NURSING FACILITY AUDIT INDEX

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NEW YORK STATE
OFFICE OF THE MEDICAID INSPECTOR GENERAL
AUDIT PROGRAM FOR REIMBURSEMENT AUDIT
OF NURSING FACILITIES

Provider ______________________ Provider Address ______________________

Base Period: ______________________ ______________________

Rate Period: ______________________ Audit Number: ______________________

Audit Manager in Charge ______________________________________

Auditors: Supervisor ______________________________________

Staff: ______________________ ______________________

The audit program encompasses all audit steps necessary to perform a full scope audit. For purposes of any degree of modification of audit, these basic steps will be utilized as follows:

(1) Those audit functions performed by provider's auditors or other agencies, to our satisfaction, will be noted on audit program, with proper cross-reference to either copies of provider auditor's workpapers or our review of such workpapers.

(2) Only those audit steps designated by the audit manager in charge of this audit will be performed.

(3) Any situation which comes to the attention of the supervisor of the audit which may warrant additional work should be brought to the attention of his or her audit manager, and only after approval shall additional work be performed. Such additional steps should be noted in the designated section of the audit program.

Basic audit procedures such as confirmation of accounts receivable, bank reconciliations, cash counts, testing of cash receipts, observation of taking of inventories, etc., have been omitted from this audit program. It is assumed that these basic steps have been performed by the provider's certified auditors. When such basic steps have not been performed, it would indicate a lack of internal control and consideration should be given to expanding the audit program.

Reference should be made in workpapers when items are transferred to the permanent file.

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.
D-1	**AUDIT PROGRAM (HARDCOPY)**			

D-2 PRE-AUDIT AND PREPARATION

1. Using eMedNY (the Data Warehouse), obtain the facility's "Medicaid Rate History" for all rate years under audit and include it in Section B-2. Assure that the rate sheets tie into the latest rates on the system.

2. Review audit package for completeness. Using the "Audit Files Request Form" (Source: Rochester Server), send request to the designated Albany Office person. Items to be requested include, but are not limited to the following:
   a. Most recent rate sheets
   b. Missing rate sheets
   c. Rate setting notes to rate sheets
   d. Capital Cost Model
   e. Appeal Log
   f. Copy of approved and outstanding appeals

3. Download the applicable RHCF-4 Reports using the "COST REPORT ACCESS INSTRUCTIONS.doc" on the Rochester server.

4. Based on a review of the rates and the audit package, determine whether there are any "Approved Project Cost" (APC) amounts allowed in the rates. If so, determine if a separate audit of the APC is necessary.

Determine the scope of the audit by following steps #5 - #7.

5. Complete an analysis of the rate sheets:
   a. Reconcile the RHCF-4 to the rate sheets to determine how the facility's expenses and income are treated on the rate sheet.
   b. Review the Direct and Indirect components to determine if components are below the base, above the ceiling, or in the corridor for reimbursement. Prepare a workpaper to summarize your findings and plan the audit scope based on your findings.
   c. If a component is above the ceiling, calculate the disallowance in dollars needed to pierce the ceiling.
   d. Review the Input Price Adjustment Factor (IPAF) calculation to determine if a detailed audit is necessary.
      i. Obtain the rate year rate calculation from the Rochester server and enter the IPAF information from the promulgated rate. Be sure to check that the IPAF per the information entered is the same as the IPAF per the promulgated rate.
      ii. Enter -0- for RN salaries, fringe benefits and hours paid in the IPAF calculation from (a) above to determine whether it changes the rate.
      iii. Compare the IPAF's from steps (i) and (ii). If the IPAF's are different, a detailed audit of the IPAF may be necessary. See the IPAF Section E-4.
   e. If there is an Administrative & Fiscal cap (ceiling) cut in the rate, determine any impact the ceiling cut might have on the audit of administrative and fiscal expense.

6. Review our prior audit report and the permanent file to determine if any prior adjustments should be carried forward or if special attention should be taken for any particular expense(s). Also review previous audit decisions from bureau reviews, formal hearings, and litigation regarding this facility to determine whether appealed adjustments should continue to be made.

7. Summarize your pre-audit analysis for review by the manager. Should the facility be audited? Why or why not? What areas should be audited and to what degree?

8. If the manager determines that the facility is to be audited, send an Audit Engagement Letter to the facility. (Source: Rochester server) Note that the Opening Conference must be held within 60 days of the date on the letter in accordance with 18 NYCRR Section 517.3(c). If an opening conference cannot be scheduled before the 60 day period, a second engagement letter may be issued prior to the termination of the first 60 day period. This gives the Office a second 60 day period in which to hold the opening conference.

Prepared by ________
Date ________
Auditor in Charge ______
Final Review ______
W.P. No. ________

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.
9.	Prepare a folder for each rate year using the first rate year as your main folder. The main folder will include Sections A through J (as necessary). Subsequent folders will include Sections C through J (as necessary) and the index should reference that Sections A and B are in the first rate year folder.			
10.	Prepare a permanent file folder if one is not available. A permanent file folder will include leases, depreciation, and prepaid expense schedules. A permanent file index (PermanentFile.doc) can be found on the Rochester server in the "Rate Audit Programs on Word" folder.			
11.	Prepare a separate folder for any related companies with significant expenses included on the rate sheets that require extensive analysis. If an extensive analysis of related company expense is not necessary, a separate folder is not required. Put the related company expenses in Section I-3 of each appropriate rate year.			
12.	Begin a "To-Do" Sheet. This record will be open-ended so that the field auditor can revise it as the audit continues.			
13.	Discuss the budget with your audit manager and have him/her select the budget areas needed for this audit and calculate the budgeted hours on the "Budget Time Audit Calculation" found on the Rochester server. At the end of the audit, print a copy of the budget and the associated progress reports and place in main folder.			
14.	Contact and set an appointment with the facility's CPA to review the CPA's workpapers and to obtain the facility's (and related company's): a. Financial Statements b. Federal Tax Returns c. Articles of Incorporation (Base year audit only). Review and make copies of any workpapers that relate to the audit including any revenue tests done to support reported patient days for the facility. Review the workpapers for scope and validity of testing to determine the auditor's reliance on the CPA's workpapers.			
15.	Schedule an Opening Conference with the administrator and/or owner. Bring the following forms to the Opening Conference (Source: Rochester server): a. Opening Conference Procedures b. Opening Conference Sign In Sheet c. "Letters of Representation" to be given to provider: - Terminated services letter - Relatives working at facility letter - Exit conference letter of representation			
16.	At the Opening Conference or shortly thereafter, tour the facility. Look for other sources of income such as a beauty shop, gift shop and/or vending machines. Be aware of any unusual or large items not related to patient care. Prepare a summary of your findings and the impact on the audit.			
17.	Additional Pre-Audit Procedures: ____________________ ____________________ ____________________			

Prepared by ________
Date ________
Auditor in Charge ______
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W.P. No. ______

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

D-3 RECONCILIATION OF RHCF-4 REPORT, CERTIFIED FINANCIAL STATEMENT, AND TAX RETURN

1. Prepare a 3 column workpaper reconciling revenues and expenses from the RHCF-4 report, the certified financial statements, and the Federal tax return. Templates for this workpaper can be obtained from the Rochester server. Follow up on any material differences or items of interest.

2. Reconcile the financial statements of related companies to the RHCF-4 Report section dealing with related companies. Reconcile expenses to the amounts allowed on the rate sheets. Also, review revenues for possible offsets to expense.

3. Additional Steps Performed:

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D-4 TRIAL BALANCE

1. Obtain the facility's <u>audited</u> trial balance and check footings. Test to assure that the trial balance ties into the facility's general ledger.

2. Obtain year-end adjusting journal entries and examine them for proper basis and support. Cross reference the journal entry to any supporting audit workpaper.

3. Review the prior year and following year journal entries to determine that accruals and reversals have been handled properly.

4. Reconcile the financial statements of related companies to the RHCF-4 Report section dealing with related companies. Reconcile expenses to the amounts allowed on the rate sheets. Also, review revenues for possible offsets to expense.

5. Additional Steps Performed:

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Prepared by __________
Date __________
Auditor in Charge ______
Final Review __________
W.P. No. __________

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

E-1 DIRECT COMPONENT ANALYSIS - OTHER THAN SALARY & FRINGES

The direct component of the operating rate is covered in 10 NYCRR Section 86-2.10(c) and includes expenses associated with the following functional reporting cost centers:

Functional Reporting Center Description	Cost Center #
Nursing Administration	013
Activities Program	014
Social Services	021
Transportation	022
Physical Therapy	039
Occupational Therapy	040
Speech Therapy	041
Pharmacy	042
Central Service Supply	043
Residential Health Care Facility	051

In connection with the examination of direct expense cost categories, appropriate analysis is necessary to reasonably assure that they do not include non-allowable costs and to conclude that reported expense is reasonably valid and accurate.

1. Based on the pre-audit analysis completed in Section D-2, determine whether an audit of the direct expense component is necessary.

2. If a review of the direct expense component is warranted, for the period under audit and prior periods, prepare an analysis of RHCF-4 Report expense cost centers showing the expense variance between years. Select any material variations for further investigation and explanation.

3. Based on the expense variance analysis, the breakdown of expenses on the RHCF-4 Exhibit H, the pre-audit review, and previous audit history with the facility, determine the actual RHCF-4 functional cost center expenses to be verified. Be aware that any significant change in the planned scope of audit, including the addition or elimination of a step must be fully documented. Determine what trial balance and general ledger accounts comprise the cost center expenses selected.

4. For each functional cost center being reviewed, prepare a control or lead workpaper as the primary workpaper that summarizes the cost center under review showing the RHCF-4 reported amount, BLTCR adjustments, and the amount subject to audit (the amount included on the HE-12b rate sheet). For the specific accounts selected for review, supplement the lead schedule with detailed schedules analyzing the expenditures within that cost center for proper documentation and allowability. Should audit adjustments be required, they should be summarized on the lead schedule and cross-referenced into the detail schedules where the expense was analyzed.

Prepared by ________
Date ________
Auditor in Charge ______
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W.P. No. ________

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

Steps #5 through #14 deal with the detail testing of expense.

5. A detailed expense analysis should be completed for the cost center expenses selected for audit. As part of the analysis, the auditor should review the voucher register, cash disbursements, and expense accounts for:
   - Large items of expense
   - Unusual items of expense taking into consideration nature of account charges
   - Proper classification of expense (on a functional reporting basis)
   - Applicability of expense to year under review
   - Capital expenditures
   - Significant increases in expenses including inventory withdrawals and accrual at year end and during the last quarter

   Examine supporting documentation of selected expenditures (e.g., invoices, purchase orders, contacts, cancelled checks, etc.) where deemed necessary.

6. Ascertain that there was a proper recording of accruals on a basis consistent with that of prior years. Special care should be exercised in determining whether prior year accruals were properly reversed and paid in the next period. Assure that proper cutoff procedures were followed.

7. Assure that all liabilities not liquidated within a one year period (from the end of the provider's cost reporting period) have been disallowed in accordance with PRM-1, Section 2305. Also, the auditor may want to examine the <u>cancelled checks</u> for <u>significant</u> liabilities that are shown as paid through a check.

8. Obtain copies of provider's schedules of material prepaid expenses. Verify the schedules for accuracy and reasonableness, and tie into the applicable expense accounts.

9. Ensure that all capital related expenditures such as property insurance, rentals, interest etc. are properly classified as a capital cost and not included in operating expenditures.

10. Examine expenditures to determine whether the expense more appropriately should be capitalized in conformity with PRM-1, Section 108 and the definitions of capital assets, betterments, and improvements included in 10 NYCRR Part 451. Ensure that the facility's capitalization policy has been applied on a consistent basis.

11. Review expenses for possible inclusion of personal expenses (e.g., life insurance premiums, use of credit cards, travel and entertainment, etc.).

12. Review the detail of miscellaneous and/or other administrative expenses paying particular attention to non-reimbursable or personal items, etc.

13. Obtain documentation for the allocation of home office, governmental unit, or affiliated organizations expenses for the audit period and review the basis of allocation for logic, appropriateness, and reasonableness. The auditor should keep in mind the acceptable statistical allocation bases set forth in 10 NYCRR Part 456 when evaluating the allocation.

14. Facilities may make expense reclassifications in their accounting records or on the RHCF-4 Report Exhibit F "Functional Report Expense Reclassification Summary". One reason for this is to conform with the functional reporting requirements in 10 NYCRR Part 454. Review all reclassification entries between cost components for propriety, accuracy, and reasonableness. Watch for entries transferring costs from non-allowable cost centers to allowable cost centers or from a ceiling imposed cost center to a non-ceiling imposed cost center. For those reclassifications in question or those that show a material variance between periods, obtain an explanation and perform audit tests and procedures necessary to document the expense reclassification. The auditor should specifically check compliance with 10 NYCRR Section 454.2 dealing with expense reclassifications requirements, limits, and time studies.

15. Alternate/Additional tests performed.

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Prepared by ________
Date ________
Auditor in Charge ________
Final Review ________
W.P. No. ________

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

E-2 INDIRECT COMPONENT ANALYSIS – OTHER THAN SALARY & FRINGES

The indirect component of the operating rate is covered in 10 NYCRR Section 86-2.10(d) and includes expenses associated with the following functional reporting cost centers:

Functional Reporting Center Description	Cost Center #
Fiscal Services	004
Administrative Services	005
Plant Operation (Excluding Utilities and R/E Taxes	006
Grounds	007
Security	008
Laundry and Linen	009
Housekeeping	010
Patient Food Service	011
Cafeteria	012
Non Physician Education	015
Medical Education	016
Housing	018
Medical Records	019

In connection with the examination of indirect expense cost categories, appropriate analysis is necessary to reasonably assure that they do not include non-allowable costs and to conclude that reported expense is reasonably valid and accurate.

1. Based on the pre-audit analysis completed in Section D-2, determine whether an audit of the indirect expense component is necessary.

2. If a review of the indirect expense component is warranted, for the period under audit and prior periods, prepare an analysis of expense cost centers showing the expense variance between years. Select any material variations for further investigation and explanation.

3. Based on the expense variance analysis, the breakdown of expenses on the RHCF-4 Exhibit H, the pre-audit review, and previous audit history with the facility, determine the actual RHCF-4 functional cost center expenses to be verified. Be aware that any significant change in the planned scope of audit, including the addition or elimination of a step must be fully documented. Determine what trial balance and general ledger accounts comprise the cost center expenses selected.

4. For each functional cost center being reviewed, prepare a control or lead workpaper as the primary workpaper that summarizes the cost center under review showing the RHCF-4 reported amount, BLTCR adjustments, and the amount subject to audit (the amount included on the HE-12b rate sheet). For the specific accounts selected for review, supplement the lead schedule with detailed schedules analyzing the expenditures within that cost center for proper documentation and allowability. Should audit adjustments be required, they should be summarized on the lead schedule and cross-referenced into the detail schedules where the expense was analyzed.

