents to Obtain Their Separate FEIN
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Attachment N	IRS Forms 940 and Instructions and 940EZ and Instructions
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Attachment P	AR Department of Finance and Administration AR form 941M
Attachment Q	AR Employment Security Division Form ESD-ARK-209B
Attachment R	IRS Forms W-2 , W-3 and Instructions
Attachment S	December 18, 2000 IRS Letter On Methods For Employer Agents To Refund Over Collected FICA To Employees And Employers
Attachment T	INS Form I-9: Employment Verification Form
Attachment U	AR Criminal Conviction Record Check Form
Attachment V	Back-up System Form
Attachment W	Personal Care Assistance Agreement

Note from HCBS: Attached Forms are either in Adobe.PDF or MS Word .doc format. There may be some forms or information missing from this section. We will attempt to add to report as we receive information.

**ARKANSAS DIVISION OF AGING AND ADULT SERVICES
INDEPENDENT CHOICES PROGRAM**

COUNSELING/FISCAL AGENCY (CFA) MID YEAR/ANNUAL REVIEW

STATE PREPARATION MANUAL

I. Purpose of the Counseling/Fiscal Agency (CFA) Mid-Year/Annual Review

The purpose of the Counseling/Fiscal Agency (CFA) Mid -Year/Annual Review is to determine whether the vendor selected by the Division is performing all the tasks necessary to act as a CFA in accordance with the its policies and procedures manual, federal and state rules and regulations, and its CFA contract with the State. The primary goal of the Review Team is to determine *how well* the vendor is performing the CFA functions. It should be noted that these Reviews do not constitute formal financial or program “audits.” However, a state program agency could use this protocol as the basis for developing a formal audit protocol for a CFA.

The primary objective of the Mid -Year Review is to determine if the CFA is conducting the day-to-day administrative and accounting/payroll/bill paying activities properly. Usually a Mid -Year Review is conducted during the first year of CFA operation to obtain a “quick check” on how well the CFA is performing the required tasks.

The primary objective of the Annual Review is to determine if the CFA is conducting the day-to-day administrative and accounting/payroll/bill paying activities properly but with an emphasis on end-of-year activities (e.g., filing of Forms W-2 and W-3, refunding over collected FICA and FUTA payments). After the first year of operation, the State may wish to only conduct Annual Reviews. Please note, the specific end-of-year tasks that should be reviewed by the Review Team during an Annual Review have been bolded in parenthesis on the Check List and so noted in this manual.

II. What are Counseling/Fiscal Agencies (CFAs)

The fiscal division of CFAs operate as household employer agents (or “agents”) under IRS Chapter 25; General Provisions Relating to Employment Taxes, Section 3504; Acts to Be Performed By Agents. CFAs that are vendor organizations operate under IRS Revenue Procedure 70-6 whereas, government entities operating as CFAs operate under IRS Revenue Procedure 80-4. A copy of the above mentioned documents are included in Attachment A of the CFA Initial Readiness Review State Preparation Manual. CFAs also provide counseling services through a separate division under the CFA organization.

Currently, there is no one cite where the IRS describes in depth how a household employer agent should perform the tasks associated with representing a consumer/household employer for federal tax purposes. However, there are a few citations throughout IRS code, notices, publications, forms and instructions where the IRS does describe the relevant policies and procedures to be used by agents. For example, IRS Notice 95-18, Question 5 clarifies how government and vendor organizations should report the wages for household employees. A copy of this Notice is included in Appendix B in the Attachments of the CFA Initial Readiness Review State Preparation Manual.

The January 2000 version of IRS Publication 15-A; Employer’s Supplemental Tax Guide has a Section 8: Special Rules for Paying Taxes; Reporting Agents, discusses some reporting procedures to be used by agents however, it is not comprehensive. It references the IRS Form 2678, the agent rules pertaining to the filing of

the IRS Form W-2, magnetic tape filing of Forms 940 and 941 and electronic filing of Form 941. The IRS Forms SS-4 and W-2 and W-3 have specific instructions for agent filing, whereas, the IRS Forms 940 and 941 do not. Thus, the policies and procedures for agents are not always clear and in many cases they are evolving. For example, no where in the IRS Code does it allow or prohibit employer agents from delegating some of their tasks (e.g., payroll function) to another entity (e.g., a payroll company that is a subcontractor to the CFA). In this case, we have had to craft a method that is logical and achieves tax payment compliance. However, new instructions issued by the IRS in the future related to employer agent policies and procedures could modify how this and other tasks are currently being conducted by employer agents and how they are described in this document. As long as federal and state tax compliance is being achieved, financial liability for the state, agent, individual and worker should be limited to none.

As of December 2001, IRS Central Office staff is preparing an information bulletin that hopefully will clarify a number of gray areas related to employer agent policies and procedures. In addition, IRS updates many of its forms and publications annually. Thus, individuals who staff an CFA Review Team must stay current with IRS employment tax rules pertaining to household employers and agents (CFAs) and modify any Review protocols and procedures as necessary.

III. Who Should Perform the CFA Mid-Year or Annual Review?

Program staff who is knowledgeable of the requirements of the CFA (e.g., the provisions of the RFP and the CFA contract) and familiar with federal and state income and employment tax and insurance requirements for domestic service employees and employer agents should be assigned to perform the Mid-Year or Annual Review. It is recommended that a two-person Review Team be formed and be responsible for conducting the Review. It would be advantageous if at least one person on the Review Team has some systems and finance/accounting knowledge. It is also recommended that a lead person be designated for each Review Team. This person will be responsible for conducting the entrance and exit conferences during the onsite visit, for fielding any questions from the CFA during or after the onsite visit and regarding Review findings. The lead person can be rotated between the members of the Review Team so each person gets the experience of leading a Review.

IV. How Long Should a Mid-Year or Annual Review Take?

It should take two to three days to complete the onsite visit component of a Mid-Year or Annual Review (depending on how well prepared the CFA and program agency staff is and how in depth the program agency wants the Review to be). It should take two days to write up the report including a summary of the Review findings. The CFA should be given at least a summary of the Review findings (and preferably the full report that includes a summary of the findings) as soon as possible so can develop and implement a plan of correction and address all outstanding issues as soon as possible.

V. Initiating a CFA Mid -Year or Annual Review

A. Notice of Onsite Visit Letter

The lead person on the Review Team should contact the CFA in writing informing them of the date and time of the onsite visit for either an CFA Mid-Year or Annual Review and what the CFA should prepare and/or

have available to the Review Team to review during the visit. Items that should be available include, but are not limited to:

- ❑ Policies and Procedures Manual that includes all required CFA functions and forms
- ❑ All program and consumer files and records to date
- ❑ All Federal and State tax filings and correspondence to date
- ❑ All payroll information prepared to date, including timesheets
- ❑ All reports generated for the State and consumers

The CFA should also be able to:

- ❑ Walk the Review Team through the policies and procedure for each required CFA functions
- ❑ Justify all information included on all federal and state tax forms filed and payrolls produced
- ❑ Demonstrate all required technologies including key information systems and accounting software programs (e.g., consumer accounts, payroll, payment of non-labor related invoices)
- ❑ Describe and demonstrate the features of the customer service system, record security and confidentiality system, disaster recovery system and any training and/or testing programs, as required

One option for the Division is to give the CFA a copy of the CFA Mid-Year/Annual Check List (See Attachment A) in advance of the onsite visit. This will provide the CFA with an outline of what they will be required to address during the onsite review.

The Review Team should work with CFA staff to determine a date and time for the Review that works for both parties. It is recommended that Mid-Year Reviews be conducted 30 days after the end of a federal and state tax filing quarter. Annual Reviews should be conducted in mid to late February or early March after all federal and state end-of-year activities have been completed and submitted by the CFA.

B. Section I: Entrance Conference and Initial Observations

The Review Team should always start a Mid -Year or Annual Review by conducting an Entrance Conference with CFA staff. It is important that at least one member of the CFA's executive staff be present along with key staff who are performing the CFA functions.

During the Entrance Conference, the lead person on the Review Team should:

- ❑ Introduce themselves and their role
- ❑ Thank CFA staff for their time and cooperation
- ❑ Introduce the members of the Review Team and CFA staff
- ❑ Provide CFA staff with an overview of the day's events

- ❑ Identify the CFA staff that the Review Team will be working with during the onsite visit and ask how the Team should reach them during the day
- ❑ Provide the CFA with a list of randomly selected and targeted consumers. The CFA should pull each participant's files for examination by the Review Team
- ❑ Remind CFA staff that the purpose of the Review is to see how things are going. "This is a collaborative effort"
- ❑ Inform the CFA that the Review Team will conduct an Exit Conference at the end of the onsite part of the Review to review any preliminary findings with CFA staff and to answer any questions CFA staff may have.
- ❑ Inform CFA staff that they will receive a copy of the report by a certain date (determined by the Review Team) and that they will be expected to develop and implement a plan of correction and address the issues to the satisfaction of the Division, based on the time frames established by the Division.
- ❑ Ask CFA staff what the most significant challenges have been for them in implementing the CFA function to date.
- ❑ Ask CFA staff if they have any questions or comments regarding the onsite visit, the Review or any other issues at this time.

Then the Review Team should review the findings of the Initial Readiness Review and any past Mid-Year and Annual Reviews with the CFA to determine if they have successfully addressed all outstanding issues. The results of the Review Team's review of the Initial Readiness Review findings should be documented.

The Review Team should also document any initial observations it may have at this point in the Review including completing the key information at the top of the Check List.

VI. Check List Instructions by Section

Attachment A includes the Mid-Year/Annual Review Check List. The Check List includes all of the tasks and issues that the Review Team should examine during the onsite visit. The Review Team should use the Check List during the onsite visit as an organizational guide, as a data collection tool and as the format for their report. An electronic copy of the Check List has been provided to the Division for the Review Team to use. The following provides a step by step approach for examining each of the items on the Check List by section.

A. CFA Information and Entrance Conference Sections

The information section at the top of the Check List and Section I, Entrance Conference Discussion and Initial Observations, should be completed during the Entrance Conference.

B. Section II: Status of Physical Plant, Equipment, Information Systems and Other Technologies

The purpose of this section is to determine if any changes have taken place related to these areas since the Initial Readiness Review, and if there have been changes, if the areas are still in accordance with the CFA's contract with the State. (Question II.1)

The Review Team should take a *walking tour* of the physical plant. This will allow the Review Team to observe not only the physical plant issues but how the operation and staff function.

Other issues the Review Team should review during the walking tour include:

- ❑ Can the physical plant adequately accommodate the number of staff who are currently performing the CFA function and the tasks that must be performed and over the period of the contract?
- ❑ Does the physical lay out make sense from an operations and management perspective (e.g., can the space accommodate secure files and are there places where consumers can discuss their issues private and/or attend educational sessions and/or take tests in a quiet place) for the current time period and for the duration of the contract (Question II.1)?
- ❑ Are all of the pieces of equipment as stated in the CFA's proposal and required by the State RFP/CFA contract purchased and in place (e.g., phones, faxes, computers, printers, copying machines) (Question II.1) for the current time period?
- ❑ Are all the information systems (e.g., hardware/software) purchased and in place (e.g., number and capability level of computers, software) as stated in the CFA's proposal and required by the State RFP/CFA contract for the current time period? (Question II.2)
- ❑ Are all other required technologies and accommodations arranged for and in place (e.g., toll free number, TDD line, answering machine, paging system, large print and foreign language capabilities) as stated in the CFA's proposal and required by the RFP/CFA for the current time period? (Question II.3)

The Review Team should use the Check List to document their findings. If the required items and functions are not in place, they should ask why and document any deficient areas and the reasons for any deficiencies.

C. Section III: Staffing

The Review Team should determine whether the level of counseling and fiscal staffing is appropriate for the current period of the contract per the CFA contract and that the CFA has a plan for recruiting the required and necessary staff throughout the contract period. Equally as important, the Review Team should determine if the staff presented at each job level is the same staff as was proposed in the CFA's proposal. If not, the Team should examine the new staff's resumes compared to the staff proposed by the CFA in its proposal to determine whether the replacement staff has comparable qualifications and experiences. In some cases, proposed staff may have to be replaced for legitimate reasons (e.g., staff left the organization after the proposal was submitted). However, the Review Team should be on the look out for any "baiting and switching" on the part of CFAs; for example, replacing more qualified and experienced staff described in the proposal with entry level less experienced staff.

Other issues the Review Team should examine should include, but are not limited to:

- ❑ CFA's entity's overall organizational chart and organizational chart for the CFA function; have any changes been made? Do the changes and current organizational charts make sense from an operational perspective for the current period? (Question III.1)
- ❑ Is the level of staffing (FTEs) and the key staff in place for the current period in accordance with the CFA contract? (Question III.2 and III.3) This includes any subcontractors that may have been proposed. Are they still on board? If not, why and is their replacement comparable to what was proposed?
- ❑ Has the CFA hired counselors who meet the minimum qualifications (degree in humanities and social sciences or a related field plus two years experience in social services or community work pertaining to adults with chronic conditions and disabilities or a related field. Other job related education and/or experience may be substituted for all or part of the basic requirements with approval from the Division? Is a minimum ratio of 75 participants to one counselor being maintained? (Question III.4)
- ❑ Regarding job descriptions for CFA staff, are they written for all positions and do they appropriately reflect the tasks that will be performed? Is there any unnecessary overlap or gaps in job functions? Do the job functions facilitate the implementation of internal controls related to the CFA functions when appropriate (i.e., proper segregation of duties - staff responsible for preparing checks for payroll and non labor related invoices are not responsible for reviewing these checks for accuracy and for signing them)? (Question III.5)
- ❑ Has the CFA conducted ongoing worker training that reflects the philosophy of participant-direction for all staff and as documented in the CFA's policies and procedures manual? In addition, is the CFA conducting this training and is counselor training occurring at least every 90 days? (Question III.6)
- ❑ Has the CFA experienced or foresee any challenges in recruiting staff in the future and how does the CFA plan to address these challenges? (Question III.7)
- ❑ Does the CFA have a plan in place for recruiting additional staff as needed throughout the balance of the CFA contract? (Question III.8)
- ❑ Is the CFA evaluating staff that perform CFA functions? (Question III.9)

In particular, the CFA should be evaluating counseling staff performance related to conducting the initial telephone contact and enrollment presentation.

D. Drawing a Random Sample of Consumer Files/Records for Examination

In order to assess many of the tasks performed by the CFA, the Review Team will need to draw a random sample of consumers served by the CFA during the period being reviewed. It is recommended that a 10 percent sample be drawn not to exceed 50 records. Examination of fifty consumer records, randomly selected, should be sufficient to pick up the majority of systematic errors/issues that may exist. The Review Team should request that the CFA provide a list of consumers who fall in the following categories:

- Enrolled in Option 1 and received their cash benefit directly
- Enrolled in Option 1 and have been trained
- Enrolled in Option 1 and tested
- Enrolled in Option 1 and had *Desk Reviews* conducted
- Consumers who have requested criminal background checks
- Consumers with workers who have received advanced federal earned income credit processed by the CFA
- Consumers with workers who have an judgements and garnishments and other holds placed on their payroll checks
- Option 1 and 2 consumers who enrolled with the CFA, received CFA services and then subsequently terminated their CFA services

At least one participant in each category listed above should be pulled and examined by the Review Team to determined if the CFA has been performing these and other related tasks in an accurate and timely manner. The CFA should not know the records ultimately selected by for the Review until it is told by the Review Team to pull the records at the Entrance Conference.

E. Section IV: CFA Administration

- An accurate and complete policies and procedures manual is the key to a successful CFA. Therefore, it is important that the Review Team determine whether the CFA’s policy and planning manual (Question IV.1):
 - Addresses all of the CFA tasks
 - Contains all relevant forms (blank or completed as examples)
 - Contains the CFA’s Quality Management Plan (QMP)
 - Is organized in a logical and user friendly manner
 - Has been reviewed and approved by the Division (Question IV.1a)
- The Division historically has required CFAs to also prepare a Quality Management Plan (QMP) (Question IV.2). It should be included in the CFA’s policies and procedures manual. In addition, the CFA’s policy and procedures manual should be updated for the current year.
- Has the CFA implemented its disaster recovery plan? If yes, was it able to recover all information? (Questions IV.3 and IV.3a)
- Record confidentiality must be adequately maintained by the CFA. Is the CFA doing this? (Question IV.4) Can the CFA ensure that access to Medicaid information is limited to the counseling and fiscal staff with the CFA and that it is taking measures to prudently safeguard and protect unauthorized disclosure of the Medicaid information in its possession? (Question IV.4a)
- It is also important that the CFA is storing current and archived program records in a secure location. (Question IV.5 and 5a) Security pertaining to storing archived program records is sometimes overlooked by CFAs.
- Has the CFA convened the IndependentChoices Advisory Counsel? Does it contain the required membership (50% individuals and elders with disabilities and the rest family members, interested parties and Division staff). (Question IV.6)

- ❑ Is the CFA providing information regarding financial activities performed, payroll checks processed, bank balances and a skills training schedule for Option 1 and 2 participants within five days of the request or at least monthly? (Question IV.7)
- ❑ Is the CFA preparing and distributing complete and accurate quarterly reports (that include the items listed on the Check List) to the Division within 15 calendar days after the end of the quarter either electronically, fax or mail? (Question IV.8)

In general, reports generated by CFAs for participants have been problematic. Often if the report is timely it tends not to be accurate. In addition, when the report is accurate it tends to be out dated. Finally, CFAs have had difficulty generating participant reports that present the essential information in a user-friendly format.

- ❑ Is the CFA transmitting data to the Division in the established format (Microsoft WORD Table-latest version)? (Question IV.9)
- ❑ Is the counseling and fiscal divisions of the CFA communicating effectively?

It is very important that the counseling and fiscal divisions be communicating effectively. The Review Team needs to determine if this is happening. (Question IV.10)

- ❑ Has the CFA provided any ad hoc reports to the Division based on a request and/or has it gathered information required by Mathematica? If yes, was it done in an efficient, effective and timely manner? (Question IV.11)
- ❑ Is the CFA maintaining other records and information required by the DHS and the Division and are the records and information available for immediate review by the Division? (Question IV.12)

F. Section V: Customer Service System

An effective customer service system has been found to be essential in developing an effective participant-directed support service programs. The Team should have the CFA walk through its entire customer service system and demonstrate that it is performing all required functions. Essential elements required by the Division, timeliness, courtesy and the appropriate application of participant-directed principles should be stressed. (Questions V. 1- 8)

G. Section VI. Counseling Services

Counseling services that effectively reflect the philosophy of participant-direction are key to implementing an effective participant-directed support service program. The Review Team should review how well the counseling staff is performing all required counseling services to make sure that the CFA meets the Divisions' requirements. (Questions VI. 1- 13)

H. Section VII: Training, Evaluation and Monitoring the Progress of Participants

Training

- ❑ Skills training curricula and manuals for Option 1 participants should ensure that participants' knowledge and capabilities are sufficient to perform all employer-related activities. (Question VII.1)
- ❑ Training for Option 1 participants should be available on a one-to-one-basis and reflect the philosophy of participant-direction. (Question VII.2)
- ❑ Materials and/or manuals should be available to participants within 15 days of their being selected to the Treatment Group. (Question VII.3)
- ❑ The CFA should be orienting all participants/representatives about the program and participant-direction including their, the CFA and Division's roles and responsibilities, their risks. The orientation should be conducted in a manner that reflects the philosophy of participant-direction. Is this happening? (Question VII.4)

The Review Team should obtain a copy of the training and orientation curricula and manuals for review if it has changed from the most recent version the Review Team has in house.

Evaluation

- ❑ Is the CFA assessing the level of participant/representative understanding of information relayed during orientation and training sessions. (Questions VII.1 and 2)
- ❑ Is the CFA submitting written recommendations to the Division regarding the participants'/representatives' ability to accomplish the required program-related tasks? (Question VII.3)
- ❑ Is the CFA evaluating all of its training materials and sessions, in particular its protocol for conducting initial telephone contacts with participants and its enrollment presentation? (Question VIII.4) The CFA should be evaluating its training materials and sessions for content, effectiveness and for whether they were conducted in a manner that reflects the philosophy of participant-direction.

Monitoring

- ❑ Is the CFA monitoring Option 1 participants' performance in conducting employer-related tasks, in particular, fiscal and payroll on an ongoing basis, is the monitoring effective and does it reflect the philosophy of participant-direction. (Question VII.1)

The Option 1 participant or representative will be filing an IRS Schedule H rather than an IRS Form 940 and 941 for the purpose of filing and paying federal income and FICA and FUTA taxes for his or her worker. The protocol for payroll should be based on IRS Publication 926; Household Employer Guide (See Attachment D in the Readiness Review Attachments) using the IRS Schedule H and state income and employment tax filing and depositing forms and procedures for domestic service employers.

- ❑ Is the CFA monitoring the progress of all program participants effectively and in a manner that reflects the philosophy of participant-direction. (Question VI.13)

I. Section VIII: State and Federal Requirements to Be a CFA

There are a number of federal and state requirements that an organization must meet to become a CFA in Arkansas. During the Review, the Review Team must determine if the CFA is completing them accurately and in a timely. Requirements for the Review Team to examine include:

- Is the CFA enrolled with the Arkansas Medicaid Program as a Medicaid provider? (Question VIII.1)

If this requirement has not been met by the first Mid-year CFA Review, it could be grounds for the Division to terminate its contract with the CFA since it can not receive participants' grant funds without being enrolled as a Medicaid provider.

- Has the CFA filed for (using the IRS Form SS-4) and obtained a separate federal employer identification number (FEIN) for the sole purpose of filing federal employment tax forms for Option 2 participants? (Question VIII.2)

If this requirement has not been met by the first Mid-year CFA Review, it could be grounds for the Division to terminate its contract with the CFA since the CFA can not process payroll for Option 2 participants without a separate FEIN.

- Is the CFA completing and filing the IRS Form 2848 accurately and within 10 business days of a participant enrolling in Option 2 (Question VIII.3)

The Reviewer should note the following when reviewing completed IRS Forms 2848 for the random sample of participants selected:

- Line 2 should include a person's name not just the name of the CFA. The best person to list according to the IRS would be the person in charge of the fiscal tasks for the CFA,
- The CAF number on Line 2 of the form should state "none" unless for some reason the CFA has already been assigned a CAF number for another reason.
- The type of taxes reported in Line 3 column one should be "employment." The Tax Form Numbers reported in Line 3 column two should be related to employment tax filings (IRS Forms 940, 941, 940(c), 941(c), 843, W-2, W-3, SS-4, 2678).
- Item H should be checked
- The year(s) or period(s) reported in Line 3 column three should include the applicable tax quarters of the relevant tax years from the time the participant enters the program and is served by the CFA through a period not more than three years after the date that the Form 2848 is received by the IRS. The CFA may list any prior years and/or periods but for future periods it is limited to the three future periods described above.
- Line 4 should be checked since the CFA will be using the Form 2848 to file with the participant's IRS Form SS-4 to get his or her FEIN on his or her behalf and to possibly file the IRS Form 843 on behalf of participants, when necessary.

- Under Part II CFA should enter “H” in the Designation column and “AR” in the Jurisdiction column.
- The Form 2848 expires three years from the date it is received by the IRS. Is the CFA tracking participants’ IRS Forms 2848 expiration dates and is the CFA renewing the forms in a timely manner when they expire? (Questions VIII.4 and VIII.5)
- Is the CFA preparing and filing AR Limited Power of Attorney forms for Option 2 participants within 10 business days of enrolling in Option 2 (Question VIII.6)
- The IRS Form SS-4 must be filed to obtain an FEIN for household employers. The CFA can do this on behalf of Option 2 participants it represents as long the participants’ IRS Forms SS-4 are filed with their completed, signed IRS Form 2848. Is the CFA preparing and filing IRS Forms SS-4 with the corresponding IRS Forms 2848 and obtaining FEINs for Option 2 participants within 10 business days of participants’ enrolling in Option 2 (Question VIII.7).
- The IRS Form 2678; Employer Appointment of Agent is the form that, when completed, signed and filed, notifies the IRS that the Option 2 participant has appointed the CFA to be his/her household employer agent. When filing the IRS Forms 2678, the forms can be submitted individually or batched, however, they must always be accompanied by a letter to the IRS requesting to be the IRS employer agent for the participant(s) noted on the IRS Forms 2678 being submitted. The letter must request authority to do all that is required of the employer for wages the CFA pays on the employer’s behalf per the instructions box on the IRS Form 2678. The CFA also must notify the IRS when it no longer represents a consumer as his/her agent for any reason per Rev. Proc. 70-6.
 - Is the CFA preparing and filing IRS Forms 2678 along with request for approval to be an employer agent letters on behalf of Option 2 participants accurately within 10 business days of a participant enrolling in Option 2? (Question VIII.8)
 - Is the CFA tracking those IRS approvals received and following-up with the IRS when approvals have not been received after a designated period of time (e.g., 30 days)? (Question VIII.8a)
 - Is the CFA notifying the IRS when it is no longer represents an Option 2 participant as his/her CFA/employer agent and tracking all correspondence? (Question VIII.9)
 - Does the CFA have a form letter prepared (per IRS Rev. Proc. 70-6), a system developed and a written policy and procedure for notifying the IRS when it no longer represents a participant as his/her employer agent/CFA and for maintaining this information in the participant’s file? (Question VII.9)
- The AR Form AR4ER: AR Department of Finance and Administration Withholding Registration, must be filed by the CFA for each Option 2 participant in order to obtain a state income tax identification number for participants. Is the CFA doing this in an accurate and timely manner? (Question VIII.10)

- ❑ The ESD-ARK-201: AR Employment and Security Division's Status Report must be filed by the CFA for each participant in order to obtain state unemployment insurance identification numbers for Option 2 participants. Is the CFA doing this in an accurate and timely manner? (Question VIII.11)

The Review Team should review the relevant language in the CFA's policies and procedures manual for accuracy and completeness and make sure that the methods used to complete all required forms is correct.

J. Section IX: Participant Manual and Participant Enrollment and Worker Application Packages

- ❑ The CFA should have prepared and distributed the appropriate orientation/training manuals to Option 1 and 2 participants/representatives in a timely manner, that are user-friendly, that reflect the philosophy of participant-direction and are available in alternative formats. (Question IX.1) The CFA should have also prepared, distributed, collected and processed participant enrollment and worker application packages for Option 1 and 2 participants/representatives. The Review Team should make sure that the packages include all of the required materials as listed on the Check List, that the completed forms are obtained and processed and copies are in participant and worker files for the random sample of participants selected by the Review Team for the Review. (Questions IX.2-7)

I. Section X: Operations Tasks

The Review Team will need to have the CFA walk the Team through each of the Operations Tasks and how forms were completed for the period being reviewed. This includes having the CFA show how source data and information was used to complete all forms. (Question X.1)

- ❑ Obtaining Option 1 and 2 participants' grant funds monthly from the State via electronic transfers

The CFA should be able to walk the Review Team through the process including documenting the date each transfer took place. The CFA should also discuss any issues it may be experiencing related to delays in receiving these funds from the State. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Determining Option 1 and 2 participants' cash allowance based on the plan of care hours

The CFA should be able to walk the Review Team through the process including notifying the Division for review and approval when a participant's plan hours increase 10 percent or more as a result of a reassessment.

- ❑ Notifying the Division within 10 calendar days if an Option 1 or 2 participants' cash allowance changes

The CFA should be able to walk the Review Team through the process and discuss how frequently this is occurring.

- ❑ Disbursing and tracking grant funds transferred to Option 1 participants

The CFA should be able to walk the Review Team through the process and show the

Team that all transactions can be accounted for and balances are accurate by participant and in the aggregate. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Establishing, maintaining and tracking Option 1 and 2 participants' accounts including any savings and earned interest

The Review Team should be able to walk the Review Team through the process.

- Does the method used easily identify each participant's benefit amounts (including tracking any interest income earned)?
- Does the method used not cause a participant to appear to have accumulated funds that might be considered income and/or assets that might jeopardize a participant's eligibility for this or other publicly-funded programs (i.e., set up a master account)?

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Tracking the "Pot of Gold" (POG) effectively

Historically, CFAs have had difficulty doing this. The Division needs have the CFA walk the Team through the process they are using and demonstrate the level of accuracy. The Division also needs to decide whether it wants to continue using this method or retire it.

- Establishing and maintaining Option 1 participants' files/records
- Establishing and maintaining Option 2 participants and workers' files/records

The Review Team should make sure that each system is logical and facilitates the proper management and auditing of all required forms and documents as listed on the Check List. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- How has the CFA addressed the issues of file size and converting files into a new calendar year?
- What process is the process used to close out files when a participant leaves the program for whatever reason?
- Does the CFA have sufficient secure space to store files for participants who have left the program and prior year participant files for the required time period?
- Conducting criminal background checks for Option 1 and Option 2 participants' workers upon request from the participant

The CFA should walk the Review Team through the process and present any examples of criminal background checks conducted to date.

- Is the CFA conducting criminal background checks using a consistent protocol and the State Criminal Conviction Record Check Form?
- How is the CFA distributing, maintaining and discarding criminal background information?

Criminal background information should be kept confidential and secure. It should be accessed only by the participant/representative and CFA staff on a need to know basis. It should be noted that few participants have requested criminal background checks.

- Collecting, verifying and maintaining workers' timesheets for Option 2 participants

The CFA should walk the Review Team through the process. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review. Key issues to be reviewed include:

- Are the forms completed accurately and signed by the appropriate people?
 - Are the hours reported on the timesheet in line with the approved hours in the CMP?
 - Can all timesheets be accounted for in the participants' files?
- Verifying that workers' hourly wage for regular and overtime hours are in compliance with federal and state DoL Wage and Hour rules for domestic service workers

The CFA should walk the Review Team through the process it uses to verify that workers' hourly wage for regular and overtime hours are in compliance with federal and state DoL Wage and Hour rules for domestic service workers including the companionship and live-in exemptions. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Computing, withholding, filing, depositing and tracking federal income taxes for Option 2 participants

The CFA should walk the Review Team through the process. This task should be performed per IRS withholding, filing and depositing rules. It should be noted that the Division has decided to have the CFA perform this function for all workers even though it is technically an option for household employees and their employers. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Computing, withholding and filing Social Security and Medicare taxes (FICA) in the aggregate quarterly in accordance with IRS Form 941 rules for employer agents and depositing FICA taxes in accordance with IRS depositing rules

The CFA should walk the Review Team through the process used to file FICA for Option 2 participants and the related data used for the time specific period being reviewed (**and for all four quarter filings at the annual review**).

The CFA should be using the IRS Form 941, the CFA's separate FEIN and filing in the aggregate for all participants represented by the CFA during each quarter. The CFA should also be adjusting the IRS Form 941, using an IRS Form 941(c), when appropriate, in particular, when making adjustments for over collected FICA.

The CFA must be able to ensure that it is not withholding FICA taxes on any family members who are providing paid support to the consumer but are exempt from paying FICA (See Attachment Z in the CFA Initial Readiness Review Manual attachments). According to the IRS and the Social Security Administration, parents employed by children and spouses employed by spouses, who do not provide support services as a formal business, are exempt from and are not allowed to pay into FICA.

FICA taxes should be deposited at a frequency based on the size of Option 2 participant's deposits in the aggregate and in accordance with IRS depositing instructions (e.g., next day, semiweekly, monthly). The CFA should be able to demonstrate the depositing schedule used.

- ❑ Computing, withholding, filing, depositing and tracking federal unemployment tax (FUTA) in accordance with IRS Form 940 annual filing and employer agent rules and IRS depositing rules for Option 2 participants

This is an annual review activity. The CFA should be able to demonstrate that it is filing FUTA taxes using its separate FEIN and in the aggregate annually. The CFA should also be able to walk the Review Team through the process of preparing the Form and the data used to complete it.

Some CFAs may wish to use the IRS Form 940 EZ to file FUTA on behalf of the participants it represents. One problem is that on line B at the top of the Form 940EZ asks for the state unemployment tax identification number. Many states do not require CFAs to get a separate state unemployment tax identification number even though the participants do get one. States also require that CFAs file individually rather than in the aggregate for the participants' they represent. The IRS has advised CFAs to use the IRS Form 940 since it does not ask for a state tax identification number. However, some CFAs have filed IRS Forms 940EZ by putting "Household Employer Agent" in line B with good success.

The CFA must be able to ensure that it is not withholding FUTA taxes on any family members who are providing paid support to the consumer but are exempt from paying FUTA (See Attachment Z in the CFA Initial Readiness Review Manual attachments). According to the IRS and the Social Security Administration, parents employed by children and spouses employed by spouses, who do not provide support services as a formal business, are exempt from and are not allowed to pay into FUTA.

FUTA taxes are deposited at a frequency based on the size of Option 2 participants' deposits in the aggregate and in accordance with IRS depositing instructions. The CFA should be able to demonstrate that it is depositing FUTA taxes in accordance with IRS depositing rules.

- ❑ Processing and tracking federal advanced earned income credit as requested by qualifying workers per IRS instructions for Option 2 participants

Only workers who complete and submit an IRS Form W-5 to the CFA and are eligible to receive advanced earned income credit should be processed. This function will be used infrequently but the CFA should demonstrate the process it uses to process federal EIC and make available any examples of performing this function for review by the Team.

- ❑ Computing, withholding, filing, depositing and tracking state income taxes (AR Form 941A) for Option 2 participants

The CFA should be completing this task using the AR Form 941A and in accordance with Department of Finance and Administration rules for Option 2 participants. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review. **A review of all four quarterly filings is an annual review activity.**

- ❑ Computing, withholding, filing, depositing and tracking state unemployment taxes in accordance with AR Employment and Security Division rules for Option 2 participants (Form ESD-ARK-209B)

The CFA should be completing this task per AR Employment and Security Division rules. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Preparing and distributing workers' payroll checks including a pay stub that reports hours worked, gross wages, withholding by type, and next salary for the current pay period and year to date for Option 2 participants

The CFA should be able walk the Review Team through the process. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Processing direct deposits of paychecks for Option 2 participants' workers upon request

The CFA should be able to walk the Review Team through the process. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Processing all judgements, garnishments, tax levies or any related holds on workers' pay as may be required by local, state and/or federal laws

This happens infrequently but the CFA should be able to walk the Review Team through the process. It should also be able to show the Review Team any examples where this task has been conducted.

- ❑ Generating out-of-cycle payments to workers and vendors

The CFA should be able to walk the Review Team through the process and demonstrate any examples of when out of cycle payments have been made (for the current period of any since the beginning of the program that have not been reviewed by the Review Team at previous Reviews).

- Processing, issuing and tracking the payment of cash amounts to Option 2 participants upon request up to twice a month and up to 10 percent of a participant's monthly benefit.

The CFA should be able to walk the Review Team through the process and be able to address the following issues:

- Can requests be made by phone?
- How is the CFA confirming that the person on the phone is the participant or a person eligible to make the request (e.g., representative) and that the funds are available to be distributed?
- Have the requests met the requirements of up to twice a month and for up to 10 percent of a participant's benefit?

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Preparing and issuing annual IRS Forms W-2 and W-3 in accordance with IRS instructions for agents

This is an annual review activity. The IRS instructions for agents under the section entitled: *Special Reporting Situations for Form W-2; Agent Reporting*, describe how agents should complete the IRS Forms W-2 and W-3 including where the agent's FEIN and the participant's FEIN should be reported on the IRS Forms W-2 and W-3. The CFA should be completing IRS Forms W-2 per IRS rules for agents.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

Please note the following regarding the completion of the IRS Form W-3. Boxes f and g (Employers name and address) should be completed in the same manner as they were filled out on the IRS Form W-2. In addition, the instructions for agents state that box e (Employer Identification Number) should be completed with the agent's separate FEIN and box h (Other EIN used this year) should be completed with the consumer's FEIN. Since the agent does not have a state ID number, the agent should complete this box 15 with the consumer's state ID number. Then the agent should attach a letter stating how it has completed these boxes, in accordance with IRS agent instructions, so there will be not confusion on the part of IRS. This is an area that needs to be further clarified by the IRS in the future.

- Refunding Option 2 participants' workers for the employee portion of over collected FICA taxes (employee's contribution) when the worker has not earned the threshold wage amount for paying FICA in the applicable calendar year

This is an annual review activity. The CFA should be performing the task in accordance with the December 18, 2000 letter from Marie Cashman at the IRS. The CFA should only be disbursing refunds to employees that it has a valid contact for (either the

person or his/her estate). In addition, no refund should be issued to employees unless the CFA has a valid contact for the employee or his/her estate.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Refunding Option 2 participants for over collected FICA taxes (employer's contribution) when the participants workers have not earned the threshold wage amount for paying FICA in the applicable calendar year

This is an annual review activity. The CFA should be performing the task in accordance with the December 18, 2000 letter from Marie Cashman at the IRS. The CFA should only be disbursing refunds to employers that it has a valid contact for (either the person or his/her estate). In addition, no refund should be issued to participant-employers unless the CFA has a valid contact for the employee or his/her estate.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Refunding Option 2 participant for over collected FUTA when the participant's workers in the aggregate do not earn the threshold amount for paying FUTA in the current or previous year

Over collected FUTA taxes is a challenge to track and refund because the wage threshold applies to the current and the preceding calendar years. For example:

- An employer meets the FUTA threshold in the preceding calendar year but not in the current calendar year, he/she has to pay into FUTA for current calendar year
- An employer does not meet the FUTA threshold in the preceding year but meets FUTA threshold in current calendar year, he or she has to pay FUTA for the current year
- An employer does not meet the FUTA threshold in the previous or current year, he/she does not have to pay FUTA in current year
- An employer did not have workers in the preceding year and did not meet the FUTA threshold in the current year, he/she does not have to pay FUTA in the current year

Because the CFA is required to file in the aggregate, the size of the withholding may require the agent to deposit more frequently than annually. The CFA should be able to demonstrate how it tracks any over collections of FUTA and how it makes and documents the necessary adjustments and refunds. It should only be making refunds to participant-employers that the CFA has valid contacts for (either the person or his/her estate). **This is an annual review activity.**

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Processing and paying non-labor related invoices for Option 2 participants

The CFA should be able to demonstrate the process it uses to pay non-labor related invoices for Option 2 participants using a segregation of duties approach. The approach should have different people receiving and reviewing the invoice compared to the participant's Cash Management Plan (CMP), preparing the check and reviewing and signing the check. Payment of all non-labor related invoices should be in compliance with the participant's CMP.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Invoicing the State for CFA serviced rendered

The CFA should be able to walk the Review Team through the process. It should be in compliance with Division requirements.

- Identifying and documenting the misuse or misappropriation of participants' cash allowance, when applicable

The CFA should be able to walk the Review Team through the process.

J. Section X: Internal Controls

The purpose of establishing internal controls is to develop a system of checks and balances that verifies that the CFA functions are being performed in an accurate, complete and timely manner. There is no one method for doing this. It is up to the CFA to determine how it develops its internal control procedures for the CFA tasks. However, the CFA should have developed internal controls at least for the items listed below. At the Review, the CFA should be able to describe how each internal control developed is being used and how it can verify that the task is being performed in an accurate, complete and timely manner. (Question X.1).

- Monitoring its customer service system for effectiveness

Developing an effective and efficient customer service system has been a challenge for CFAs. The CFA should be able to walk the Review Team through the process. Issues that should be addressed for this internal control should include, at a minimum:

- How is a participant call processed? Level of courtesy and responsiveness?
 - How frequently is the voice messaging option being used during business hours?
 - How quickly are program related and participant calls returned that are received during and after business hours?
 - How quickly and effectively are participant issues resolved?
 - How quickly can interpreter services be available?
 - How quickly can alternative formats be provided?
 - How is participant and representative satisfaction being measured and monitored?
- Monitoring its counseling services for effectiveness
 - Monitoring its participant training, evaluation and monitoring system

The CFA should be able to walk the Review Team through the process. The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Maintaining the accuracy and currency of Option 1 participants' files/records
- Maintaining the accuracy and currency of Option 2 participants' and workers files/records

The CFA should have an internal control documented for "auditing" Option 1 and 2 participant and worker files for accuracy and currency and should be able to walk the Review Team through the process. One method could be for the CFA to conduct a file review of a certain percentage of files each month on a rotating basis so that all files are reviewed at least once annually (or more frequently depending on total volume and error rate).

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Filing and maintaining IRS Form 2678 and Request for Approval Letter, the receipt of IRS approvals, and contacting the IRS when the CFA is no longer the employer agent for each Option 2 participant.

The CFA should be able to demonstrate how the internal control used ensures that these tasks are consistently completed in an accurate and timely manner.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Has the IRS Form 2678 been completed correctly and is there a copy in the participant's file?
 - Is there a copy of the IRS Request for Approval Letter filed with the IRS Form 2678 in the participant's file?
 - How is the CFA tracking the submission of IRS Forms 2678 and approval letters?
 - Is there a copy of the IRS approval in the participant's file?
 - How is the CFA tracking the receipt of IRS approvals?
 - How is the CFA following up on pending/outstanding IRS approvals?
 - When the CFA is no longer the employer agent for a participant, has a notification letter been sent to the IRS per IRS Rev Proc 70-6?
 - How is the CFA tracking these notifications?
 - Is there a copy of the notification letter in the participant's file?
 - Is there a copy of the IRS' reply to the notification letter in the file?
 - Is the CFA tracking the receipt of IRS replies to notification letters and those pending/outstanding?
- Filing the IRS Forms SS-4 and obtaining and maintaining a copy of the IRS Form SS-4 and FEIN for each Option 2 participant

The CFA should be able to demonstrate how the internal control ensures the following:

- The IRS Form SS-4 been completed correctly and is there a copy in the participant's file?
- There is a copy of the participant's IRS FEIN notification letter in the participant's file?
- The CFA tracking the filing of IRS Forms SS-4 and the receipt of FEINs for participants?

- ❑ Filing the IRS Form 2848 for each Option 2 participant and tracking expiration dates and processing renewals per IRS instructions

The CFA should be able to demonstrate how the internal control ensures that these tasks are consistently completed in an accurate and timely manner.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Making sure that INS Forms I-9 are completed correctly and maintained in each worker's file for Option 2 participants.

The CFA should have a system in place and an internal control documented for making sure that INS Forms I-9 are completed correctly and maintained in each worker's file for Option 2 participants. The CFA must make sure that all pertinent sections of the form are completed. For example, even if the CFA takes a copy of the verification documents (e.g., license or passport) the information from the documents should be completed in Section 2 of the form. In addition, the CFA must make sure that the Certification part of Section 2 is consistently completed and signed. Attachment T includes a copy of the INS Form I-9.

- ❑ Filing the Form ESD-ARK-201 and obtaining and maintaining a copy of the form and the participant's state unemployment insurance identification number for each Option 2 participant

The CFA should be able to demonstrate that the internal control ensures the following:

- The Form has been completed correctly and filed for each Option 2 participant per instructions AR Employment Security Division rules.
- A copy of the completed Form is in the participant's file.
- A copy of the state unemployment insurance identification number notice is in the participant's file.
- The system that the CFA is using to track the filing of the Form and the receipt of participants' state unemployment insurance identification numbers is effective.
- The system used by the CFA to notify the State Employment Security Division when a participant is no longer an employer in order to "retire" his or her state unemployment insurance identification number is effective.
- The CFA is tracking participants' status regarding the receipt and retirement of state unemployment insurance identification numbers.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Filing the Form AR4ER and obtaining and maintaining a copy of the form and the participant's state income tax registration number for each Option 2 participant

The CFA should be able to demonstrate that the internal control ensures the following:

- The Form has been completed correctly and filed for each Option 2 participant per AR Department of Finance and Administration rules.
 - A copy of the completed Form is in the participant's file.
 - A copy of the state income tax registration number notice is in the participant's file.
 - The system that the CFA is using to track the filing of the Form and the receipt of participants' state income tax registration numbers is effective.
 - The system used by the CFA to notify the AR Department of Finance and Administration when a participant is no longer an employer in order to "retire" his or her state unemployment insurance registration number is effective.
 - The CFA is tracking participants' status regarding the receipt and retirement of state income tax registration numbers.
- Filing the AR Limited Power of Attorney Form and maintaining a copy of the Form for each Option 2 participant

How does the CFA's internal control ensure that a copy of completed and signed the AR Limited Power of Attorney is in each Option 2 participant's file and that it is updated as necessary?

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Tracking and maintaining criminal background check information on potential workers for participants that request them
- How does the CFA's internal control ensure the proper tracking, maintenance and confidentiality of criminal background information (e.g., limiting access to the participant/representative requesting it and CFA staff on a need to know basis)?
 - How does the CFA monitor the discarding of criminal background information.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Tracking and maintaining records on Option 1 participants who have been evaluated for their ability to perform the employer-related tasks, (including fiscal and payroll) and the results of the evaluation

The CFA should be able to demonstrate how the internal control ensures that these tasks are consistently completed in an accurate and timely manner.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Tracking and maintaining records on CFA's evaluations of Option 1 participants' performance in managing the employer-related tasks (including fiscal and payroll) on an ongoing basis

The CFA should be able to demonstrate how the internal control ensures, at a minimum, the following:

- The system developed and documented for the ongoing evaluation process being applied completely and consistently/
 - There a system for tracking the results and any corrective action in a complete and consistent manner.
- ❑ Reconciling and tracking monthly cash grant distributions with any remaining liability
 - ❑ Reconciling and tracking monthly cash grant distributions by participant's enrollment status (e.g., after randomization to the treatment group, enrolled or not enrolled)
 - ❑ Reconciling and tracking monthly cash distributions when a participant disenrolls from the program

The CFA should be able to demonstrate how the internal control ensures that these tasks are consistently completed in an accurate and timely manner.

One suggested method for developing internal controls for these tasks might be to create monthly cash summaries and reconcile them with state disbursements and participant account balances for the three scenarios. It should be noted, however, the first and second tasks may not be applicable once the Demonstration Grant is over.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling and tracking Option 2 participants' request for cash up to twice a month and up to 10 percent of a participant's monthly benefit

The CFA's internal control for this task should include a cross-check for the various functions (e.g., reasonable segregation of duties). For example there should be a separate person in charge of the following activities:

- Taking the check request
- Processing the check request
- Approving and signing the check
- Does the request exceed any limits per Division rules or the participant's CMP?

The Review Team should examine how the internal control ensures that requests are processed per Division rules (twice per month and up to 10 percent of a participant's monthly benefit) for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling the "Pot of Gold" (POG)

CFAs have had difficulty developing and implementing internal controls that effectively track the use and balance of the POG. The CFA should be able to demonstrate how its internal control ensures that the POG is being reconciled accurately. The Division may want to consider retiring the concept of the POG.

- ❑ Reconciling and tracking time sheets for Option 2 participants' workers

The CFA should be able to walk the Review Team through the internal control process for this task. What is the mechanism that the CFA is using to verify that participants do not submit timesheets for more hours than have been approved in the participants' CMPs?

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling and tracking wage rates paid for regular and overtime pay to Option 2 participants' workers to make sure that wages paid in compliance with federal and state DoL Wage and Hour rules for domestic service workers.

The CFA's internal control should ensure that all Option 2 participants' workers are paid hourly wages in accordance with federal and state DoL Wage and Hour domestic service worker rules including the companionship and live-in exemptions.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling and tracking federal income taxes withheld and deposited for Option 2 participants
- ❑ Reconciling and tracking state income taxes withheld and deposited for Option 2 participants

The CFA should be able to walk the Review Team through the internal review process for this task. One method that may be used by the CFA is to reconcile federal and state income taxes withheld, filed (using the AR Form 941A) and deposited with monthly payroll summaries and deposit documentation.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling and tracking the amount of federal employment taxes (IRS Form 941 for FICA and IRS Form 940 or 940 EZ for FUTA) withheld, filed and deposited.

The CFA should be able to walk the Review Team through the internal review process for this task. One method the CFA that may be used by the CFA is to reconcile federal employment (FICA and FUTA) taxes withheld, filed and deposited with monthly payroll summaries and deposit documentation. **This is an annual review activity.**

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling and tracking state unemployment taxes withheld, filed (Form ESD-ARK-209B) and deposited for Option 2 participants

The CFA should be able to walk the Review Team through the internal review process

for this task. One method the CFA that may be used to reconcile state employment taxes withheld, filed and deposited is with monthly payroll summaries, state forms and deposit documentation.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling and tracking all judgements, garnishments, tax levies or any related holds on workers' pay as may be required by local, state and/or federal law for Option 2 participants

This does not happen with great frequency but the CFA should have an internal control to verify that the task is being performed in an accurate, complete and timely manner.

- ❑ Reconciling and maintaining payroll checks and summary stubs for Option 2 participants' workers

The internal control being used by the CFA should reflect a reasonable segregation of duties (e.g., the person who prepares the check should not be the same person who reviews and signs the check). Optimally, two different people should perform these functions.

- ❑ Tracking direct deposits of Option 2 participants' workers' who request it

The internal control being used by the CFA should verify the timeliness and accuracy of this depositing method, any error rates and/or deposit delays and the reasons why.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling and tracking federal advanced earned income tax payments processed for Option 2 participants' workers

The internal control used by the CFA should verify that the task is being performed in an accurate, complete and timely manner.

- ❑ Reconciling information on workers' annual IRS Forms W-2 and tracking that the forms were filed timely for Option 2 participants

This is an annual review activity. The CFA should be able to walk the Review Team through the internal control process for this task. One possible method for reconciling the information contained on workers' IRS Forms W-2 is with monthly and annual payroll summaries prepared by the CFA. The CFA should also have a tracking system in place that describes when the IRS Forms W-2 were sent to the appropriate parties. What process was followed when IRS Forms W-2 were returned to the CFA unopened? Was there any instances where a worker did not qualify to receive a W-2 (i.e., had not state or federal withholdings in the calendar year)?

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- ❑ Reconciling information on Option 2 participants' annual IRS Forms W-3 and tracking that the forms were filed timely

This is an annual review activity. Information reported on the IRS Form W-3 can also be reconciled using monthly and annual payroll summaries. The CFA should also be able to track when all IRS Forms W-3 were sent to the appropriate parties. What process was followed when IRS Forms W-3 were returned to the CFA unopened?

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Reconciling and tracking refunds of over collected FICA (employees' contributions) to Option 2 participants' workers who did not earn the FICA wage threshold in the appropriate calendar year

This is an annual review activity. The CFA should be able to walk the Review Team through the internal control process for this task. One possible method for verifying the accuracy of amount determined, the appropriateness of the IRS refunding method used, the timeliness of the refunds and the documentation related to the date and amount of the refund received by each eligible worker. No refund should be issued to an employee unless the CFA has a valid contact for the employee or his/her estate.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Reconciling and tracking refunds of over collected FICA (employers' contributions) to Option 2 participants for workers who did not earn the FICA wage threshold in the appropriate calendar year

This is an annual review activity. The CFA should be able to walk the Review Team through the internal control process for this task. One possible method for verifying the accuracy of amounts determined is with payroll summaries. One possible method for verifying the appropriateness of the IRS refunding method used is with the December 18, 2001 Marie Cashman IRS Letter (see Attachment S in Initial Readiness Review Manual). No refund should be issued to a participant-employer unless the CFA has a valid contact for the employer or his/her estate.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Reconciling and tracking FUTA tax refunds to Option 2 participants' for workers who in the aggregate did not meet the FUTA wage threshold for the current or previous year

This is an annual review activity. The CFA should be able to walk the Review Team through the internal control process for this task. It should be noted that the determination of the FUTA wage threshold applies to the current and previous year's activity. It is important that the internal control process developed by the CFA effectively monitors and verifies the CFA's reconciliation and tracking process for this activity. In addition, unlike FICA, the IRS has yet to develop a written protocol to be used by employer agents for the refunding of any over collected FUTA. No refund should be issued to a participant-employer unless the CFA has a valid contact for the employer or his/her estate.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Monitoring out-of-cycle payments to workers and vendors

The internal control used by the CFA should be able to verify the number of out-of-cycle payments made, the date of the payments, the name of the workers and vendors paid and the amounts.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Monitoring direct deposits of Option 2 participants' workers' payroll checks

The CFA should have an internal control that can verify when and for whom direct deposits were made, the depositing bank and the amount deposited for each direct deposit made.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Reconciling and tracking invoices and payments for non-labor related invoices for Option 2 participants

The CFA should have an internal control that should be able to monitor and verify the accuracy and appropriateness of these invoices and payments and verify that they are in accordance with the participant's CMP and that a segregation of tasks exist for the processing and payment functions (e.g., separate individuals receive the invoices, prepare the payments, approve payments and sign check).

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

The Review Team should specifically examine how the process is working for the randomly selected participant sample chosen by the Team for the Review.

- Monitoring and tracking the misuse or misappropriation of participants' cash allowances, when applicable

The CFA should be able to walk the Review Team through this task.

VII. Exit Conference

The Review Team should conduct an exit conference at the end of the onsite portion of an CFA Mid – Year or Annual Review. The Exit Conference should be conducted with the staff that were present for the Entrance Conference. During the Exit Conference, the Leader of the Review Team should:

- Present a summary of outstanding items that the CFA will be providing to the Review Team over the next 72 hours
- Verbally summarize any key preliminary findings that the Review Team has identified as of the onsite visit
- Answer any questions that CFA staff may have at that time and provide them with a phone number where the Leader of the Review Team can be contacted to provide additional comments and information and ask any further questions

- Thank all CFA staff for their time and efforts related to the Review
- Repeat that the Review is a not a punitive activity and that it is meant to provide technical assistance and support to the CFA in becoming operational

VIII. Summary of Key Readiness Review Findings

Once the Review Team is back in the office, it should prepare a report that summarizes the key readiness review findings and areas where corrective action must be taken by the CFA to resolve any outstanding issues identified. It is recommended that the Team use The Check List document as the basis for

ARKANSAS DIVISION OF AGING AND ADULT SERVICES
INDEPENDENT CHOICES PROGRAM

COUNSELING/FISCAL AGENCY (CFA) MID-YEAR/ANNUAL REVIEW

CHECK LIST

Counseling/Fiscal Agency Reviewed: _____

Address: _____

Phone: _____ Fax: _____

Key Personnel Interviewed: _____

Date of Review: _____

Review Conducted By: _____

I. Entrance Conference Discussion and Initial Observations

II. Status of Physical Plant, Equipment, Information Systems and Other Technologies

1. _____ Is the physical plant's location, size, equipment and capabilities as required in the RFP and as stated in the CFA's bid proposal? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

2. _____ Are the information system capabilities in place as required by the RFP and as stated in the CFA's bid proposal (including two desktop computers and internet capabilities for e-mail purposes)? _____ Yes _____ No.

If not, why and what is the CFA's plan for correcting the situation?

3. _____ Are all required technologies and accommodations in place as required in the RFP and as stated in the CFA's bid proposal including?

- _____ Toll free number
- _____ TDD line
- _____ Fax (minimum 28.8)
- _____ Foreign/ASL language capabilities
- _____ Large print/alternative format capabilities

If not, why and what is the CFA's plan for correcting the situation?

III. Staffing

1. _____ Has there been any changes to the organizational chart for the parent organization and for the counseling and fiscal functions? _____ Yes _____ No

Obtain a copy of each organizational chart.

If yes, what are the changes and do the changes reflect the requirements as stated in the FI contract with the Division? _____

2. _____ Is the level of staffing (FTEs) for the current period of the contract in place as stated in the CFA's bid proposal? _____ Yes _____ No.

If not, why and what is the CFA's plan for correcting the situation?

3. _____ Are the key staff in place for the current period as stated in the CFA's bid proposal? _____
Yes
_____ No

Obtain copies of resumes for proposed and actual key staff for review.

If not, why and what is the CFA's plan for correcting the situation (e.g., have replacements been brought on board, do they have comparable qualifications and experience as the initial staff proposed)?

4. _____ Has the CFA hired counselors who meet the minimum qualifications (degree in humanities and social sciences or a related field plus two years experience in social services or community work pertaining to

adults with chronic conditions and disabilities or a related field. Other job related education and/or experience may be substituted for all or part of the basic requirements with approval from the Division? Is a minimum ratio of 75 participants to one counselor being maintained? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

5. _____ Does the CFA have job descriptions for each worker position related to the counseling and fiscal functions? _____ Yes _____ No

Obtain copies of job descriptions for review.

If not, why and what is the CFA's plan for correcting the situation?

6. _____ Has the CFA conducted ongoing worker training that reflects the philosophy of participant-direction for all staff and as documented in the CFA's policies and procedures manual? In addition, is the CFA conducting this training and is counselor training occurring at least every 90 days? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

7. _____ Has the CFA had trouble recruiting staff and does the CFA foresee any challenges in recruiting staff in the future? _____ Yes _____ No

If yes, how does the CFA plan to address these challenges?

8. _____ Is the CFA successfully recruiting additional staff as needed? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

9. _____ Is the CFA evaluating the performance of workers assigned to the CFA function (including the how staff conduct enrollment presentations)? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

IV. Administration

1. _____ Has the CFA developed a policies and procedures manual that documents all counseling and fiscal functions and includes all forms used and is it updated for the current year? _____ Yes _____ No

Obtain copy of the manual if it has changed from the version the Review Team has in house from the previous review.

If not, why and what is the CFA's plan for correcting the situation?

2. _____ Has the CFA developed and finalized a Work Plan (Quality Management Plan) that reflects all required activities to implement and maintain counseling and fiscal operations under its contract with the Division? Does it clearly define the goals and standards for each service and/or responsibility and is it updated for the current year? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

3. _____ Has the CFA used its disaster recovery plan? _____ Yes _____ No

3a. _____ If yes, was the CFA able to recover all information? _____ Yes
_____ No

If not, why and what is the CFA's plan to correct the situation?

4. _____ Is the CFA maintaining the confidentiality of participants' and workers' records? _____ Yes
_____ No

4a. _____ Can the CFA ensure that access to Medicaid information is limited to the counseling and fiscal staff within the CFA and that it takes measures to prudently safeguard and protect unauthorized disclosure of the Medicaid information in its possession? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

5. _____ Is the CFA maintaining all program files (including participant and worker) in a secure place?
_____ Yes _____ No

5a. _____ Is the CFA maintaining all archived program files in a secure place on or off site? _____ Yes
_____ No

If not, why and what is the CFA's plan to correct the situation?

6. _____ Has the CFA convened the Advisory Counsel to review policies, goals, and objectives and the Quality Management Plan/policy and procedures manual (e.g., identified possible candidates for membership, drafted invitation letter and schedule for first meeting). Is the Counsel composed of 50 percent individuals and elders with disabilities and the rest family members, interested parties, and Division staff)?
_____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

7. _____ Is the CFA providing information regarding financial activities performed, payroll checks processed, bank balances and a skills training schedule to Option 1 and 2 participants within five days of the request or at least monthly? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

8. _____ Is the CFA preparing and distributing complete and accurate quarterly reports to the Division within 15 calendar days after the end of the quarter either electronically, fax or mail? The reports should include:

- Number of initial contacts made each month
- Number of assessments performed each month
- Number of monitoring contacts performed each month
- Number of new enrollees per month
- Summary of the amount and type of the use of cash allowance funds by participants, using the accounting codes established by Mathematica, any instances of misused funds, and participant abuse and neglect

_____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

9. _____ Is the CFA transmitting data to the Division in the established format (Microsoft WORD Table-latest version)? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

10. _____ Is the counseling and fiscal divisions of the CFA communicating effectively with each other on all matters related to participants and their representatives and their workers, when appropriate? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

11. _____ Has the CFA provided any ad hoc reports to the Division based on a request and/or has gathered information required by Mathematica? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

12. _____ Is the CFA maintaining other records and information required by the DHS and the Division and are the records and information available for immediate review by the Division? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

V. Customer Service System

1. _____ Can participants contact the CFA using an established a toll-free number with separate extensions for the counseling and fiscal agent functions? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

2. _____ Is the CFA staffing the toll free phone line from 8:00 a.m. to 4:30 p.m. Monday through Friday?
_____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

3. _____ Is the CFA returning calls within one working day from the time the message is recorded? _____
Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

4. _____ Does the CFA have a communication and complaint tracking system/registry for consultants, participants and workers that addresses the following and is included in the policies and procedures manual?

- _____ Date and time of call
- _____ Name and title of person/entity making the call and staff person receiving the call
- _____ Issue/complaint addressed
- _____ Level/severity of the issue/complaint
- _____ Action taken
- _____ Process for reporting issues/complaints to the State
- _____ Yes _____ No

4a. _____ Is the CFA developing and implementing corrective actions within 10 days of issues/complaints being reported and recorded in the registry? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

5. _____ Is the CFA notifying participants and Division staff in a timely manner in the event payroll or monthly cash allowance funds are generated/distributed late or disbursements of cash grants, payroll and requests for discretionary cash payments may be late (i.e., over five days) _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

6. _____ Is the CFA communicating effectively and courteously with participants who have a variety of functional impairments, including the need for large print/alternative formats, telecommunication devices for hearing and speech impaired, and access to translation services and to an interpreter? _____ Yes
_____ No

If not, why and what is the CFA's plan to correct the situation?

7. _____ **Is the CFA effectively implementing the principles of participant-direction and is it being culturally sensitive in all business practices in order to communicate effectively with a diverse population of participants of all ages and with a variety of disabilities and chronic conditions?** _____
Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

8. _____ Has the CFA distributed a "Participant's Bill of Rights" to individuals participating in the program and is it in the participant enrollment package and in the policies and procedures manual? _____ Yes
_____ No

Obtain a copy of the Participant's Bill of Rights.

If not, why and what is the CFA's plan to correct the situation?

VI. Counseling Services

1. _____ Is the CFA enrolling participants in the program in a manner that reflects the philosophy of participant-direction? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

2. _____ Is the CFA conducting initial home visit based on the method outlined in its policies and procedures manual? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

3. _____ Is the CFA conducting initial home visits within seven working days of receiving notification from the Division of the results of the randomization to the Treatment Group by the Division? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

4. _____ Is the CFA completing initial assessments using the assessment tool in the AR Medicaid Manual for Personal Care (Form 618-PC) and in accordance with Medicaid Personal Care Policy? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

5. _____ Is the CFA tracking participants' assessment dates? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

6. _____ Is the CFA conducting reassessments every 180 days using the prescribed assessment tool? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

7. _____ Is the CFA contacting each participant monthly? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

8. _____ Is the CFA conducting home visits to all participants every six months or as indicated by the Division? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

9. _____ Is the CFA reporting abuse or neglect of an adult to Adult Protective Services? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

10. _____ Is the CFA assisting participants with developing back-up plans and documenting them in participants' files? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

11. _____ Is the CFA making sure that participants are able to begin self-directed care within 45 days of referral to the CFA with no more than six delays per quarter per region (except when the Division gives written approval for the delay)? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

12. _____ Is the CFA monitoring the progress of program participants in a manner that reflects the philosophy of participant-direction? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

13. _____ Is the CFA establishing methods to identify and evaluate the health, safety, satisfaction and utilization of services for each participant? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

VII. Participant Training, Evaluating and Performance Monitoring

Training

1. _____ Does the CFA's skills training curriculum and manual for self-direction, hiring and supervising workers and fiscal activities for Option 1 participants ensures that consumers' knowledge and capabilities are sufficient to perform all required employer-related activities (including fiscal and payroll) and in a manner that reflects the philosophy of participant-direction? _____ Yes _____ No

Obtain a copy of the training program.

If not, why and what is the CFA's plan for correcting the situation?

2. _____ Is the CFA offering skills training (including one-on-one training) to participants who wish to serve as their own fiscal manager (Option 1)? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

3. _____ Is the CFA providing participants written information or a manual on participant-direction and the program within 15 calendar days of their selection to the Treatment Group? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

4. _____ Is the CFA orienting participants and representatives on participant-direction and the program, including an explanation of participant/representatives' roles, responsibilities, risks and the role and responsibilities of the CFA and the Division in a manner that reflects the philosophy of participant-direction?

_____ Yes
_____ No

If not, why and what is the CFA's plan to correct the situation?

Evaluation

1. _____ Is the CFA assessing the level of a participant/representative's understanding of the information relayed during the CFA's orientation? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

2. _____ Is the CFA evaluating the knowledge level and capabilities of each participant/representative wishing to serve as his/her own fiscal manager? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

3. _____ Is the CFA submitting written recommendations to the Division regarding the participants'/representatives' ability to accomplish the required program-related tasks?
_____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

4. _____ Is the CFA evaluating all of its training materials and sessions on an ongoing basis (including its methods for making initial telephone contacts and conducting enrollment presentations)? _____ Yes
_____ No

If not, why and what is the CFA's plan to correct the situation?

Monitoring

1. _____ Is the CFA monitoring Option 1 participants' performance in managing the payroll function on an ongoing basis in a manner that reflects the philosophy of participant-direction? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

VIII. State and Federal Requirements to be a CFA

1. _____ Is the CFA enrolled with Arkansas Medicaid Program as a Medicaid provider? _____ Yes
_____ No

If not, why and what is the CFA's plan for correcting the situation?

2. _____ Has the CFA filed for (using the IRS Form SS-4) and obtained a separate federal employer identification number (FEIN) for the sole purpose of filing federal employment tax forms for Option 2 participants? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

3. _____ Is the CFA completing and filing the IRS Form 2848 for Option 2 participants within 10 business days of a participant enrolling in Option 2? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

4. _____ Is the CFA tracking IRS Forms 2848 expiration dates for Option 2 participants? _____ Yes
_____ No

If not, why and what is the CFA's plan for correcting the situation?

5. _____ Is the CFA renewing Option 2 participants' IRS Forms 2848 when they expire? _____ Yes
_____ No

If not, why and what is the CFA's plan for correcting the situation?

6. _____ Is the CFA preparing and filing AR Limited Power of Attorney forms for Option 2 participants within 10 business days of enrolling in Option 2? _____ Yes
_____ No

If not, why and what is the CFA's plan for correcting the situation?

7. _____ Is the CFA preparing and filing IRS Forms SS-4 and obtaining federal employer identification numbers (FEINs) for participants enrolled in Option 2 within 10 business days of enrolling in Option 2?

_____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

8. _____ Is the CFA preparing and filing IRS Forms 2678 and preparing and filing a request for approval to be an employer agent letters and submitting them to the IRS on behalf of Option 2 participants within 10 business days of enrolling in Option 2?

8a. _____ Is the CFA tracking those IRS approvals received and notifying the IRS when approvals have not been received after a designated period (30 days)?

_____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

9. _____ Is the CFA notifying the IRS when it no longer represents an Option 2 participant as his/her CFA/employer agent and tracking all correspondence? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting these situation?

10. _____ Is the CFA completing, filing and tracking Forms AR4ER and obtaining an state income tax registration number for each participant enrolled in the Option 2? _____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

11. _____ Is the CFA completing, filing and tracking forms ESD-ARK-201 to the AR Employment Security Department and obtaining a state unemployment insurance identification number for each Option 2 participants?

_____ Yes _____ No

If not, why and what is the CFA's plan for correcting the situation?

IX. Participant Manual and Participant Enrollment and Worker Application Packages

1. _____ Is the CFA distributing a manual that orients both Option 1 and Option 2 participants enrolled in the program and that is user-friendly, reflects the philosophy of participant-directions and is available in alternative formats? _____ Yes
_____ No

Has it been approved by the Division? _____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

2. _____ Is the CFA distributing Option 1 participant enrollment packages that includes, at a minimum, the following? _____ Yes _____ No

- _____ Introductory letter
- _____ Instructions and samples
- _____ Independent Choices Self-Assessment Personal Care Needs Form
- _____ IRS Form SS-4
- _____ Arkansas State Income Tax Withholding Registration Form AR4ER
- _____ Arkansas Employment Security Department Form ESD-ARK-201 _____ Copy of IRS Publication 926: Household Employer Guide
- _____ IRS Schedule H and instructions
- _____ Emergency back-up plan form
- _____ Participant's Bill of Rights

Obtain a copy of the package if it is different from the one the Review Team has in house from the previous review.

If not, why and what is the CFA's plan to correct the situation?

3. _____ Is the CFA distributing and processing an Option 2 participant enrollment packages that includes, at a minimum, the following? _____ Yes _____ No

- _____ Introductory letter
- _____ Instructions and samples
- _____ Independent Choices Self-Assessment Personal Care Needs Form
- _____ IRS Form SS-4 (semi-completed)
- _____ IRS Form 2848 (semi-completed)

- _____ AR Limited Power of Attorney Form (semi-completed)
- _____ Arkansas State Income Tax Withholding Registration Form AR4ER (semi-completed)
- _____ Arkansas Employment Security Department Form ESD-ARK-201 (semi-completed)
- _____ Emergency back-up plan form
- _____ Emergency contact form
- _____ AR Child Support Registry Form
- _____ Participant's Bill of Rights

Obtain a copy of the package if it is different from the one the Review Team has in house from the previous review.

If not, why and what is the CFA's plan to correct the situation?

4. _____ Are the Option 1 and 2 participant enrollment packages:

- **Presented in a user-friendly format?**
- **Are forms semi-completed to the extent possible?**
- **Does the CFA have a system developed and a written policy and procedure for distributing participant enrollment packages to the consultants and receiving them back for processing?**
- **Does the CFA have a system developed and a written policy and procedure for reviewing completed participant enrollment packages for accuracy and completeness?**

If not, why and what is the CFA's plan to correct the situation?

5. _____ Is the CFA distributing a worker application package for Option 1 participants, that has been approved by the State Division on Disability Services, and that include at a minimum the following?

_____ Yes _____ No

- _____ Introductory letter
- _____ Application for Employment and instructions
- _____ Personal Care Assistant Agreement
- _____ INS Form I-9
- _____ IRS Form W-4
- _____ IRS Form W-5
- _____ IRS Notice 797
- _____ AR Department of Finance and Administration Form AR4EC; Employee's Withholding Exemption Certificate
- _____ Time sheets
- _____ Background check information and form
- _____ AR Child Support Registry Form
- _____ New Hire Form

_____ Notice of availability of direct deposit and form if applicable

Obtain a copy of the package if it is different from the version the Review Team has in house from the previous review.

If not, why and what is the CFA's plan to correct the situation?

6. _____ Is the CFA distributing and processing a worker application package for Option 2 participants, that has been approved by the Division, and that include at a minimum the following? _____ Yes
_____ No

- _____ Application for Employment and instructions
- _____ Personal Care Assistant Agreement
- _____ INS Form I-9
- _____ IRS Form W-4
- _____ IRS Form W-5
- _____ IRS Notice 797
- _____ AR Department of Finance and Administration Form AR4EC; Employee's Withholding Exemption Certificate
- _____ Time sheets
- _____ Background check information and form
- _____ AR Child Support Registry Form
- _____ New Hire Form
- _____ Notice of availability of direct deposit and form if applicable

Obtain a copy of the package if it is different from the version that the Review Team has in house from the previous review.

If not, why and what is the CFA's plan to correct the situation?

7. _____ **Are the Option 1 and 2 worker application packages:**

- **Presented in a user-friendly format?**
- **Does the CFA have a system developed and a written policy and procedure for distributing worker application packages to the consultants and receiving them back for processing?**
- **Does the CFA have a system developed and a written policy and procedure for reviewing completed worker application packages for accuracy and completeness?**

If not, why and what is the CFA's plan to correct the situation?

X. Operations Tasks

Please note, other CFA operating tasks have been addressed in Sections II – IX of this Check List. All CFA operating tasks should be documented in the policies and procedures manual along with copies of the relevant forms.

1. _____ Is the CFA:

- _____ Obtaining Option 1 and 2 participants' grant funds monthly from the State via electronic transfers,
- _____ Determining Option 1 and 2 participants' cash allowance based on the plan of care hours,
- _____ Notifying the Division within 10 calendar days if an Option 1 or 2 participants' cash allowance changes,
- _____ Disbursing and tracking monthly grant funds transferred to Option 1 participants,
- _____ Establishing, maintaining and tracking Option 1 and 2 participants' accounts including any savings and interest earned,
- _____ Tracking the POG effectively,
- _____ Establishing and maintaining Option 1 participants' files that include, at a minimum:
 - Name, address, phone number and Medicaid ID of participant,
 - Name, address and phone number of participant's emergency contact,
 - Counselor's name address and phone number,
 - Copy of participant's Cash Management Plan (CMP),
 - Copy of completed Independent Choices Self-Assessment of Personal Care Needs Form,
 - Copy of participant's cash expenditure plan and all amendments,
 - Amount of participant's monthly cash allowance received from DHS (via EDS) for the current period and year to date,
 - Accounting of participant's expenditures for current period and year to date using coding provided by Mathematica
 - Copies of all documents obtained to verify that the participant is performing all payroll and employment tax tasks in accordance with federal and state regulations,
 - Results of any reviews of the participant's performance in managing payroll,
 - Copies of monthly reports issued by the FI,
 - Documentation of all contacts with the participant (date, time, reason, summary of discussion, resolution, if necessary and counselor's signature),
 - Signed work agreement between the worker and participant,
 - Participant's backup plan and any revisions
- _____ Establishing and maintaining Option 2 participants' files and worker sub-files that include, at a minimum:
 - Name, address, phone number and Medicaid ID of participant,
 - Name, address and phone number of participant's emergency contact,
 - Copy of participant's Cash Management Plan (CMP),
 - Copy of completed Independent Choices Self-Assessment of Personal Care Needs Form,
 - Copy of completed and signed initial IRS Form 2848 and all renewals,
 - Copy of completed and signed IRS Form SS-4,
 - Copy of completed and signed IRS Form 2678 and written

- approval notice received from IRS,
 - Copy of letter to the IRS terminating the IRS employer agent's role with the participant and any related correspondence with the IRS,
 - Copy of the AR Limited Power of Attorney Form,
 - Copy of Form AR4ER and the state income tax registration number,
 - Copy of the completed and signed Form ESD-ARK-201; Status Report and state unemployment insurance identification number,
 - Copy of the completed and signed Form AR4ER: Withholding Registration and state income tax registration number,
 - Copy of all completed and signed documents included in the worker employment application package,
 - Copy of the completed and signed Personal Care Assistant Agreement,
 - Copy of a completed and signed AR State Child Support Registry Form for each worker,
 - Copy of a completed New Hire Form
 - Amount of participant's monthly cash allowance received by the CFA by month including the date the transfer took place,
 - Amount of any remaining cash allowance for participant by month and year to date,
 - Total amount of interest accumulated in participant's interest bearing account by month and year to date,
 - Number, type and amount of all non-labor related payments made by the CFA by month and year to date (using coding provided by Mathematica,
 - Total number of workers hired and related payroll expenses by month and year to date,
 - Documentation describing the CFA's evaluation of the participant's ability to manage self-direction tasks,
 - Copies of all monthly reports issued to the participant by the CFA,
 - Any inquiries or surveys regarding the participant's level of satisfaction with the program or the CFA,
 - Copies of completed participant-specific state income tax forms filed (AR 941M),
 - Copies of completed participant-specific state unemployment insurance tax forms filed (AR-ESD Forms 209B),
 - Documentation of all contacts with participants (date, time, reason, summary of discussion, resolution, if appropriate and counselor's signature)
 - Participant's back-up plan and all revisions.
 - Copies of worker's timesheets,
 - Any documents related to judgements, garnishments, tax levies or any related holds on workers' pay as may be required by the local, state or federal government,
 - Documentation regarding any refunding of over collected FICA to the participant and relevant worker including a copy of the cancelled checks,
 - Documentation regarding any refunds of over collected FUTA for the participant (funds go to the State),
 - Any criminal background check information obtained on behalf of the participant
- _____ Conducting criminal background checks on potential workers as requested by Option 1 and 2 participants,
- _____ Collecting, verifying and maintaining workers' timesheets for Option 2 participants,
- _____ Verifying that workers' hourly wage for regular and overtime are in compliance with federal and state DoL Wage and Hour rules for domestic service workers,
- _____ Computing, withholding filing, depositing and tracking federal income taxes for Option 2 participants,

- _____ Computing, withholding, filing, depositing and tracking Social Security and Medicare (FICA) taxes in accordance with the IRS 941 quarterly filing and employer agent rules (including making sure that taxes are not withheld for certain exempt family members who are providing paid support services) and IRS depositing rules for Option 2 participants (***review of four quarterly filings is an annual review activity***),
- _____ Computing, withholding, filing, depositing and tracking federal unemployment insurance taxes (FUTA) in accordance with IRS 940/940 EZ annual filing and employer agent rules (including making sure that taxes are not withheld for certain exempt family members who are providing paid support services) and IRS depositing rules for Option 2 participants (***annual review activity***),
- _____ Processing and tracking federal advanced earned income credit (as requested by eligible workers) for Option 2 participants,
- _____ Computing, withholding, filing, depositing and tracking state income taxes (AR Form 941M) for Option 2 participants,
- _____ Computing, withholding, filing, depositing and tracking state unemployment taxes quarterly in accordance with AR Employment and Security Division rules for Option 2 participants (Form ESD-ARK-209B),
- _____ Preparing and distributing workers' payroll checks including a pay stub that reports hours worked, gross wages, withholdings by type, and net salary for the current pay period and year to date for Option 2 participants,
- _____ Processing direct deposit of paychecks for Option 2 participants' workers upon request,
- _____ Processing all judgements, garnishments, tax levies or any related holds on workers' pay as may be required by local, state and/or federal laws,
- _____ Generating out of cycle payments to workers and vendors,
- _____ Processing, issuing and tracking the payment of cash amounts disbursed to Option 2 participants upon request up to twice a month and up to 10 percent of a participant's monthly benefit,
- _____ Preparing annual IRS form W-2s and W-3s for Option 2 participants per IRS employer agent instructions (***annual review activity***),
- _____ Refunding Option 2 participants' workers for over collected FICA taxes (employee's contribution) when the worker has not earned the threshold wage amount for paying FICA in an applicable calendar year (***annual review activity***),
- _____ Refunding Option 2 participants for over collected FICA taxes (employer's contribution) when the participants' workers' have not earn the threshold wage amount for paying FICA in an applicable calendar year (***annual review activity***),
- _____ Refunding Option 2 participants for over collected FUTA taxes when Option 2 participants' workers in the aggregate do not earn the threshold wage amount for paying FUTA for the current and/or previous year (***annual review activity***),
- _____ Processing, paying and maintaining non-labor related invoices for Option 2 participants and per coding protocol from Mathematica,
- _____ Identifying and documenting the misuse or misappropriation of participants' cash allowances, when applicable

_____ Yes _____ No

If not, why and what is the CFA's plan to correct the situation?

XI. Internal Controls

1. _____ Has the CFA implemented internal controls to monitor the following issues:

- _____ Monitoring its customer service system for effectiveness,
- _____ Monitoring its counseling services for effectiveness,
- _____ Monitoring its participant training, evaluation and performance monitoring systems for effectiveness,
- _____ Maintaining the accuracy and currency of Option 1 participant files/records,
- _____ Maintaining the accuracy and currency of Option 2 participant files/records and workers sub-files,

_____ **Filing and maintaining IRS Form 2678 and Request for Approval Letter, the receipt of IRS approvals, and contacting the IRS when the CFA is no longer the employer agent for each Option 2 participant,**

- _____ Filing the IRS Forms SS-4 and obtaining and maintaining a copy of the IRS Form SS-4 and FEIN for each Option 2 participant,
- _____ Filing the IRS Form 2848 for each Option 2 participant and tracking expiration dates and processing renewals per IRS instructions,

_____ **Making sure that INS Forms I-9 are completed correctly and maintained in each worker's file for Option 2 participants,**

- _____ Filing the Form ESD-ARK- 201 and obtaining and maintaining a copy of the Form and the participant's state unemployment insurance identification number for each Option 2 participant,
- _____ Filing the Form AR4ER and obtaining and maintaining a copy of the Form and the participant's state income tax registration number,
- _____ Filing the AR Limited Power of Attorney Form and maintaining a copy of each Option 2 participant,
- _____ Tracking and maintaining criminal background check information on potential workers for participants that request them,
- _____ Tracking and maintaining records on participants who have received training and been evaluated for their ability to perform the payroll task and the results of the evaluation,
- _____ Tracking and maintaining records on CFA evaluations of Option 1 participants' performance in managing their cash grant, payroll and payment of non-labor related invoices on an ongoing basis,
- _____ Reconciling and tracking monthly cash grant distributions with any remaining liability,²
- _____ Reconciling and tracking monthly cash grant distributions by participant's enrollment status (e.g., after randomization to the treatment group, enrolled or not enrolled)³
- _____ Reconciling and tracking monthly cash grant distributions when a participant disenrolls from the program,

² May not be applicable after the Demonstration Grant is over.

³ May not be applicable after the Demonstration Grant is over.

- _____ Reconciling and tracking Option 2 participants’ requests for cash up to twice a month and up to 10 percent of a participant’s monthly benefit,
- _____ Reconciling and tracking the POG,
- _____ Reconciling and tracking time sheets (e.g., hours worked) for Option 2 participants’ workers,
- _____ Reconciling and tracking hourly wage rates paid for regular and overtime pay to Option 2 participants’ workers to make sure wages paid are in compliance with federal and state DoL Wage and Hour rules for domestic service workers
- _____ Reconciling and tracking federal income taxes withheld, filed and deposited for Option 2 participants,
- _____ Reconciling and tracking state income taxes withheld, filed and deposited for Option 2 participants (AR Form 941M),
- _____ Reconciling and tracking the amount of federal employment taxes (IRS Forms 941 for FICA and Form 940/Form 940EZ for FUTA) withheld, filed and deposited for Option 2 participants (including making sure that FICA and FUTA taxes have not withheld for certain exempt family members who are providing paid support services) (*annual review activity*),
- _____ Reconciling and tracking state employment taxes withheld, filed and deposited for Option 2 participants (Form ESD-ARK-209B),
- _____ Reconciling and tracking all judgements, garnishments, tax levies or any related holds on workers’ pay as may be required by local, state and/or federal laws for Option 2 participants,
- _____ Reconciling and maintaining payroll checks and stub (including who processes the check and who signs the check) for Option 2 participants,
- _____ Tracking direct deposits for Option 2 participants’ workers upon request,
- _____ Reconciling and tracking federal advanced earn income tax payments processed for Option 2 participants,
- _____ Reconciling information on workers’ annual IRS Forms W-2 and tracking that forms were filed timely for Option 2 participants (*annual review activity*),
- _____ Reconciling information on Option 2 participants’ annual IRS Forms W-3 and tracking that forms were filed timely for Option 2 participants (*annual review activity*),
- _____ Reconciling and tracking refunds of over collected FICA tax (employee’s contribution) to Option 2 participants’ workers who did not earn the FICA wage threshold amount in the applicable calendar year (*annual review activity*),
- _____ Reconciling and tracking refunds of over collected FICA (employer’s contribution) Option 2 participants whose workers did not earn the FICA wage threshold amount in the applicable calendar year (*annual review activity*),
- _____ Reconciling and tracking FUTA tax refunds to Option 2 participants’ whose workers in the aggregate who did not earn the FUTA threshold wage amount for the current and/or previous calendar year (*annual review activity*),
- _____ Monitoring out-of-cycle payments to workers and vendors,
- _____ Monitoring direct deposits of Option 2 participants’ workers’ payroll checks,
- _____ Monitoring and tracking the misuse or misappropriation of participants’ cash allowances, when applicable.

If not, why and what is the CFA’s plan to correct the situation?
