

# Cost Report Highlights

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## **Overview**

- a. The cost report is used for two primary reasons: 1) to provide a Medicaid compliant cost-reporting mechanism for Medicaid-funded services and 2) to provide a consistent method to capture, analyze, and publicize annual county board expenditures and income
- b. The **county board** is responsible for everything in the cost report, no matter who completes the report
- c. [OAC 5123:2-1-02](#) requires county boards to ensure its business manager and other county board personnel who prepare cost reports or supporting documentation successfully complete: (a) a department-provided orientation program in cost report preparation within ninety days of employment or contract; and (b) department-provided annual training in cost report preparation thereafter
- d. [ORC 5126.131](#) governs cost report timelines and submission requirements
- e. Statutory due dates for the cost report are April 30th for COGS and May 31st for the county boards **unless** DODD establishes a later date
- f. For the 2015 reporting period, DODD has established a deadline of 6/30/15 for COGS and 8/31/15 for county boards
- g. Upon written request, DODD is allowed to grant one 14-day extension (nothing longer)
- h. DODD has the discretion to permit a COG or county board to make changes to the cost report **BEFORE** the audit begins
- i. Once an audit has been completed, changes to the cost report **are not** allowed
- j. This means that there will be **NO** changes to units or costs after the audit is complete or during the settlement process
- k. County boards should not complete the audit process until everything is fully understood
- l. DODD has the authority to withhold subsidy payments from county boards if 1) the cost report is not filed timely in accordance with the due dates or 2) the cost report is deemed not auditable by DODD
- m. If a county board's cost report is not auditable, county boards are given 60 days to provide additional documentation after the report is deemed not auditable
- n. After 60 days, DODD will determine if the report is auditable and DODD's decision is final
- o. If a report is deemed not auditable, this may result in payback of all FFP received for the reporting period and the board would be subject to the loss of subsidy payments

## Key Fundamentals to Completing an Accurate and Pain-Free Cost Report

### 1. Implementation of the Chart of Accounts

- a. Accurate up-front coding of expenditures and revenue is the key to pain free reporting
- b. By using the required DODD chart of accounts, your accounting software should be able to produce a report that allows you to enter the information into the correct worksheets/rows with relative ease
- c. If the DODD chart of accounts is not used, the board **must** have a crosswalk to the DODD chart of accounts
- d. An auditor should be able to trace your expenditures from the invoice to the accounting entry to the cost report
- e. Examples
- f. Audit tips

### 2. Regular Reconciliation

- a. Regular reconciliation to the county auditor **must** be a routine part of your process
- b. [OAC 5123:2-1-02](#) requires monthly reconciliation to the county auditor
- c. Examples of county auditor reconciliation methods and discussion of best practices
- d. How to deal with specific issues with your auditor

### 3. Keep and Require Good Records

- a. Records are required to be kept for 7 years after final settlement
- b. Proper documentation and retention is the key
- c. If documentation is missing or inadequate, costs will be non-federal reimbursable
- d. All documentation of services delivered, required statistics, rationale for cost report coding, etc. should be archived and stored with the finished cost report
- e. For all expenditures requiring statistics (days of service, trips, etc.), all invoices should have accompanying statistics **before** you pay the invoice
- f. Compile data into a monthly or quarterly reports; providing a pile of log sheets to AOS to sort and hand count is not appropriate and slows down the audit process
- g. The primary reason audits are slowed down is due to the lack of documentation or significant time spent tracking it down
- h. Example strategies for record archiving
- i. Audit tips

### 4. Check Your Work

- a. If the chart of accounts is adopted and transactions are reconciled monthly, a simple review of the final cost report will resolve most issues before final submission

- b. Unfortunately, DODD receives numerous cost reports that are not reconciled, do not balance, or have other errors that should have been detected by a simple review
- c. Examples include: Entering '1' for all individuals served or for all square feet; statistics for services where there are no costs; county auditor reconciliation page is out of balance, statistics not entered in one of the worksheets, etc.
- d. Key principle of the cost report: **The relationship between cost and units**
- e. Often, a simple check of the rate page will flag these sorts of errors

#### **5. Follow DODD's guidelines**

- a. There may be some situations where a county may not agree with DODD's guidance on a cost reporting matter
- b. However, county boards are expected to follow DODD guidance on cost reporting issues
- c. Guidance is given based on federal and state regulations, as well as discussion among the county board cost report committee, the Department of Medicaid, the Auditor of State, and others
- d. Uniformity and consistency is important to ensure county boards are treated equitably

#### **6. Engage and Train Program Staff**

- a. A lot of the information needed for an accurate cost report depends on statistics and tracking from county board program staff
- b. It is important to discuss the potential financial implications of inadequate tracking/documentation
- c. It is also important for program staff to understand documentation and cost reporting requirements

#### **7. Plan Ahead**

- a. Develop a work plan that lists items needed, where to get the information, and who is responsible
- b. Establish timelines that allow time for you to review and analyze the information provided
- c. Think of what you'll need during the audit process when you are completing the report
- d. Examples

#### **8. Use the data warehouse**

- a. Use the data warehouse to proactively prepare for the audit as well as to help find other potential issues
- b. Data warehouse reports that are helpful for cost reporting purposes can be accessed here: [Public Folders > \\*Standard Reports > Cost Report Preparation](#)
- c. Demonstration of data warehouse reports

## Overview of the Cost Report Worksheets

### **Schedule A** (see pgs. 6-15 of the Instructions and pg. 1 of the FAQs)

- a. Summarizes the cost report by program (columns) and by account (rows)
- b. Schedule A automatically populates with the exception of lines 19-27
- c. On line 19, **all** room and board expenses should be reported here and nowhere else in the cost report
- d. On lines 20-25, report the total costs for ancillary waiver services (not day array services or non-medical transportation) for which the county board is the provider
- e. On line 27, report the total costs incurred providing Home Choice Community Transition Services under the Home Choice demonstration grant

### **Schedule B-1** (see pgs. 16-17 of the Instructions and pgs. 7-9 of the FAQs)

#### ***Square Footage***

- a. Used to allocate all square footage used by or for the benefit of the categories listed on Schedule A
- b. Square feet are used on Worksheet 1 (Capital) and Worksheet 3 (Building Services) to allocate general/unassigned costs
- c. Reportable square footage includes:
  - a. Space used by other entities whether or not rent is received (non-federal reimbursable)
  - b. Capital leases (see pgs. 34-35 of the Instructions)
  - c. Space used for non-DD activities (non-federal reimbursable)
  - d. Space that has been idle for more than 365 days (non-federal reimbursable)
  - e. Space used by the MAC coordinator and assistant coordinator based on % of their time spent on MAC (MAC)
- d. Non-reportable square footage includes:
  - a. Common areas
  - b. Operating leases (direct charge to the program; see pgs. 34-35 of the Instructions)
- e. Areas shared by more than one program should be allocated based on the actual use of the space
- f. Example of tracking mechanisms
- g. Audit issues
- h. What is adequate documentation (e.g., things change throughout the year)?

#### ***Attendance Statistics***

- a. Used to tracking **ALL** units of service, number of individuals served, and days of attendance regardless of whether Medicaid reimbursement is received
- b. Recent changes to report (Title XX)
  - i. Title XX recently transitioned to a fee for service model
  - ii. Medicaid does not allow public providers to receive more than their actual costs for providing a service

- iii. Overpayments must be credited to the appropriate federal award either as a cost reduction or cash refund
- iv. Any revenue received **above** the actual costs for services that are Title XX and Medicaid services (Facility-based, SE-Enclave, SE-Community, & Transportation) will be offset against program costs during settlement
- v. The only additional cost reporting requirement will be a separate accounting of Title XX days of attendance by acuity, unduplicated counts of individuals, one-way trips, and 15-minute SE-Community units
- vi. These statistics are already being reported in the cost report, they will just have a separate place now
- c. Attendance statistics are a key to the rate setting methodology, so a lot of time should be put into these stats to ensure accuracy
- d. Attendance statistics include **all non-Medicaid** services provided by a contractor
- e. The CB must ensure that contractors are tracking statistics appropriately and providing them **upon invoice** for reporting purposes
- f. Pre-payment, fronting funds, etc. are not good ideas and have caused significant issues with some cost report audits
- g. Statistics for **Medicaid** services provided by a private provider are **NOT** included (match paid to DODD is a reconciling item) unless the provider is under contract with the board and the board is billing for the services
- h. For the most part, if there are service costs reported for a program, then there should be applicable statistics
- i. Costs that are not supported by statistics should be reported as non-federal reimbursable
- j. A day of attendance is counted if the individual shows up to receive a service, regardless of how long the individual is there
- k. Keep in mind that the definition of a day is different for Medicaid billing, so it is not accurate to use Medicaid days billed for these statistics
- l. Ensure the acuity bands in your local system match the state system (e.g., A and A1); remember to use the data warehouse reports to **actively** monitor acuity issues
- m. Example of reports
- n. Example reconciliation & verification methodologies
- o. Audit issues

**Schedule B-2 (see pg. 20 of the Instructions and pg. 9 of the FAQs)**

- a. Used to track units of services for professional services (Worksheets 7A-7H)
- b. These statistics **do not** auto-populate into Worksheets 7A-7H since the CBDD has the option to use people served if it more accurately reflects the cost
- c. Failure to enter the respective statistics directly in Worksheets 7A-7H is one of the most common mistakes
- d. Schedule B-2 is optional except for those counties that bill the waiver for social work or nutrition.

**Schedule B-3 (see pg. 21 of the Instructions and pg. 10 of the FAQs)**

- a. Used to track one-way trips and the cost of bus tokens, cab fare, per mile reimbursement, etc. for CBDD and contracted transportation
- b. These are a key to the rate setting methodology, so a lot of time should be put into these stats to ensure accuracy
- c. Track transportation statistics for **ALL** services regardless of whether it is reimbursed or not (including children's, enclave, and community employment)
- d. It is important to separate out transportation costs by program because the number of trips is used in Worksheet 8 to allocate unassigned/general transportation expenses
- e. Costs associated with one-way trips are only reported on Worksheet 8 and **ARE NOT** reported on Schedule B-3
- f. Temporary stops/layovers do not generate an additional trip unless the stop was made for a service to be delivered
- g. Field trips that are part of the days' services **do not** generate a trip
- h. Costs associated with per mile transportation or other "at cost" transportation (bus passes, cab fare, commercial transportation, reimbursement to families, etc.) are reported on Schedule B-3 in columns B, D, F, H, & J and on Worksheet 8
- i. The "at cost" items are backed out of the total Worksheet 8 expenses when calculating the CBDD's per trip rate
- j. Example of reports
- k. Example reconciliation & verification methodologies
- l. Audit issues

**Schedule B-4 (see pgs. 22-24 of the Instructions and pg. 10 of the FAQs)**

- a. Used to track units of service for SSA activities
- b. The reported units are used to allocate total SSA costs between allowable and non-federal reimbursable in Worksheet 9
- c. All time should be accounted for except those that do not generate units (e.g., professional development, administrative time, etc.)
- d. Maintain adequate documentation and sufficient detail in the case notes to justify the activity
- e. Reference the grid on pgs. 22-24 of the Instructions for detail
- f. Do **NOT** simply report paid TCM units
- g. Line 1 TCM Units: Include all TCM units for individuals who are Medicaid-eligible, not just on a waiver
- h. Line 2 Other Allowable SSA Units: Include allowable units to non-Medicaid eligible individuals (total allowable units less TCM paid)
- i. Line 3 Home Choice Units: Include transition coordination services provided under the Home Choice demonstration grant
- j. Line 5 SSA Unallowable Units: Include all unallowable units
- k. Do **NOT** include general time units on Schedule B-4; the cost of general time will be allocated in Worksheet 9 based on the allowable/unallowable units
- l. In many cases, CBDD's have certain staff doing intake/eligibility as well as other non-SSA duties as assigned

- m. If a full-time SSA (one that maintains a caseload) does intake/eligibility as part of their overall SSA duties, the units should be reported according to the grid on pgs. 22-24 of the Instructions
- n. If a certified SSA is doing intake/eligibility and no other SSA functions, the units are **NOT** reported on Schedule B-4 and the costs are reported on Worksheet 2 (column X)
- o. Example of reports
- p. Example reconciliation & verification methodologies
- q. Audit issues

**Schedule C (see pgs. 25-29 of the Instructions and pgs. 1-2 of the FAQs)**

- a. Used to report revenue received by the CBDD during the reporting period
- b. This data is heavily used for important national studies (e.g., unmatched dollars)
- c. Attribute revenue to the appropriate column when possible; do **NOT** simply put revenue totals in the 'Other' category
- d. Review in detail pgs. 25-29 of the Instructions to ensure proper reporting of all state, local, federal, and miscellaneous revenue
- e. Payments for state-funded waivers & ICF payments need to be broken out into state and federal revenue
- f. Payments for TCM need to be broken out into federal revenue and local match
- g. The match portion of all TCM payments is a reconciling item since it is a refund of locally-paid funds
- h. Use the data warehouse reports to reconcile MBS payments and to accurately complete Schedule C
- i. Example reports
- j. Example of county board consolidated report
- k. Discussion of how data is used outside of rate setting

**Worksheet 1 (see pgs. 16-17, 30-39 of the Instructions and pgs. 2-4 of the FAQs)**

- a. Used to report depreciation expense for capital assets
- b. Only include assets with a cost of the lesser of the capitalization level established by the governmental unit or \$5,000
- c. All other assets are a direct charge to the benefitting program
- d. An asset ledger must be maintained that shows the acquisition cost, the date of acquisition, the date the asset was placed in service, and all depreciation calculations
- e. Virtually all assets have a salvage value substantial enough to be included in calculating depreciation, and only in the rare instance is salvage value so negligible that it may be ignored
- f. The ledger should be organized by the program areas found on Schedule A (columns)
- g. Depreciation cannot be taken until the capitalization period **after** the asset was placed into use (period is defined as yearly, semiannual, quarterly, or monthly)
- h. The impact of all disposed assets must be accounted for when the asset is disposed
- i. Capital leases are reported on Worksheet 1 while operating leases are charged directly to the benefitting program (see pgs. 34-35 of the Instructions)

- j. An operating lease transfers only the right to use the property to the lessee. At the end of the lease period, the lessee returns the property to the lessor. Since the lessee does not assume the risk of ownership, the lease expense is treated as an operating expense and charged directly to the program (e.g., postage machines, etc.).
- k. Under a capital lease, the board is essentially purchasing an asset
- l. Pages 34-35 of the instructions outline some of the guidelines for determining the lease type (see also [Financial Accounting Standard No. 13, Accounting for Leases](#))
- m. Capital housing expenses are not to be depreciated unless the board is the owner of the property
- n. Capital housing expenses (net of any pass-through capital assistance funds from DODD) are reported on Worksheet 5 (column L)
- o. Example depreciation schedule
- p. Discussion of common depreciation scenarios
- q. Audit issues

**Worksheet 2 (see pgs. 40-46 of the Instructions and pgs. 4-5 of the FAQs)**

- a. Used to report general management expenses that benefit all county board programs
- b. Costs for general county services are reported on Worksheet 2 as long as the county board actually paid them

*Unallowable Costs*

- c. Unallowable means cost are not eligible for payment with federal funds
- d. If costs are unallowable, it does not mean the expenditures is improper or illegal
- e. Unallowable costs are a subset of the non-federal reimbursable category
- f. Non-federal reimbursable includes unallowable costs as well as other costs that are not reimbursable for some reason (CMS rule, allocation methodology, improper documentation, etc.)
- g. The following two documents are used to determine how to treat costs: [2 CFR Part 200, Subpart E \(Super Circular summary\)](#) and the [Provider Reimbursement Manual, CMS Publication 15-1](#)
- h. Common Unallowable Items (pgs. 105-108 of the Instructions and pgs. 4 & 15 of the FAQs)
  - i. Fair booth fees (Public relations/advertising costs)
  - ii. DODD admin fees (1.25% Administration and Oversight Fee)
  - iii. Retirement/holiday gifts (Entertainment/personal use)
  - iv. Holiday staff parties
  - v. General government expenses, lobbying, fund-raising/investment management
  - vi. Costs for services beyond the DD population (such as a dental clinic, day care)
- i. Unallowable fees are reported on Worksheet 2 (column O, line 10)
- j. The most common unallowable fees are as follows:
  - i. 1 ¼% administrative fee
  - ii. 5% MAC fee

- iii. County auditor and treasurer fees for the collection of levy and property tax revenue
- iv. Contingent fees paid to a consultant (e.g. % of what is collected from a settlement)
- k. Provider certification fees are allowable based on the criteria outlined in 42 CFR Part 433 Subpart B, as a routine cost of business and are charged to the appropriate cost center or allocated to multiple cost centers based on the services for which the board is certified
- l. Review in detail the above section titled 'Unallowable Items' under 'General Issues' for additional non-federal reimbursable items as well as pgs. 105-108 of the Instructions and pgs. 4 & 15 of the FAQs
- m. If a full-time SSA with a caseload is doing intake/eligibility, the costs are reported on Worksheet 9 and the units are reported as unallowable Schedule B-4
- n. If a full-time SSA without a caseload is doing intake/eligibility, the costs are reported on Worksheet 2 and no units are reported on Schedule B-4
- o. Worker's compensation costs should be allocated to each program when given sufficient detail to do so in lieu of simply posting the costs to Worksheet 2

**Worksheet 2A (see pgs. 47-54 of the Instructions)**

- a. Used to report program costs that are necessary to maintain and facilitate direct service programs
- b. Only costs associated with staff and associated support staff that are above the first level of supervision are reported on Worksheet 2A
- c. If an employee performs program supervision (above the first level of supervision) and also provides direct services, his/her time must be allocated between Worksheet 2A and the appropriate direct service worksheet

**Worksheet 3 (see pgs. 55-61 of the Instructions and pg. 5 of the FAQs)**

- a. Used to report all building service costs such as housekeeping, cleaning, maintenance, non-capitalized repairs, and utilities
- b. If a building houses multiple programs and/or it houses other direct or indirect service areas, allocate building service costs to the various areas based on square footage
- c. If an area within any building is shared by more than one program, the building service costs associated are allocated based on the square footage assigned exclusively to the programs involved or by actual time the area is used by each program
- d. If more than one building is operated, a separate worksheet similar to Worksheet 3 should be completed for each building and then combined into Worksheet 3

**Worksheet 4 (see pgs. 62-67 of the Instructions)**

- a. Used to report food service costs (e.g., cafeteria, vending machines, etc.)
- b. If the food service operation is operated by a non-profit that contracts with the board, the related food service costs are **not** included
- c. Don't forget to add the number of meals served at the bottom of the worksheet

**Worksheet 5 (see pgs. 68-72 in the Instructions and pgs. 5-6 of the FAQs)**

- a. Used to report costs directly associated with personnel who work directly with individuals (other than adult programs reported in Worksheet 10) to supervise, assist, and develop their educational, work, and habilitation skills
- b. Examples of the types of personnel that may be charged to Worksheet 5 include PAWS data clerk, Medicaid accounting supervisor/specialist, Medicaid billing clerk, quality assurance and compliance specialists, investigative agents, behavior support specialists, etc.
- c. Some of these personnel can be allocated between Worksheet 5 and other worksheets depending on the duties performed
- d. Costs associated with direct services but above the first level of supervision are **not** reported on Worksheet 5 and are reported on Worksheet 2A
- e. Most direct service costs are directly assignable to a specific program
- f. MUI activities are unallowable and reported on Worksheet 5, column O
- g. Capital housing expenses are not to be depreciated unless the board is the owner of the property
- h. Capital housing expenses (net of any pass-through capital assistance funds from DODD) are reported on Worksheet 5 (column L)
- i. Pass-through capital assistance funds from DODD are a reconciling items for both revenue and expenses
- j. Audit issues

**Worksheet 6 (see pgs. 73-74 in the Instructions and pg. 6 of the FAQs)**

- a. Used to report salary and benefit costs for personnel participating in Medicaid Administrative Claiming (MAC)
- b. Costs are entered into Worksheet 6 exclusively from a report the county board runs directly from the RMTS system
- c. MAC costs are limited to **salary, benefits, and approved contracts** only
- d. MAC is **not** a program; it is a funding stream
- e. The best strategy for properly classifying staff that participate in MAC is to code them to the proper place in the cost report as if MAC did not exist
- f. Enter those costs into the cost report based on this coding
- g. Once the DODD report is received, subtract the salary and benefits reported on the DODD report (by person) from the appropriate worksheets
- h. Then, enter the cost information into Worksheet 6 exactly as listed on the RMTS report
- i. AOS also looks at MAC moments as part of DODD's oversight responsibility
- j. Example of MAC report
- k. Audit issues

**Worksheets 7A-7H (see pgs. 75-81 of the Instructions)**

- a. Used to report the cost of professional services
- b. Statistics **must** be directly entered in Worksheets 7A-7H
- c. Statistics do not automatically populate because the board has the option to use the number of units or people served as the allocation basis

**Worksheet 8** (see pgs. 21, 82-87 of the Instructions and pg. 6 of the FAQs)

- a. Used to report all costs associated with transportation to board programs
- b. Since most boards operate a centralized transportation service for all programs, most costs will not be directly assigned to a specific program
- c. One-way trips are used to allocate those costs that cannot be directly assigned
- d. This is why one-way trips must be tracked for all programs even though the transportation rate is the same
- e. All costs associated with transporting individuals, including contracted transportation services, are reported
- f. This only applies to locally paid, non-waiver individuals (waiver match paid to DODD is a reconciling item) or cases where the provider is under contract with the board and the board is billing for the services
- g. If a board contracts for transportation, those costs are included as well as the appropriate one-way trips
- h. It is the **board's** responsibility to ensure contractors are providing accurate and timely statistics
- i. The CB must ensure that contractors are tracking statistics appropriately and providing them upon invoice for reporting purposes
- j. Pre-payment, fronting funds, etc. are not good ideas and have caused significant issues with some cost report audits
- k. Costs may also include public transportation, reimbursements to families or other providers, taxi fares, or other such forms
- l. These costs are reported as part of line 4 (other expenses) and also on Schedule B-3, columns B, D, F, H, & J and **do not** generate a one-way trip
- m. Example reports
- n. Example reconciliation & verification methodologies
- o. Audit issues

**Worksheet 9** (see pgs. 22-24, 88-92 of the Instructions)

- a. Used to report costs associated with service and support administration and related support staff
- b. Worksheet 9 allocates total costs between allowable and non-federal reimbursable based on the units entered on Schedule B-4
- c. Refer to the grid on pgs. 22-24 of the Instructions and the Schedule B-4 section above
- d. In some instances, boards have assigned all intake responsibilities to a person that does not maintain a caseload and does non-SSA work as well
- e. In this case, the costs are reported in Worksheet 2, column X and no units are entered on Schedule B-4
- f. If a full-time SSA with a caseload is doing intake/eligibility, the costs are reported on Worksheet 9 and the units are reported as unallowable Schedule B-4
- g. If a full-time SSA without a caseload is doing intake/eligibility, the costs are reported on Worksheet 2 and no units are reported on Schedule B-4
- h. Example reports

- i. Example reconciliation & verification methodologies
- j. Audit issues

**Worksheet 10 (see pgs. 16-17, 93-97 of the Instructions and pgs. 6-7 of the FAQs)**

- a. Used to report all costs associated with the provision of facility-based services and supported employment (both enclave and community employment)
- b. Only costs associated with the 1<sup>st</sup> level of supervision and lower are reported on Worksheet 10
- c. Contracts with private providers are included as a cost in Worksheet 10 and respective days by acuity and unduplicated individuals served **must** be included in Schedule B-1
- d. Boards must ensure that providers are recording days of attendance according to cost report guidelines and reporting those statistics to the board for cost reporting purposes
- e. This only applies to locally paid, non-waiver individuals (waiver match paid to DODD is a reconciling item) or cases where the provider is under contract with the board and the board is billing for the services
- f. Recommended practice is to require the locally paid providers to submit the days of attendance with each payment request
- g. **Rule of thumb**: if the board is the provider or is billing Medicaid for the services, the board reports all income, expense, days of service, and unduplicated individuals served in the cost report
- h. All costs related OOD (formerly RSC) programs (e.g. Bridges to Transition, Pathways, etc.) are reported as costs on Worksheet 10, SE-Community and then as an offset on Worksheet A1 adult, column B
- i. Since OOD programs do not have units associated with them, the costs must be removed before the calculation of the unit rate or the rates will be inflated
- j. Example reports
- k. Example reconciliation & verification methodologies
- l. Audit issues

**Adult a1/a2-Children a3/a4 (see pg. 98 of the Instructions)**

- a. Used to allocate indirect costs (e.g., capital, indirect, program supervision, building services, & dietary) to all cost centers
- b. This is called the step-down methodology and is required when calculating costs under CMS publication 15-1
- c. This worksheet is used for rate calculation
- d. The principle behind the step-down methodology is to recognize that indirect costs benefit both revenue-producing and non-revenue producing costs centers and should be allocated as such
- e. Column B (less revenue) should be used to offset costs in the appropriate worksheet when there is no relationship between costs and units
- f. The most common example of an item that should be entered in column B include all OOD (formerly RSC) costs
- g. Other offsets could include reimbursements and other offsetting revenue if the revenue was not accounted by reducing expenses in the appropriate cost center

### **Reconciliation to the County Auditor (pg. 99 of the Instructions)**

- a. Used to reconcile the expenses and revenue reported in the cost report to the year-end county auditor's report
- b. Reconciliation must be within 0.25%
- c. Recommended practice is to create a tab within the cost report that lists all reconciling items and any applicable notes
- d. Do **not** force reconciliation by entering false numbers
- e. Regular reconciliation to the county auditor's reports will make the reconciliation process less difficult and time consuming
- f. Common expense reconciling items include:
  - i. All waiver and TCM match paid to DODD
  - ii. Capital housing pass through
  - iii. Other applicable pass through
  - iv. DC cost of care and/or day service match
  - v. Capitalized purchases
  - vi. Capital expenses from Worksheet 1 (Lines 1-7; as a negative number)
  - vii. All transfers to the COG
  - viii. All COG expenses entered from the provided summary workbook (automatic)
  - ix. Any COG expense entered on Schedule A (not automatic)
  - x. Grossed up auditor/treasurer fees (reported on Worksheet 2, but often netted from levy proceeds)
  - xi. Match paid to OOD (formerly RSC)
  - xii. Transfers out
  - xiii. Any expense items that were netted against payments (reimbursements, payments for sharing of services, etc.)
  - xiv. Payments made as a fiscal agent
- g. Common revenue reconciling items include:
  - i. Match portion of all TCM payments
  - ii. COG revenue (automatic)
  - iii. Transfers in
  - iv. Waiver match reconciliations
  - v. Grossed up auditor/treasurer fees (reported on Worksheet 2, but often netted from levy proceeds)
  - vi. Revenue received as a fiscal agent

### **MAC Reconciliation**

- a. Boards do not need to do anything with this worksheet

### **Control Totals**

- a. Used to check the cost report to be sure it is balance
- b. Check the control totals worksheet before submitting the report to DODD
- c. The most common mistake causing the report to not balance is not entering the appropriate statistics directly in Worksheets 4 or 7A-7H

### **Rate Detail/Summary**

- a. Use this page as a “gut check” to determine if your cost report information is accurate
- b. Review this page **before** submitting the report to DODD
- c. For example, a TCM or SE-Enclave rate of \$1.00 per unit likely indicates either the over-reporting of units (e.g., recording administrative time as unallowable) or miscoding of expenditures
- d. The final audited rates from these worksheets will be used for settlement
- e. If your cost per day is under the rule rate (and you billed the rule rate), a board can expect to pay back the FFP portion of the difference between the audited rate and the rule rate (multiplied by the number of units billed)
- f. If your cost per day is higher than the rule rate, the settlement amount will depend on the settlement ceiling for that service (112% of the statewide average rate in most cases)
- g. Discussion of settlement process
  - i. Settlement cannot begin until all county board and COG cost reports are completed
  - ii. The rate page in the cost report shows the calculation of each rate based on the approved settlement process
  - iii. Remember, once the cost report is final audited, **NO** changes can be made
  - iv. Do not sign off on the audit until you fully understand what is being proposed
  - v. If disagreements arise, DODD will make a final determination after consulting with AOS and the county board
  - vi. Inaccurate cost reports may serious financial consequences
  - vii. The goal is to settle a cost report period each calendar year, which will hopefully bring some predictability to the process
  - viii. Overview of methodology

### **Early Retirement Incentive Plans (or other abnormal mass severance)**

- a. ERIPs must have prior approval from CMS to be allowable
- b. Boards must fill out an ERIP questionnaire and cost savings spreadsheet which is submitted to CMS for approval
- c. The questionnaire and worksheet can be obtained from DODD
- d. If AOS finds ERIP costs during an audit, the costs will be moved to unallowable unless prior federal approval has been granted
- e. If federal approval is granted, AOS will move the costs back to the appropriate places once notified by DODD
- f. CMS is typically interested in the cost savings and the board’s retire/rehire policy

## Depreciation Examples

### Disposal of Assets

Depreciable assets may be disposed of through sale, scrapping, trade-in, donation, exchange, demolition, abandonment or involuntary conversions such as condemnation, fire, theft or other casualty. **If the disposal of a depreciable asset results in a gain or loss, an adjustment may be necessary in the provider's allowable cost** (see §104.10.B through §104.10.E.). The amount of gain included in the determination of allowable cost is limited to the amount of depreciation previously included in allowable costs.

### Scenario

Cost of Acquisition-\$50,000  
Salvage Value-\$5,000  
Depreciation Basis -\$45,000  
Useful life-5 years  
Annual Depreciation-\$9,000

### **Example #1: The asset is sold for \$1,000 after 6 years.**

Depreciation Claimed-\$45,000  
Net Book Value/Unclaimed Depreciation -\$5,000

Result-\$4,000 in depreciation can be claimed in year of transaction (\$5,000 net book value less \$1,000 sale proceeds). This would be charged to the same place as the disposed of asset. Net depreciation claimed = \$49,000

### **Example #2: The asset is sold for \$7,000 after 6 years.**

Depreciation Claimed-\$45,000  
Net Book Value/Unclaimed Depreciation -\$5,000

Result-A **-\$2,000** adjustment (negative number) should be claimed in year of transaction (\$5,000 net book value less \$7,000 sale proceeds). This would be charged to the same place as the disposed of asset. Net depreciation claimed = \$43,000

### **Example #3: The asset is sold for \$20,000 after 3 years.**

Depreciation Claimed-\$27,000  
Net Book Value/Unclaimed Depreciation-\$23,000

Result-\$3,000 in depreciation can be claimed in year of transaction (\$23,000 net book value less \$20,000 sale proceeds). This would be charged to the same place as the disposed of asset. Net depreciation claimed = \$30,000

**Example #4: The asset is sold for \$40,000 after 3 years.**

Depreciation Claimed-\$27,000

Net Book Value/Unclaimed Depreciation-\$23,000

Result- A **-\$17,000** adjustment (negative number) should be claimed in year of transaction (\$23,000 net book value less \$40,00 sale proceeds). This would be charged to the same place as the disposed of asset. Net depreciation claimed = \$10,000

**Example #5: The asset is sold for \$60,000 after 3 years.**

Depreciation Claimed-\$27,000

Net Book Value/Unclaimed Depreciation-\$23,000

Result- A **-\$27,000** adjustment (negative number) should be claimed in year of transaction. Since the \$23,000 net book value less the \$60,000 sale proceeds would result in an adjustment greater than the amount of depreciation claimed, the adjustment is limited to the depreciation previously claimed for the asset. This would be charged to the same place as the disposed of asset. Net depreciation claimed = \$0

**Exchange, Trade-in, or Donation**

Gains and losses realized from the trade-in, donation, or exchange of depreciable assets are not included in the determination of allowable cost. Under CMS Publication 15-1 (Section 104.11), the cost of “the new asset is the sum of the undepreciated cost (or fair market value if no cost is assigned) of the asset traded-in and any cash or other assets transferred or to be transferred to acquire the new asset.”

Amount Paid-\$50,000

Net book value/Unclaimed Depreciation of trade-in-\$7,000

Total Acquisition Cost-\$57,000

Salvage Value-\$5,700

Useful Life-5 years

Annual Depreciation-\$10,260

**Involuntary Conversion**

If a depreciable asset is destroyed by an involuntary conversion beyond repair and the amount of the allowable loss exceeds \$5,000, the loss must be capitalized as a deferred charge over the estimated useful life of the asset which replaces it. The allowable loss for a total casualty is the undepreciated cost or unrecovered book value of the asset, less insurance proceeds, gifts, and grants received from local, State, or Federal Government, or any other source as a result of the involuntary conversion. If the unrepairable asset is disposed of by scrapping, income received from salvage is treated as a reduction in the amount of the allowable loss. Conversely, where

additional expense is incurred in the scrapping operation, such cost would be added to the allowable loss of the destroyed asset.

## **Review/Updates**

### **TCM Claims**

- As of June 2015, travel and recording of case notes are not permitted to be billed as TCM
- Travel and documentation do NOT generate units for cost reporting purposes and are not recorded on Schedule B-4
- However, all units related to travel and documentation should continue to be tracked locally
- With cost settlement, there is a financial incentive to NOT document non-reimbursable services so one would expect greater scrutiny as the general time increases with travel and documentation
- Example (below)

### **Commercial Non-Medical Transportation**

- A commercial vehicle means buses, livery vehicles, and taxicabs that are available for public use
- Because no state rate exists for NMT by operator, the UCR is the only rate available to be paid, leading to an additional level of review by AOS
- If the rate the operator charges the CB is more than what the operator charges the general public, AOS will ask the following questions: 1) is the service different from what is available to the general public? and 2) if the service is different, is the rate charged for that different service reasonable?
- Make sure that the contract the CB has with the operator is clear about what services are being provided and what services are provided that are not available to the general public
- The best way to determine if costs are comparable with marketplace prices for similar services is to engage in a RFP process, even if there is only one vendor who can provide the service
- CBs should bill the ATT/FTT/STT service codes and report the transportation costs for both waiver and non-waiver individuals in the bus/tokens/cabs column in Schedule B-3

### **Privatization**

- Costs for privatized services are reported just as if they were provided by the board
- The only exception is private provider waiver match which is recorded on the reconciliation page
- Contracts with private providers should be reported in Worksheet 10 and the units associated with each invoice should be reported in B-1, Attendance Statistics
- As discussed earlier, boards should collect statistics with each invoice as they are paid
- Statistics for private provider non-Medicaid contracts are required because Medicaid requires those costs to be included in the calculation of the 112% settlement ceiling

- Putting costs in non-federal reimbursable because the CB doesn't want to track units distorts the cost report by making it look like the CB doesn't provide the service and distorts the board's true program costs
- If a board privatizes services mid-year, split costs and statistics based on days of attendance
- Example: In a space with 1,000 square feet, if the CB provided day services for 73 out of 365 days (20%) then the square footage reported would be 200 square feet (20% of 1,000 feet); if the third party provided services for 292 of 365 days (80%), then the square footage reported would be 800 feet (80% of 1,000 square feet)

## TCM Example

Total SSA costs are allocated to allowable and unallowable based on the number of units you record. General time is not reported. So, in essence, general time costs, which are included in the total SSA costs, but not in the units, are allocated based on the proportion of allowable and unallowable units.

### Example:

200 allowable units

200 non-reimbursable units

200 general time units

\$10,000 in SSA costs

Your rate is calculated in the following way:

In the cost report, you would report 200 units in allowable and 200 units in unallowable. The 200 units of general time is not reported.

The \$10K in costs are then allocated to allowable and unallowable by the units. In this case, 50% goes to allowable ( $\$10K \times (200 \text{ allowable units} / 400 \text{ total reported units})$ ) and 50% goes to non-reimbursable ( $\$10K \times (200 \text{ allowable units} / 400 \text{ total reported units})$ ). The 200 units of general time that are not reported are basically spread evenly to each cost group in this example because all SSA costs are reflected in the \$10K, but the units/time are not counted in the reporting.

Your rate then is based on the allowable services.  $\$5K$  in allocated costs / 200 allowable units = **\$25 per unit**. You can see that general time is allocated to each evenly because your total cost per unit is really  $\$16.66$  ( $\$10K / 600 \text{ total units}$ ). So, your final rate ( $\$25$ ) includes its share of the general time.

Now, let's say those 200 general time units that you didn't report should have been non-reimbursable.

Allowable =  $\$10K \times (200 / \underline{600 \text{ total reported units}})$  =  $\$3,333$  in allowable costs.  $\$3,333 / 200$  units = **\$16.66 per unit**.

With the change in TCM, we are now settling up. Previously, boards were capped at the rule rate of  $\$15.48$ . In this scenario, you can see that your rate is still above  $\$15.48$  (like virtually every board), so the risk of drawing down inappropriate federal dollars is very low. Now, we are settling up. The above example shows that there is a financial incentive to NOT document non-reimbursable because the higher the ratio of allowable to unallowable, the higher your rate, and, consequently, the more revenue you receive (in this example  $\$11.66$  per unit higher). If it were me, I would want to make sure I had processes and documentation in place to justify all units as this incentive would likely flag an auditor's interest.

## Audit Overview

### Audit Process

- a. Utilize Cost Report Instructions, FAQs, Cost Report Highlights/Checklist, training materials, and other resources available when preparing cost report.
- b. Complete and accurate coding, reporting, and reconciliations throughout the year can help in preparing the cost report and also aid in identifying errors/variances timely.
- c. Review the most recent finalized AOS AUP Cost Report audit for your County Board and COG (if applicable) and make any appropriate changes to all cost reports that have not undergone review and resubmit to DODD. Once the AOS review begins, adjustments/revisions will not be accepted.
- d. Be organized when preparing the cost report (suggestions: save the support used for costs/statistics reported on the cost report in one location, preferably electronically; make notes of where you obtained information from for each worksheet/schedule; maintain typical AOS requested reports with cost report documentation/support).
- e. The County Board is responsible for the cost report whether prepared in-house or contracted with an external party. The County Board is responsible for completing the cost report NOT the Auditor of State. Review your cost report for accuracy and completeness prior to submission.
- f. The AOS will provide an Engagement Letter, an Initial Documentation Request, and a Pre-Engagement Questionnaire 3-4 weeks prior to an entrance conference. Obtain, organize, and provide information requested in an organized and timely fashion.
- g. Attend the entrance conference with the AOS and communicate with them. If you have communication preferences (phone, email, request of multiple items/lists, requests by individual items), communicate that to the auditors. If you have preference of auditors working on-site or off-site, communicate with the audit team. If you have issues that will delay you in responding timely to requests, inform the auditors up front.
- h. Respond to AOS requests for documentation and questions during the audit and also requests for audit wrap-up in a timely manner. If you can't meet deadlines, work with AOS to set realistic deadlines you can meet, within reason.
- i. If you are having issues with the auditors (regarding requests, communication, confusion/misunderstanding, personnel matters, etc...), communicate with the AOS Audit Manager and/or AOS Senior Audit Manager. If you are still having issues, please feel free to reach out to DODD.
- j. Communicate with the auditors, show an interest in your audit, stay apprised of issues/adjustments during the audit, don't wait to ask questions or look at adjustments at the end. If you want more information/communication, talk to the auditors.
- k. If you have a disagreement with the auditors about adjustments/findings, try to resolve those issues during fieldwork. Auditors are willing to listen and review any additional documentation you have to provide them.
- l. AOS will keep you abreast of adjustments and issues noted during their review. A list of preliminary adjustments (format of Appendices to AUP Report) will be provided for CB review after the AOS Audit Manager's supervisory review; however, changes can occur during AOS higher-level management reviews. This is the time to review the

adjustments and discuss any concerns or misunderstandings with the auditors and resolve any disagreements.

- m. AOS will send the draft AUP report to DODD for review. After DODD's review, the AOS will send a draft AUP report and revised Excel cost reports to the CB with an opportunity to schedule an exit conference.
- n. The exit conference should be a formality. You should try to resolve/address all issues with the AOS prior to the exit conference. If issues can't be resolved, contact DODD before the AOS finalizes and submits the report to the Clerk of the Bureau.
- o. Once the AUP report is released by the Clerk of the Bureau, no changes will be made to the cost reports.

### **Audit Findings**

- a. As part of the audit, AOS reviews paid claims, which have led to recoverable findings.
- b. Common issues that result in monetary findings are lack of support and billing errors such as:
  - i. Billing NMT for field trips
  - ii. Billing greater than 32 units of Adult Day Array Services per day
  - iii. Home Choice billed as TCM
  - iv. Billing TCM for services provided after individual's death
  - v. Billing for TCM for an individual residing in a nursing facility not within their last 180 days at the facility
- c. Data warehouse reports can be used as a tool to assist in reviewing units billed and making claim adjustments.
- d. Data warehouse reports that are helpful for cost reporting purposes can be accessed here: [Public Folders](#) > [\\*Standard Reports](#) > **Cost Report Preparation**
- e. You are required to maintain documentation for payment of Medicaid services for 7 years after the cost settlement, this includes documentation to support claims paid for Medicaid services (ADS, NMT, TCM, etc...) and for cost report amounts reported.
- f. Once AOS releases the final report, the department will invoice the recoverable findings that exceed \$100.
- g. Beginning with CY11 cost report audits, interest will be collected on recoverable findings. Interest is not collected on cost report settlements.