Step #5 deals with the detail testing of expense.

5. Complete expense analysis steps #5 through #14 shown under the direct component analysis section. Note any steps that are waived for the indirect component detail testing.

6. Alternate/Additional tests performed.

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Prepared by __________
Date __________
Auditor in Charge ______
Final Review ________
W.P. No. __________

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

E-3 NON-COMPARABLE COMPONENT ANALYSIS – OTHER THAN SALARY & FRINGES

The non-comparable component of the operating rate is covered in 10 NYCRR Section 86-2.10(f) and includes expenses associated with the following functional reporting cost centers:

Functional Reporting Center Description	Cost Center #
Utilities	006
Real Estate Taxes	006
Occupancy Taxes	006
Medical Director Office	017
Utilization Review	020
Laboratory Services	031
Electrocardiology	032
Electroencephalogy	033
Radiology	034
Inhalation Therapy	035
Podiatry	036
Dental	037
Psychiatric	038
Hearing Therapy	041
Medical Staff Services	044
Other Ancillary	045

No ceiling or bases are imposed for non-comparable cost categories during the rate computation process. All adjustments will result in an impact. Adjust audit scope accordingly.

In connection with the examination of non-comparable expense cost categories, appropriate analysis is necessary to reasonably assure that they do not include non-allowable costs and to conclude that reported expense is reasonably valid and accurate.

1. Based on the pre-audit analysis completed in Section D-2, determine what expense items included in non-comparable expenses will be subject to audit.

2. For the period under audit and prior periods, prepare an analysis of expense cost centers showing the expense variance between years. Select any material variations for further investigation and explanation.

3. Based on the expense variance analysis, the breakdown of expenses on the RHCF-4 Exhibit H, the pre-audit review, and previous audit history with the facility, determine the actual RHCF-4 functional cost center expenses to be verified. Be aware that any significant change in the planned scope of audit, including the addition or elimination of a step must be fully documented. Determine what trial balance and general ledger accounts comprise the cost center expenses selected.

4. For each functional cost center being reviewed, prepare a control or lead workpaper as the primary workpaper that summarizes the cost center under review showing the RHCF-4 reported amount, BLTCR adjustments, and the amount subject to audit (the amount included on the HE-12b rate sheet). For the specific accounts selected for review, supplement the lead schedule with detailed schedules analyzing the expenditures within that cost center for proper documentation and allowability. Should audit adjustments be required, they should be summarized on the lead schedule and cross-referenced into the detail schedules where the expense was analyzed.

Step #5 deals with the detail testing of expense.

5. Complete expense analysis steps #5 through #14 shown under the direct component analysis section. Note any steps that are waived for the non-comparable component detail testing.

6. Alternate/Additional tests performed.

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Prepared by ________
Date ________
Auditor in Charge ______
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W.P. No. ________

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.
E-4	**EXAMINATION OF PAYROLL EXPENSE, FRINGE BENEFITS, AND INPUT PRICE ADJUSTMENT FACTOR**			

Payroll Steps

1. Obtain the quarterly payroll tax reports (Federal Form 941) for the base year and reconcile the gross wages with the general ledger and the RHCF-4 Report Exhibit H.

2. Obtain the provider's workpapers for the current and prior year end payroll accruals (i.e. wages, bonuses, vacation, sick pay, etc.)

   a. Verify accuracy of the accrual
   b. Ensure that the accrual is consistent with prior year's treatment and that prior year's accruals have been properly reversed.
   c. If this is initial year for any payroll accrual, consult with audit manager to determine additional audit steps to be performed.

3. Scan the payroll journal summaries for entire year for unusual situations such as bonuses, vacation payrolls, retroactive payrolls, lodging provided by operator, etc. Investigate affect on base year costs being projected and determine whether expense is normal and recurring.

4. Select a payroll for detailed review.
   a. Review employee timecards, sign-in books, etc. to verify employee worked at the facility
   b. Review employees' rates of pay and deductions for reasonableness
   c. Check footings and summary and trace postings to books of accounts
   d. Where ceiling cuts apply or could apply, test employee classifications by examining personnel files and employment applications

5. List names, job titles and salaries of administrators, owners, relatives, and other significant personnel. Verify qualifications for employment and determine reasonableness of total compensation.

6. Obtain the completed copy of the "Letter of Representation" identifying relatives of the owner/operator, administrator, and other department heads employed at the facility (the letter was supplied to the provider at the opening conference). For persons identified as relatives, check the personnel file for credentials and assure that their pay rate is commensurate with other employees with the same credential and job descriptions.

7. Additional payroll tests performed:

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Prepared by ________
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Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

Fringe Benefit Steps

The following audit steps apply to the verification and documentation of facility fringe benefits.

8. Obtain the quarterly payroll tax reports for FICA (Form 941), State Unemployment Insurance (Form NYS-45-MN), and Disability Insurance. Also obtain the Annual Federal Unemployment Insurance (Form 940) payroll tax report.

    a. Reconcile the expense per the general ledger with the payroll tax reports
    b. Determine if withholdings from employees for disability insurance, if any, were offset against expense

9. Analyze workmen's compensation insurance per the general ledger.

    a. Vouch the charges to the extent necessary
    b. Review the workmen's compensation final audit for base period. Determine if expense is reasonable by comparing the audited salaries with the total salaries per the final audit
    c. Contact the insurance carrier to determine if either an adjustment to revise the base period experience modification was made or a dividend was paid

10. Analyze other employee benefits (group health insurance, pension, etc.) per the general ledger.

    a. Vouch the charges to the extent necessary
    b. Determine if withholdings from employees for their portion of expense, if any, were offset against expense
    c. Additional fringe benefits test:

    ____

11. Determine that the allocation of employee benefits to the functional cost reporting centers on the RHCF-4 Report Exhibit H is in accordance with 10 NYCRR Section 452.4(a)(1)(ii).

Input Price Adjustment Factor Steps

An audit of the input price adjustment factor (IPAF) facility data is only beneficial if the facility is cut by the direct ceiling, indirect ceiling, or both. It may also matter if a facility is very close to a ceiling cut in those areas. The following audit steps apply to the review of the salaries, fringes, and data used in the Input Price Adjustment Factor (IPAF) calculation. Historically, change of the facility information for the above items has not affected New York City or downstate facilities but has affected upstate facilities. Before any review, assure that a change will affect the rates being audited (see Pre-Audit Steps).

12. Determine the minimum nursing supervision of the facility is in accordance with 10 NYCRR Section 415.13(a)(2), 10 NYCRR Section 455.13, and Department IPAF guidance.

    a. Check the total management supervision FTE's for cost centers 013 Nursing Administration and 051 Residential Health Care Facility from the RHCF-4 Report Schedule 5. Facilities with an average daily occupancy of 60 or fewer residents need 4.2 FTE's, and facilities with more need 5.2 FTE's for minimum nursing supervision.

    b. Request from the facility the documentation (names, hours paid and salaries) for the FTE's reported on the RHCF-4 Report Schedule 5 for management and supervision FTE's for cost centers 013 and 051 and the salaries reported on Schedule 4 of the RHCF-4 for those individuals. Verify this documentation with payroll and personnel records.

    c. If the audited FTE's are less than the required minimum FTE's (4.2 or 5.2), request from the facility a listing of management and supervision nursing personnel that includes the director of nursing, assistant director of nursing, and the charge nurses on each tour of duty. The listing should include name, position, salary and hours paid. Verify this documentation with payroll and personnel records. Obtain job descriptions for all nursing personnel.

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d. If the audited FTE's in (c) above are less than the required minimum FTE's (4.2 or 5.2) consult your audit supervisor. Typically, a reclassification of RN salaries, fringes, and paid hours to the nursing administration from the SNF must be made using an average RN salary (RN salaries/RN Hours Paid) for the hours needed to meet the minimum staffing requirements.

13. Verify RN, LPN, and Aides' salaries reported on the RHCF-4 Report Schedule 4, and the hours paid for those positions reported on the RHCF-4 Report Schedule 5.

   a. Reconcile the salaries to the general ledger
   b. Request from the facility the documentation for the total RN, LPN, and Aides' hours paid reported on the RHCF-4 Report Schedule 5
   c. On a test basis, trace the salaries and the hours paid to the payroll records
   d. On a test basis, verify with personnel records that the employee should be expensed in cost center 051 Residential Health Care Facility
   e. Review RHCF-4 Report Schedule 5 for any unusually large number of FTE's that may be caused by the inclusion of uncertified nursing aides. If any problems are found, review payroll and personnel records (job descriptions, personnel evaluations, etc.) to verify correct cost center for the expense. As is the case with any position, the employee should be included in the functional reporting center that matches their typical job duties in accordance with 10 NYCRR Section 454.2.

14. Facilities may make expense reclassifications in their accounting records or on the RHCF-4 Report Exhibit F "Functional Report Expense Reclassification Summary". One reason for this is to conform with the functional reporting requirements in 10 NYCRR Part 454. Review all reclassification entries affecting the SNF functional reporting center to determine any affect on IPAF data. This may involve the reclassification of nursing administration (CC013) data into the SNF cost center or aides salaries out of the SNF cost center. Such transfers generally give the facility a higher rate. The auditor should specifically check compliance with 10 NYCRR Section 454.2 dealing with expense reclassifications requirements, limits, and time studies.

E-5 ANALYSIS OF DISCRETE CEILINGS (RATE SHEET SCH. II)

Discrete ceilings are used to limit the maximum allowable salaries paid for owner/operators, administrators, assistant administrators, and relatives of the owner/operator. The ceiling is based on bed size and is trended forward by the applicable facility trend factor.

1. Obtain the "Schedule of Allowances for Operators, Administrators and Assistant Administrators" (included in Training Manuals previously provided) and verify the ceiling calculation per the promulgated rate.

2. Prepare a schedule of elements of compensation, including any unusual fringe benefits, subject to the allowance for operator/administrator compensation, with individuals listed by name, title and function. Review expenses for possible inclusion of personal expenses (i.e. life insurance premiums, use of credit cards, etc.), which should be considered additional compensation. Additional compensation not recorded as salary expense should be subjected to the operator/administrator ceiling.

   Consideration must be given to regulations regarding multiple and chain organizations when administration is divided between two or more providers.

3. If any relatives of owners are employed by the facility, they are subject to a $17,000 ceiling trended forward for a full-time person. If someone works less than 35 hours per week, the $17,000 ceiling is prorated based on a 40-hour work week.

Prepared by ________
Date ________
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W.P. No. ________

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

F-1 PROPERTY COMPONENT ANALYSIS - GENERAL

1. Begin the property component summary workpaper found in the audit workbook for capital. This can be found on the Rochester server. The per diem should tie into the BLTCR property per diem prior to the posting of any audit adjustments.

2. For the period under audit and possibly prior periods, prepare an analysis of expense cost centers showing the expense variance between years. Select any material variations for further investigation and explanation.

F-2 EXAMINATION OF REAL PROPERTY MORTGAGE INTEREST, AMORTIZATION, & MORTGAGE INSURANCE OR REVIEW OF REAL PROPERTY RENT

Proprietary facilities generally receive rate year mortgage interest and amortization subject to an over-mortgaging percentage that is determined by dividing approved historical costs by the "recognized" mortgage(s) for reimbursement purposes. Mortgage insurance can be either based on the property base year (generally two year lag) or based on rate year insurance if the BLTCR has used rate year as the basis in the promulgated rates. If the provider receives real property rent expense, it should reflect the base year rent expense subject to the appropriate BLTCR rental ceiling. Proprietary facilities do NOT receive land improvement, building, or non-movable equipment depreciation expense reimbursement under this methodology (see 10 NYCRR Section 86-2.21).

Mortgage Interest and Amortization Steps

1. Obtain the necessary BLTCR documentation or notes regarding the mortgage(s) recognized for Medicaid purposes and reconcile to the amount of interest and amortization included in the property per diem schedule. Also, obtain the BLTCR "capital cost model", if not already in the audit file, to review the BLTCR historical cost and mortgage amortization allowed in past rates. The model is used to determine the total amount that the facility has been reimbursed for real property over the years and shows any limitations imposed under Section 86-2.21(c)(5) (known as the 3.03% limitation). The capital cost model should be updated for any previous audit adjustments that affect it so that the correct information is applied on this and future audits.

2. Determine whether the mortgage(s) recognized for reimbursement purposes on the rate sheet (Schedule VI – Property) meet the requirements under 10 NYCRR Section 86-2.21(e). If there appears to be any inconsistency with the Part 86 regulation, follow up with the audit manager and possibly BLTCR to resolve any "recognized" mortgage discrepancies.

3. The provider is only allowed rate year interest and amortization on the percentage of allowable historical costs (plus real property additions) to the "recognized" original mortgage principal in the property component base year (generally a 2-year lag). If the mortgage amount is less than allowable historical costs, 100% of the interest and amortization is allowable as long as the provider has made the payments. If the mortgage amount is greater than allowable historical costs, apply the "overmortgaging percentage to the paid interest and amortization to arrive at the allowable amounts for Medicaid reimbursement. The auditor should assure that any mortgage is applicable solely to patient related buildings and, in the case that there are non-patient related activities, exclude any mortgage interest and amortization pertaining to those areas. Verify the rate year interest and amortization paid by the facility, apply the overmortgaging percentage (if applicable), and derive the amount reimbursable. The amortization amount will be subject to the limitation explained in step #4 below.

4. Determine whether the 3.03% limitation included in Section 86-2.21(c)(5) affects the amortization derived in step #3. If the limitation applies, the amortization allowed should not exceed the limit unless, in accordance Section 86-2.21(c)(5), the limitation has been waived by BLTCR.

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5. The facility may also have movable equipment covered by the mortgage agreement. If this is the case, the auditor should determine the percentage applicable to movable equipment based on the percentage of allowable movable equipment costs to total allowable historical costs at the time of the mortgage financing, and apply that percentage to allowable interest expense to determine the expense allowable under movable equipment. The facility does not receive mortgage amortization on movable equipment. Generally, if movable equipment is included in the mortgage, BLTCR will allow interest expense on a rate year basis. However, the base year/rate year methodology established by BLTCR in the promulgated rate should be followed on audit.

Mortgage Insurance Expense Steps

6. Mortgage insurance expense is allowed in the facility's property per diem using either base year or rate year methodology that is established by BLTCR. The auditor should follow the established methodology. Verify the mortgage insurance expense included in the rate by examining the actual expense paid during applicable year by the facility. The actual amount paid should be multiplied by the overmortgaging percentage (if any) established in step #3 above to derive the mortgage insurance expense allowable for Medicaid.

7. The auditor should be aware that mortgage insurance expense should decrease in time as is applicable to the unpaid mortgage principal. If this is not the case for the years under audit, determine the reason why and assure that the expense reasonable and necessary.

Real Property Rental Expense Steps

8. Review RHCF-4 Report and compare to the Schedule VI – Property page of the rate sheet to determine rent amounts reimbursed through the rate.

9. Obtain copies of Building Rental Agreement and review permanent file for any past agreements. Review agreements for the details pertaining to lease payments, period of lease payments, and the relationships between the lessor and the lessee (the nursing facility). Review correspondence from BLTCR pertaining to arms-length rental determination.

10. Prepare schedule and analyze real property lease payments. Compare lease payments actually made to the amount included in the rate. Also, determine whether building rent exceeds the arms-length ceiling for proprietary facilities.

F-3 EXAMINATION OF PROPERTY AND AUTO INSURANCE

1. Obtain the insurance endorsement page (and policies if necessary) to see the coverages and the insurance expense applicable to each area. If the endorsement page does not have a breakout of the expense applicable to each area, the auditor may need to have the provider contact the insurance agent for a breakdown of the expense if required because of exceptions noted in step #3 below.

2. Obtain or prepare prepaid insurance schedules to determine the premiums paid and the time frames covered, and the expense applicable to the audit period. Confirm that the premiums were actually paid and apply to the period under audit.

3. Assure that the insurance expense is properly classified as operating verses property or property auto. PRM-1, Section 2161 defines and provides the requirements necessary to be reimbursable. The auditor should be aware that only insurance applicable to losses due to the damage to, or destruction of, the provider's physical property is allowable as property insurance. Coverages associated with other than physical property are considered operating component insurance and must not be allowed in the capital component. In addition, facilities may include "business interruption" insurance as property when, for Medicaid reimbursement purposes, this is an operating component item and must be classified as such. It should also be noted that any insurance for "guaranteeing profits" is not allowable.

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4.	For facilities that are "self-insured", the auditor should refer to PRM-1, Section 2161(B) for the requirements for allowability. Generally, contributions into a self-insurance fund are not allowable, but the actual claims paid by the fund are (subject to the Section 2161(B) requirements).			
5.	Auto insurance is allowable only to the extent that such expense is related to patient care and the auto usage for patient care can be documented (an auto log may be necessary for autos that are not 100% business use). Furthermore, expense associated with luxury automobiles is not allowable as it is not a reasonable and necessary cost of providing patient care. The auditor should disallow any expense that is not necessary, not related to patient care, or undocumented.			
6.	Auto insurance for the owner/operator's car or any other employee (if provided by the facility) can be allowed only to the extent that the vehicle is used for patient related activities. If the vehicle is used for personal and patient related activities, the provider must provide auditable records to demonstrate the expense associated with patient care. The portion applicable to personal use is generally not allowable. An auto log identifying the business usage can be accepted as documentation as long as it appears to be clear, accurate, and timely.			
F-4	**REVIEW OF RETURN ON REAL PROPERTY EQUITY AND/OR RETURN OF REAL PROPERTY EQUITY**			
	Proprietary facilities receive a return on real property equity to the extent that the allowable historical costs exceeds the recognized mortgage(s). Once the mortgage is paid off or once BLTCR determines that the facility is entitled to a return of real property equity, the facility can receive its unreimbursed real property costs over the remaining useful life of the facility. The following audit steps cover these property items.			
	Real Property Return on Equity Steps The return on real property equity is listed in Schedule VI(B) of the property per diem calculation. Generally, the historical cost and recognized mortgage principal information is based on a two year lag.			
1.	The "historical cost" amount includes all initial allowed facility real property costs (including APC costs) as well as any subsequent approved additions through the property base year. The auditor should verify the historical costs to assure they reflect any past audit disallowances to historical costs and that any additions in the years under audit are appropriate for reimbursement. For example, historical costs should not include any items that should have been expensed or that are not related to patient care. In addition, since telephone costs have been designated as an operating expense by BLTCR, no telephone real property costs or improvements should be allowed in property.			
2.	The recognized "mortgage principal" shown on Schedule VI(B) should be examined to assure the mortgage(s) recognized for reimbursement purposes on the rate sheet meet the requirements under Section 86-2.21(e) (this step was probably done under step F1-2). If there appears to be any inconsistency with the Part 86 regulation, follow up with the audit manager and possibly BLTCR to resolve any "recognized" mortgage discrepancies and make any appropriate changes on audit.			
3.	Verify the real property equity returned to the facility in the form of a "return **of** equity" in prior years based on a review of the capital cost model obtained previously. Assure that the model is updated, if necessary, for previous audit and current audit adjustments before making any correction in this area. Adjust the "Eq Return Pr Years" amount shown on the rate sheet to the amount verified on audit if necessary.			
4.	Verify the amount included on Schedule VI(B) for "1/2 Return **of** Equity". This amount should be one half of the return **of** equity for the rate year being audited (see the audit program steps listed below in the section for "real property return **of** equity). This again must reflect any prior year and current changes to the capital cost model's unreimbursed historical costs.			

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5. With the audited amounts determined in steps #1 though #4 above, calculate the facility's audited net investment. Multiply the audited net investment by the promulgated "rate of return" for the rate year under audit to arrive at the audited return on real property equity. Compare the audited return on equity to the amount included on Schedule VI(B) and make any necessary adjustment.

<u>Real Property Return of Equity Steps</u>
The facility generally begins receiving a "return <u>**of**</u> equity" once its mortgage has been completely paid off. However, BLTCR may begin a "return <u>**of**</u> equity" prior to the pay off of the mortgage if it determines that the mortgage payoff is secure based on the facility in question. In either case, the return of equity must be audited using the BLTCR capital cost model updated for any prior and current audit changes.

6. Based on the BLTCR capital cost model obtained previously and any changes due to the application of prior and current audit adjustments, determine the amount of "aggregate" real property costs reimbursed in rate years prior to the one under review. The allowable historical costs less the "aggregate" real property cost reimbursement results in the "unreimbursed" real property costs for the facility.

7. The "unreimbursed" real property cost amount per audit (determined in step #6) divided by the facility's "remaining useful life" (shown in the capital cost model) results in the audited "return <u>**of**</u> equity". Compare the audited amount to that included on Schedule VI of the rate sheet and make any applicable adjustment.

F-5 REVIEW OF MOVABLE EQUIPMENT DEPRECIATION

According to Section 86-2.22, necessary and reasonable expenses related to movable equipment depreciation expense (computed on a straight-line method or accelerated under a double declining balance or sum-of-the-years-digits method) is considered an allowable cost for residential health care. The following steps should be followed to assure such depreciation is allowable for Medicaid purposes.

1. Reconcile the amount included for reimbursement on Schedule VI of the rate sheet to the RHCF-4 Report and determine the propriety of any BLTCR adjustments to reported movable equipment depreciation expense. Such adjustments may be noted in BLTCR notes and/or may be calculated based on information included in the "General Notepad" that is filed by the provider in conjunction with the RHCF-4 Report. Assure that any related company adjustments by BLTCR are properly calculated and include only actual costs of the related company.

2. Obtain the movable equipment depreciation records from the provider and reconcile the total movable equipment depreciation in the records to the amounts reported on the RHCF-4 Report, the certified financial statements, and the Schedule VI rate sheet amount for movable equipment depreciation. Explain the reason for any differences. If the depreciation in the records is different from the depreciation reported and included in the rate, an adjustment may be necessary.

3. Based on a review of the permanent file and/or previous audit reports, determine whether there are any previous adjustments that have to be carried forward into the current years being audited. Prepare a schedule quantifying any such adjustments and include in the audit as a separate adjustment.

4. Review the depreciation records for any items that are <u>listed</u> as "repair" or "maintenance" items for all years included in the depreciation records. This description would indicate that such items should not have been capitalized. If the depreciation expense associated with such items is significant, the auditor should request further documentation (such as invoices) from the provider to assure that the item was properly capitalized. If the provider does not provide such documentation, the depreciation expense associated with the item should be disallowed.

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5. Obtain a copy of the facility's capitalization policy that is required by 10 NYCRR Section 452.3(f)(4). Verify that the facility's capitalization and depreciation policies are consistent with Part 86, PRM-1, Generally Accepted Accounting Principles, and the AHA guidelines for estimated useful lives. The AHA guideline (all editions) can be found on the Rochester server under the folder "AHA Estimated Useful Lives".

6. For the base years currently being audited, review the movable equipment additions for items not related to patient care, telephone additions, items that appear to be repair and maintenance, and any other unusual purchases. Based on significance of the item capitalized, determine which of these items require further documentation. Obtain invoices and/or documentation supporting the items and determine whether any adjustments are necessary.

7. Prepare a schedule of items capitalized on audit from operating accounts and include it in the permanent file. Also, update the permanent file for adjustments that are made and that may continue into future audit years.

8. Where the expense is significant, the auditor may want to personally inspect assets adaptable to general use such as autos, trucks, etc. to assure that the item is related to patient care at the facility.

F-6 EXAMINATION OF RENT EXPENSE (OTHER THAN REAL PROPERTY)

1. Review the rent expense reimbursed on Schedule VI – Property page of the rate sheet. Reconcile the amounts to the RHCF-4 Report Exhibit H and Schedule 15, and the facility's trial balance.

2. For significant lease agreements that are being reimbursed in the rate, obtain a copy of the lease (or at least the lease summary page) and include it in the permanent file.

3. For rent expense being reimbursed, review RHCF-4 Report Schedule 15 for items that appear to be general operating supplies as opposed to equipment leases. Operating supplies should be included in the appropriate operating expense cost center (subject to any applicable ceilings) as opposed to property expense. Obtain the supporting documentation and determine whether the items included in the lease are items of movable equipment.

4. Select the major items of rent expense for further review. Prepare a schedule showing the detail of the amounts charged to rent and, on a test basis, verify the amounts charged to expense for the year under audit. Assure that no operating supplies are included as part of the rental payment.

5. The auditor should pay special attention to any rent expense that resulted from a sale of an asset that was subsequently leased back. These "sale and leaseback" arrangements are covered by PRM-1 Section 110. Generally, the cost allowable is the amount the provider would have incurred had it maintained title to the asset (unless the specific criteria in Section 110 are met).

F-7 REVIEW OF RETURN ON AVERAGE EQUITY

According to 10 NYCRR Section 86-2.28, there will be included, after subtracting for current and noncurrent time deposits and equivalents, investments and construction in progress, a reasonable return on average equity capital invested for necessary and proper operation for patient care activities of a residential health care facility and related organizations (related organizations are defined in 10 NYCRR Section 86-2.26(a)). The specific regulations regarding average equity and its calculation can be found in PRM-1 Chapter 12. The following steps should be followed to determine the accuracy of any return on average equity included in the property per diem.

1. Review the composition of average equity on Schedule VI(C) of the rate sheet. Be aware that any change to the real property "net investment" in Schedule VI(B) will <u>automatically</u> change the return on average equity and any resultant change, regardless how significant, has to be made because that is what the audited rates will reflect.

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2.	Trace the "reported average equity" amounts for the facility and any related companies to the RHCF-4 Schedule 13 Equity Capital page for the nursing facility and any related entities. Based on the criteria and calculation format included in PRM-1 Chapter 12, verify the beginning equity, changes to equity, and ending equity to the entities' balance sheet in the certified statements and the facility's financial records. If the amounts do not tie into the balance sheet amounts, the auditor may find that the facility has changed the average equity calculation to reflect "Medicaid" equity (see rate audit directive 2006-1 for more information). Any such change generally can be found in the "General Notepad" section of the RHCF-4 Report. If the auditor cannot tie into the amounts on the average equity schedule, the support for the calculation will have to be obtained from the provider.			
3.	BLTCR generally makes adjustments for non-allowable equity items based on the 12/31/XX (base year) balances although technically such adjustments would normally run through the average equity calculation. This is done for expediency. The auditor may follow that methodology for smaller items that do not appear to change drastically through the year. However, for significant non-allowable items that may change significantly from the beginning of the year to the end, the auditor should actually re-calculate the average equity schedule (an MS-Excel average equity calculation schedule can be found on the Rochester server).			
4.	The balance sheets and average equity calculation should be reviewed for items not includable in equity capital per PRM-1 Chapter 12. These items include saving accounts and invested funds, funded depreciation accounts, cash surrender value of life insurance, etc. Also, due to/due from accounts for related companies must be eliminated from the calculation. Lastly, the Commissioner has determined that "Goodwill" is not includable in equity capital. Should the auditor find the above or other items noted in PRM-1, either the average equity calculation must be re-run <u>or</u> the items must be eliminated from year-end equity (based on significance of amount).			
5.	The auditor should also be aware that equity capital must be adjusted by the net book value of assets not related to patient care if such assets are significant (i.e., televisions in patient rooms, other assets not related to patient care). Furthermore, due to reimbursement methodology, the net book value of any telephone equipment must be eliminated.			
6.	If adjustments for the above items are necessary, the auditor should re-calculate the average equity and subtract the <u>audited</u> real property return on equity to arrive at the "remaining equity" (calculation shown on Schedule VI(C)). The audited "remaining equity" should then be multiplied by the rate of return to arrive at the audited return on average equity. Compare the audited amount to that in the rate calculation and adjust as necessary.			
F-8	**EXAMINATION OF START-UP/ORGANIZATIONAL COSTS**			
	Start-Up Cost requirements can be found in PRM-1 Section 2132. Generally, these are costs incurred from the time preparation begins on a newly constructed building, wing, or floor to the time the first patient (any payor) is admitted for treatment. Such costs are capitalized and then amortized over a 60 month period. Organizational Costs are covered by PRM-1 Section 2134 and are costs directly incident to the creation of a corporation or business.			
1.	Review the amount reimbursed in the rate sheet and the actual start-up or organizational cost shown on the RHCF-4 Report Schedule 11.			
2.	Verify that start-up or organizational costs are related to patient care, allowable per the above cited regulations, and not also included in base year operating expense. To the extent they have been included in base year operating expense, they are not allowable.			
3.	Assure that such costs do not include amounts for "Goodwill" as the Commissioner has determined that Goodwill is not allowable for Medicaid reimbursement.			

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4. Review the detail and accumulation of such costs to the provider's accounting records and determine that such costs are proper, accumulated correctly, and accurate.

5. Be aware that, because of BLTCR rate methodology for new operating base years, the facility can receive actual rate year property costs until sufficient time has passed to calculate the property per diem on a two-year lag. Assure that the provider only receives reimbursement of such costs for 5 continual rate years.

6. Compare the amount found to be allowable per audit to the amount in the rate and adjust as necessary.

F-9 REVIEW OF SALES TAX EXPENSE (INCLUDED IN PROPERTY PER DIEM)

Facilities are given the option of reporting all sales tax expense on "Schedule 9 – Property Expenses" of the RHCF-4 Report. Starting with the 1995 rates (1993 base year for property), if the provider elected to report sales tax on Schedule 9, BLTCR included the reported sales tax expense in the property and non-trendable expense per diem. For facilities that, (1) had an operating base period prior to 1993 or, (2) elected to change their reporting of sales tax between the applicable operating base period and property base period, this may result in duplicated sales tax expense reimbursement. This happens when a facility reports sales tax expense as part of normal operating expenses in the operating base period and then in subsequent years reports sales tax expense on Schedule 9 of the RHCF-4 Report and is reimbursed for it in the property and non-trendable expense per diem. The following steps should be completed when the facility reports sales tax on Schedule 9 and is reimbursed in the property per diem. (See the Rate Audit Directive on sales tax for background in this area)

1. Determine the basis for any sales tax reported on RHCF-4 Report Schedule 9 and the manner in which the facility derived the reported amount. Audit that amount for accuracy. Be aware that, if the facility reports the expense on Schedule 9, the expense should be the sales tax for the entire year and not an incremental amount over and above the operating base period.

2. Determine whether the facility reported sales tax on the RHCF-4 Report Schedule 9 for the operating base period. If not and the sales tax was included with normal operating expenses, sales tax expense in the operating base period must be eliminated from the rate through an operating expense disallowance. If the provider does not have the actual operating base period sales tax amount available, the auditor should segregate the sales taxable expense included on the operating base year RHCF-4 Report Exhibit H, and calculate an estimate of sales tax included in the direct, indirect, and non-comparable components of the rate. The estimate should be shown to the provider for any revisions for good reason. The estimated sales tax should then be eliminated from the operating base year costs to eliminate any duplication.

F-10 EXAMINATION OF WORKING CAPITAL INTEREST EXPENSE

In accordance with 10 NYCRR Section 86-2.20(d), interest on current indebtedness is allowable, based on a two-year lag, as non-trendable expense. To be considered as an allowable cost, debt generating interest shall be incurred to satisfy a financial need, and interest expense shall be at a rate not in excess of what a prudent borrower would have had to pay in the money market at the time the loan was made. Also, the interest shall be paid to a lender not related through control, ownership, affiliation or personal relationship to the borrower, except in instances where the prior approval of the Commissioner of Health has been obtained. In addition, any interest expense is subject to offset by applicable investment income.

1. Reconcile any working capital interest reimbursed in the rate to the trial balance and certified statements.

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2.	Determine that the expense is not on a loan through a related party. If the loan is through a related party, determine whether prior approval has been obtained from the Department of Health (as noted above). If no prior approval has been obtained and the loan is through a related party, the interest is <u>not</u> allowable and a disallowance should be made.			
3.	Verify the loan conditions and the amount of interest expense paid to the lender. Also, determine that the interest incurred in not in excess of the "threshold" included under 10 NYCRR Section 86-2.20(d). If the interest incurred is in excess of the threshold, determine whether the facility has obtained Department of Health approval for exceeding the ceiling. Based on the information obtained and confirmed, adjust the interest expense on the rate sheet to that per audit.			
F-11	**REVIEW OF DIRECT ASSIGNMENT EXPENSES AND OTHER**			
1.	Determine the nature of the expense included on this line and review any BLTCR calculations associated with the expense. Directly assigned expense is generally 100% applicable to the nursing home level of care. Based on the nature and type of expense involved, assure that the expense is not applicable to any other level of care.			
2.	Verify the expense reimbursed on this line to the facility's books and records and assure that such expense is appropriate, accurate, and related to patient care.			

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G-1 PROPERTY COMPONENT ANALYSIS - GENERAL

1. Begin the property component summary workpaper found in the audit workbook for capital. This can be found on the Rochester server. The per diem should tie into the BLTCR property per diem prior to the posting of any audit adjustments.

2. For the period under audit and possibly prior periods, prepare an analysis of expense cost centers showing the expense variance between years. Select any material variations for further investigation and explanation.

G-2 EXAMINATION OF MORTGAGE INTEREST AND MORTGAGE INSURANCE, OR REVIEW OF REAL PROPERTY RENT

Voluntary and governmental facilities generally receive rate year mortgage interest subject to an over-mortgaging percentage that is determined by dividing approved historical costs by the "recognized" mortgage(s) for reimbursement purposes. Mortgage insurance can be either based on the property base year (generally two year lag) or based on rate year insurance if the BLTCR has used rate year as the basis in the promulgated rates. If the provider receives real property rent expense, it should reflect the base year rent expense subject to the appropriate BLTCR rental ceiling.

Mortgage Interest Expense Steps

1. Obtain the necessary BLTCR documentation or notes regarding the mortgage(s) recognized for Medicaid purposes and reconcile to the amount of interest expense included in the property per diem schedule. Assure that the mortgage recognized is consistent with prior audits and carry forward any prior audit adjustments into the current calculation.

2. Determine whether the mortgage(s) recognized for reimbursement purposes on the rate sheet (Schedule VI – Property) are necessary and proper as required by PRM-1, Section 202.1. Obtain a copy of the mortgage agreement for the permanent file if one is not already there.

3. The provider is only allowed rate year interest expense based on the percentage of allowable historical costs (plus real property additions) to the original mortgage principal in the property component base year (generally a 2-year lag). If the mortgage amount is less than allowable historical costs, 100% of the interest expense is allowable as long as the provider has made the payments. If the mortgage amount is greater than allowable historical costs, apply the "overmortgaging percentage to the paid interest expense to arrive at the allowable amounts for Medicaid reimbursement. The auditor should assure that any mortgage is applicable solely to patient related buildings and, in the case that there are non-patient related activities, exclude any mortgage interest expense pertaining to those areas. Verify the rate year interest expense paid by the facility, apply the overmortgaging percentage (if applicable), and derive the amount reimbursable.

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4. The facility may also have movable equipment covered by the mortgage agreement. If this is the case, the auditor should determine the percentage applicable to movable equipment based on the percentage of allowable movable equipment costs to total allowable historical costs at the time of the mortgage financing, and apply that percentage to allowable interest expense to determine the expense allowable under movable equipment. Generally, if movable equipment is included in the mortgage, BLTCR will allow interest expense on a rate year basis. However, the base year/rate year methodology established by BLTCR in the promulgated rate should be followed on audit.

Mortgage Insurance Expense Steps

5. Mortgage insurance expense is allowed in the facility's property per diem using either base year or rate year methodology that is established by BLTCR. The auditor should follow the established methodology. Verify the mortgage insurance expense included in the rate by examining the actual expense paid during applicable year by the facility. The actual amount paid should be multiplied by the overmortgaging percentage (if any) established in step #3 above to derive the mortgage insurance expense allowable for Medicaid.

6. The auditor should be aware that mortgage insurance expense should decrease in time as is applicable to the unpaid mortgage principal. If this is not the case for the years under audit, determine the reason why and assure that the expense reasonable and necessary.

Real Property Rental Expense Steps

7. Review RHCF-4 Report and compare to the Schedule VI – Property page of the rate sheet to determine rent amounts reimbursed through the rate.

8. Obtain copies of Building Rental Agreement and review permanent file for any past agreements. Review agreements for the details pertaining to lease payments, period of lease payments, and the relationships between the lessor and the lessee (the nursing facility). Review correspondence from BLTCR pertaining to arms-length rental determination.

9. Prepare schedule and analyze real property lease payments. Compare lease payments actually made to the amount included in the rate. Also, determine whether building rent exceeds any established ceiling for nursing facilities.

G-3 EXAMINATION OF PROPERTY AND AUTO INSURANCE

1. Obtain the insurance endorsement page (and policies if necessary) to see the coverages and the insurance expense applicable to each area. If the endorsement page does not have a breakout of the expense applicable to each area, the auditor may need to have the provider contact the insurance agent for a breakdown of the expense if required because of exceptions noted in step #3 below.

2. Obtain or prepare prepaid insurance schedules to determine the premiums paid and the time frames covered, and the expense applicable to the audit period. Confirm that the premiums were actually paid and apply to the period under audit.

3. Assure that the insurance expense is properly classified as operating verses property or property auto. PRM-1, Section 2161 defines and provides the requirements necessary to be reimbursable. The auditor should be aware that only insurance applicable to losses due to the damage to, or destruction of, the provider's physical property is allowable as property insurance. Coverages associated with other than physical property are considered operating component insurance and must not be allowed in the capital component. In addition, facilities may include "business interruption" insurance as property when, for Medicaid reimbursement purposes, this is an operating component item and must be classified as such. It should also be noted that any insurance for "guaranteeing profits" is not allowable.

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4. For facilities that are "self-insured", the auditor should refer to PRM-1, Section 2161(B) for the requirements for allowability. Generally, contributions into a self-insurance fund are not allowable, but the actual claims paid by the fund are (subject to the Section 2161(B) requirements).

5. Auto insurance is allowable only to the extent that such expense is related to patient care and the auto usage for patient care can be documented (an auto log may be necessary for autos that are not 100% business use). Furthermore, expense associated with luxury automobiles is not allowable as it is not a reasonable and necessary cost of providing patient care. The auditor should disallow any expense that is not necessary, not related to patient care, or undocumented.

6. Auto insurance for the owner/operator's car or any other employee (if provided by the facility) can be allowed only to the extent that the vehicle is used for patient related activities. If the vehicle is used for personal and patient related activities, the provider must provide auditable records to demonstrate the expense associated with patient care. The portion applicable to personal use is generally not allowable. An auto log identifying the business usage can be accepted as documentation as long as it appears to be clear, accurate, and timely.

G-4 REVIEW OF REAL PROPERTY AND MOVABLE EQUIPMENT DEPRECIATION

According to Section 86-2.19, depreciation based on approved historical cost of buildings, fixed equipment and capital improvements thereto is recognized as a proper element of cost for voluntary and public residential health care facilities. Useful lives shall be the higher of the reported useful life or those useful lives from the most recent edition of Estimated Useful Lives of Depreciable Hospital Assets, American Hospital Association. Depreciation on real property must be calculated on a straight-line basis.

According to Section 86-2.22, necessary and reasonable expenses related to movable equipment depreciation expense (computed on a straight-line method or accelerated under a double declining balance or sum-of-the-years-digits method) is considered an allowable cost for residential health care. The following steps should be followed to assure such depreciation is allowable for Medicaid purposes.

1. Reconcile the amount included for reimbursement on Schedule VI of the rate sheet to the RHCF-4 Report and determine the propriety of any BLTCR adjustments to reported depreciation expense. Such adjustments may be noted in BLTCR notes and/or may be calculated based on information included in the "General Notepad" that is filed by the provider in conjunction with the RHCF-4 Report. Assure that any related company adjustments by BLTCR are properly calculated and include only actual costs of the related company.

2. Obtain the depreciation records from the provider and reconcile the total depreciation in the records to the amounts reported on the RHCF-4 Report, the certified financial statements, and the Schedule VI rate sheet amount for real property and movable equipment depreciation. Explain the reason for any differences. If the depreciation in the records is different from the depreciation reported and included in the rate, an adjustment may be necessary.

3. Based on a review of the permanent file and/or previous audit reports, determine whether there are any previous adjustments that have to be carried forward into the current years being audited. Prepare a schedule quantifying any such adjustments and include in the audit as a separate adjustment.

4. Review the depreciation records for any items that are listed as "repair" or "maintenance" items for all years included in the depreciation records. This description would indicate that such items should not have been capitalized. If the depreciation expense associated with such items is significant, the auditor should request further documentation (such as invoices) from the provider to assure that the item was properly capitalized. If the provider does not provide such documentation, the depreciation expense associated with the item should be disallowed.

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5.	Obtain a copy of the facility's capitalization policy that is required by 10 NYCRR Section 452.3(f)(4). Verify that the facility's capitalization and depreciation policies are consistent with Part 86, PRM-1, Generally Accepted Accounting Principles, and the AHA guidelines for estimated useful lives. The AHA guideline (all editions) can be found on the Rochester server under the folder "AHA Estimated Useful Lives".			
6.	For the base years currently being audited, review the real property and movable equipment additions for items not related to patient care, telephone additions, items that appear to be repair and maintenance, and any other unusual purchases. Based on significance of the item capitalized, determine which of these items require further documentation. Obtain invoices and/or documentation supporting the items and determine whether any adjustments are necessary.			
7.	Prepare a schedule of items capitalized on audit from operating accounts and include it in the permanent file. Also, update the permanent file for adjustments that are made and that may continue into future audit years.			
8.	Where the expense is significant, the auditor may want to personally inspect assets adaptable to general use such as autos, trucks, etc. to assure that the item is related to patient care at the facility.			
9.	Historically, <u>voluntary</u> facilities have been required to "fund" depreciation in accordance with Section 86-2.19 which states: "Depreciation shall be funded unless the Commissioner of Health shall have determined, upon application by the residential health care facility, and after inviting written comments from interested parties, that the requested waiver of the requirements for funding is a matter of public interest and necessity. In instances where funding is required, such fund may be used only for capital expenditures with approval as required or for the amortization of capital indebtedness. Funding for plant and fixed equipment shall mean that the <u>transfer of monies to the funded accounts shall occur by the end of the fiscal period in which the depreciation is recorded</u>. Board-designated funds and the accrual of liabilities to the funded depreciation accounts (due to/from accounts) shall not be recognized as funding of depreciation. Deposits to the funded depreciation accounts must remain in such accounts to be considered as valid funding transactions unless expended for the purpose for which it was funded. Depreciation funding can come from three sources. The first is asset purchases directly from the operating or general fund (as opposed to the "depreciation fund"). The second is through mortgage principal payments made by the operating or general fund. Lastly, depreciation funding can be accomplished through a transfer of money from the operating or general fund into the depreciation fund. Transfers or expenditures from the depreciation fund, for other than the purchase of plant and equipment or retirement of mortgage debt, is considered negative funding.			
10.	Based on the rate year being audited, determine whether the facility was required to fund its depreciation. If so, determine the actual funding that took place through the sources mentioned above. If the facility's depreciation expense is fully funded, no disallowance is necessary. If the facility did not fully fund, determine whether it received a waiver from BLTCR. If the facility did not obtain a funding waiver and has not fully funded, a disallowance will be necessary.			
11.	The auditor should also assure that the facility has not "over" funded depreciation. In accordance with PRM-1 Section 226.3, investment income earned on "excess" deposits into the depreciation fund should be offset against interest expense. See the above section for the specific provisions.			

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G-5 EXAMINATION OF RENT EXPENSE (OTHER THAN REAL PROPERTY)

1. