



North Carolina Department of Health and Human Services
Office of the Controller

Roy Cooper
Governor

Mandy Cohen, MD, MPH
Secretary

Laketha M. Miller
Controller

May 15, 2017

MEMORANDUM

TO: Facilities Providing Services to Recipients of State/County Special Assistance for Adults

FROM: Laketha M. Miller

SUBJECT: Department of Health and Human Services Implementation of Legislation Affecting the Cost and Revenue Reporting for Adult Care Facilities

Applicability. The 2016 Session of the North Carolina General Assembly modified legislation requiring adult care facilities with seven or more licensed bed capacity to submit audited Cost Reports every two years. **The Cost Report for the 2016-2017 year is required to be audited for facilities with seven or more licensed beds. After the 2016-17 cost reporting cycle, the next cycle will be 2018-2019.**

Audit Requirements. In order to meet the requirements of G.S. 131D-4.2 and in an attempt to minimize the audit cost incurred by the facilities, the N. C. Department of Health and Human Services (Department) has developed procedures (attached) intended to be applied during an agreed-upon procedures engagement performed by a Certified Public Accountant (CPA). The procedures should be performed in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 10, *Attestation Standards: Revision and Recodification*. If a facility, in consultation with their CPA, prefers to have the CPA perform an audit in accordance with Statement on Auditing Standards (SAS) No. 62: *Special Reports*, this will be accepted by the Department. The Independent Accountant's Report on Applying Agreed-Upon Procedures or the SAS No. 62 Special Report, including the Cost Report which reflects the CPA's adjustments, should be mailed by September 30, 2017 to the N. C. Department of Health and Human Services, DHHS Office of the Controller, 2019 Mail Service Center, Raleigh, North Carolina 27699-2019.

To fulfill the requirements of G. S. 131D-4.2, adult care facilities that fall under Chapter 131D and Chapter 122C are required to submit a Cost Report every two years for the reporting period based on the latest completed fiscal year of the facility. Combined nursing facilities should submit a cost report and audited report based on their last completed Medicare cost report. Facilities should engage a CPA to either perform the attached procedures in accordance with SSAE No. 10 or a SAS No. 62 Special Report. If the facility does not retain a CPA to perform the Agreed-Upon Procedures engagement, the Department will accept agreed-upon procedures performed by an Independent Accountant.

Peer Review Requirements. In accordance with the recommendation of the State Auditor, the Department has established minimum requirements for the acceptance of Independent Accountant's Reports on Applying Agreed-Upon Procedures from Independent Accountants. These minimum requirements are similar to CPA requirements and are detailed in the attached certification that should be submitted with the Independent Accountant's Report on Applying Agreed-Upon Procedures. Beginning with the 2001 Cost Reports, any Independent Accountant who performs an Agreed-Upon Procedures engagement **must** (1) be enrolled in a peer review program; and (2) if the Independent Accountant has performed agreed-upon procedures engagements for more than two years, he/she **must** have obtained a peer review of his/her agreed-upon procedures engagement within the last three years for the report to be **accepted by the Department.**

Because of existing certification procedures and peer review requirements established by the State Board of CPA Examiners, we are not requiring CPAs to provide the attached certification. Also, this only relates to the acceptance of the Independent Accountant's

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Location: Spruill Annex, 1050 Umstead Drive • Raleigh, NC 27603
Mailing Address: 2019 Mail Service Center • Raleigh, NC 27699-2019

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Report on Applying Agreed-Upon Procedures. The Department will **not** accept a SAS No. 62 Special Report from an Independent Accountant.

Due Date. The Cost Report which reflects the CPA's/Independent Accountant's adjustments is required to be submitted along with the Independent Accountant's Report on Applying Agreed-Upon Procedures by **September 30, 2017**.

We express our appreciation to the management and staff of the adult care facilities and their CPAs/Independent Accountants for their cooperation in submitting the cost reports. The objective of these procedures is to ensure that information used by the General Assembly to develop rates in connection with the State/County Special Assistance Program is as accurate as possible.

If you have questions about this information, please submit them to the e-mail account at AUP.questions@dhhs.nc.gov.

LMM/sks

CC: Suzanne Merrill – Division of Aging and Adult Services
Chris Urso – Division of Aging and Adult Services
Megan Lamphere – Division of Health Service Regulations
Libby Kinsey – Division of Health Service Regulations
Suzanne Beasley – Office of the Controller
Susan Kesler Sibbett – Office of the Controller
Curtis Crouch – Office of the Controller

N.C. Department of Health and Human Services

Agreed-Upon Procedures

for

Nursing Facilities

(Licensed Capacity = 7 Beds or Greater)

Use the same reporting period as the most recently completed Medicare cost report

Introduction

The procedures specified in this document have been prepared by the N. C. Department of Health and Human Services to satisfy an engagement to perform agreed-upon procedures for Adult Care Homes in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 10, *Attestation Standards: Revision and Recodification*. For purposes of this engagement, the items of a financial statement are the financial amounts included in the Adult Care Home Cost Report. This document should be considered the N. C. Department of Health and Human Services' requirements for the sufficiency (nature, timing, and extent) of the agreed-upon procedures to be performed for engagements for the period based on the most recently completed Medicare cost report.

The purpose of this engagement is to apply agreed-upon procedures as specified by the N. C. Department of Health and Human Services to verify the following assertion made by the management of the Adult Care Home on Schedule A, page 1 of the Adult Care Home Cost Report:

Schedule A, Part IV - Certification of Accuracy

The undersigned individual (company) does hereby state that the report forms: Schedule A, B, C or C1, D and E (SCU only) have been prepared from accounting records of the Home and are accurate based on recorded information and/or information provided. All related party transactions have been identified and included in Schedule D.

In accordance with SSAE No. 10, these agreed-upon procedures should be performed entirely by the CPA/Independent Accountant. However, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the CPA/Independent Accountant's use in performing the agreed-upon procedures. In order to control the cost imposed upon Adult Care Homes to fulfill the requirements of GS 131D-4.2, the CPA/Independent Accountant should encourage the Adult Care Home's personnel to prepare as many of the schedules specified in the agreed-upon procedures as possible.

Included in this package is an example of the **Independent Accountant's Report on Applying Agreed-Upon Procedures**. Although the basic format has been developed as specified in SSAE No. 10, this example has been modified for Adult Care Homes. In some instances the CPA/Independent Accountant is provided several alternatives in the Agreed-Upon Procedures. The attached example should be adjusted depending on the alternative selected by the auditor. Also, the CPA/Independent Accountant is required to attach the Adult Care Home Cost Report reflecting adjustments, if any, to the Independent Accountant's Report on Applying Agreed-Upon Procedures.

Finally, it is the N. C. Department of Health and Human Services' responsibility to ensure that the procedures included in this document are sufficient to ensure that the assertion included in the Adult Care Home Cost Report is valid. It is the CPA/Independent Accountant's responsibility to carry out the procedures and report differences between the reported amounts and the amounts based on performing those procedures in accordance with the applicable general, fieldwork, and reporting standards as discussed and interpreted in SSAE No. 10. Therefore, the CPA/Independent Accountant assumes the risk that misapplication of the procedures may result in inappropriate differences being reported. To reduce the CPA/Independent Accountant's risk, the N. C. Department of Health and Human Services email address AUP.questions@dhhs.nc.gov should be contacted for any clarification needed in the performance of procedures described in this document. The procedures described in this document have been developed based on the N. C. Department of Health and Human Services' needs and general understanding of the records maintained by an Adult Care Home. In those situations in which an Adult Care Home's records are significantly different than those described in this document in such a way as to prevent the procedure(s) from being properly performed, the N. C. Department of Health and Human Services email address AUP.questions@dhhs.nc.gov should be contacted. Every effort will be made to assist the CPA/Independent Accountant in developing alternative procedures if possible. **However, any alternative procedures must be approved by the N. C. Department of Health and Human Services as an amendment to this document before they are performed and the Independent Accountant's Report on Applying Agreed-Upon Procedures issued.** As stated in SSAE No. 10, "*The practitioner should not report on an engagement when specified parties do not agree upon the procedures performed or to be performed and do not take responsibility for the sufficiency of the procedures for their purposes.*" **Reports based on unapproved alternative procedures will not be accepted by the Department.**

Requests for approval of alternative procedures should be addressed to:

AUP.questions@dhhs.nc.gov

In accordance with G. S. 131D-4.2(f) the Department has the authority to conduct audits and review audits that are submitted pursuant to G. S. 131D-4.2(a), (b) and (c). Therefore, the N.C. Department of Health and Human Services will select a sample of the Independent Accountant's Reports on Applying Agreed-Upon Procedures that are submitted and conduct a review of the CPA's/Independent Accountant's workpapers to ensure that the procedures were performed in accordance with the agreed-upon procedures guide.

The Independent Accountant's Report on Applying Agreed-Upon Procedures along with the adjusted Adult Care Home Cost Report should be mailed by September 30, 2017 to the following address:

N. C. Department of Health and Human Services
DHHS Office of the Controller
Attn: Susan Kesler Sibbett
2019 Mail Service Center
Raleigh, North Carolina 27699-2019
Telephone: (919) 855-3680

NOTE: If you send the Independent Accountant's Report on Applying Agreed-Upon Procedures along with the adjusted Adult Care Home Cost Report by ***Federal Express, UPS, or Certified return receipt***, mail to the following address:

N. C. Department of Health and Human Services
DHHS Office of the Controller
Attn: Susan Kesler Sibbett
1050 Umstead Drive
Raleigh, North Carolina 27603

(Name of Home)

Adult Care Home Cost Report
For the Period (*beginning date of Medicare report*) **through** (*end date*)

Agreed Upon Procedures
for
Nursing Facilities
(Licensed Capacity = 7 Beds or Greater)

Schedule A - Adult Care Home Cost Report

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p><u>Note to CPA/Independent Accountant:</u> <i>Because nursing facilities (commonly referred to as combination facilities) are required to file a Medicaid Cost Report which is audited by the Division of Medical Assistance, the Department has agreed to allow the nursing facilities to use the data reflected in the Medicaid Cost Report as the source of information for preparation of the Adult Care Home Cost Report. <u>Therefore, the CPA/Independent Accountant will need to obtain a copy of the nursing facility's Medicaid Cost Report for the specified reporting period in order to perform the following procedures.</u></i></p>			
	<p style="text-align: center;"><u>Line #19 Total of Resident Days</u> <i>(Note to the CPA/Independent Accountant: Resident days include days for all residents that were in the home, reserve bed days, and therapeutic leave days. Total resident days includes both paid and non-paid days.)</i></p>			
1.	<p><u>Facility Statistics of the Medicaid Cost Report</u> reflects the resident day statistical data for each of the types of programs the nursing facility operates. Compare the total reflected as Adult Care Home Total Inpatient Days on the Medicaid Cost Report (the Monthly Census Summary – Schedule C-5, Line 14) to the total amount of resident days reported in the Adult Care Home Cost Report.</p> <p><u>Report difference</u>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <u>adjust</u> the Adult Care Home Cost Report.</p>			
	<p><u>Line #20 Total of State/County Special Assistance Days</u></p>			
2.	N/A			

Schedule C - Adult Care Home Cost Report

Schedule of Expenses

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p><u>Lines: 20, 40, 50, 60, 80, 90, 120, 140, 160, 170, 190, 200, 210, 215, 220, 225, 230, 235 and 240</u></p> <p><u>Cost Center Totals</u></p>			
3.	<p>Verify addition of <u>all cost center totals</u> and the total of all cost centers (Line 240) on Schedule C of the Adult Care Home Cost Report.</p> <p><i>(Note to the CPA/Independent Accountant: The Total of All Cost Centers [line 240 of Schedule C] should also be reflected on line 19 of Schedule B.)</i></p> <p>Report difference, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and adjust the Adult Care Home Cost Report.</p>			
4.	N/A			
5.	N/A			

Schedule B - Adult Care Home Cost Report Schedule of Profit and Loss

Procedure No.	Description	Initials	Date	Workpaper Reference
	<u>Lines: 10, 14, 17, 18, 19 and 20</u> <u>Schedule of Profit and Loss Totals</u>			
6.	<p>Verify addition of all revenue totals as presented on Schedule B (lines 10, 14, 17, 18, 19 and 20) of the Adult Care Home Cost Report.</p> <p><i>(Note to the CPA/Independent Accountant: Verify that the Total Expenses [line 19 of Schedule B] amount is the same amount that is reflected on line 240 of Schedule C.)</i></p> <p>Report difference, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and adjust the Adult Care Home Cost Report as appropriate.</p>			

Schedule D - Adult Care Home Cost Report Schedule of Related Party Costs

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p><u>Note to CPA/Independent Accountant:</u> <u>Nursing facilities are <i>not</i> required to complete Schedule D of the Adult Care Home Cost Report at this time, therefore, the agreed-upon procedures for related party transactions/costs have been eliminated from these guidelines.</u></p>			

Verification of Supporting Documentation for Providing Medical Transportation

Procedure No.	Description	Initials	Date	Workpaper Reference
	<i>Note to the CPA/Independent Accountant: The nature of procedures seven (7) is to determine if the Adult Care Home is maintaining transportation logs. These logs document that medically necessary transportation was provided. The primary purpose is to identify homes that are not adequately maintaining transportation logs. Therefore, if transportation logs are not available, this should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures. The DMA Auditors will, based on the results you report, determine the potential ramifications to the Adult Care Home.</i>			
7.	N/A			

**“Example Report for 7 Bed or Greater Nursing Facility”
Independent Accountant’s Report on Applying Agreed-Upon Procedures to the
Adult Care Home Cost Report submitted to the N. C. Department of Health and
Human Services for the period October 1, 2014 through September 30, 2015**

**Note: The Cost Report that includes the CPA/Independent Accountant’s
adjustments must accompany the Report on Applying Agreed-Upon Procedures.**

To the Board of Directors and Management of (name of facility)

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and Management of (name of facility) and the N. C. Department of Health and Human Services, solely to assist you in connection with meeting the audit requirements of G.S. 131D-4.2 for Cost Reports for the period from (beginning date of Medicare cost report) through (end date of Medicare cost report) submitted to the N. C. Department of Health and Human Services. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board of Directors and Management of (name of facility) and the N. C. Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

Schedule A: Facility Data

Total Number of Resident Days: Line #19

1. We compared the total reflected as Adult Care Home Total Inpatient Days on the Medicaid Cost Report to the total number of resident days reported on the Adult Care Home Cost Report. We noted that the total number of resident days reported on the Adult Care Home Cost Report were under-reported by thirty (30) when compared to the total number of adult care home resident days reflected on the Medicaid Cost Report. This difference has been adjusted on the Adult Care Home Cost Report.

Total Number of State/County Special Assistance Days: Line #20

2. N/A

Schedule C: Expenses

Cost Center Totals: Lines #20, 40, 50, 60, 80, 90, 120, 140, 160, 170, 190, 200, 210, 215, 220, 225, 230, 235 and 240

- 3. We verified the addition of all cost center totals on Schedule C and the total of all cost centers (Line 240).

We noted no exceptions in the Cost Report that was submitted by facility management as a result of this procedure.

- 4. N/A
- 5. N/A

Schedule B: Schedule of Profit and Loss

Schedule of Profit and Loss Totals: Lines #10, 14, 17, 18, 19 and 20

- 6. We verified the addition of all revenue totals on Schedule B and that the total expenses amount (Line #19) agrees to the total reflected on Schedule C, Line #240.

We noted no exceptions in the original Cost Report that was submitted by facility management as a result of this procedure. However, the total expenses reflected on Line 19 does not agree with the total Adult Care Home costs that was reflected on the Medicaid Cost Report as identified in procedure 4.

Medicaid Cost Report - Total Adult Care Home costs	\$149,262.00
Adult Care Home Cost Report	
Schedule B, Line 19 - Total Expenses	<u>\$151,450.00</u>
Total Difference	<u>\$ (2,188.00)</u>

Adult Care Home Medically Related Patient Transportation Program

- 7. N/A

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Cost Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and Management of (name of facility) and the N.C. Department of Health and Human Services, and is not intended to be and should not be used by anyone other than these specified parties.

(Signature)

(Date)

(Please print or type)

(Name of Accountant / Firm)

(Address of Accountant / Firm)

(City and Zip Code of Accountant / Firm)

(Telephone Number of Accountant / Firm)

(Fax Number of Accountant / Firm)

Attachment: Cost Report with adjusted totals resulting from the performance of the agreed-upon procedures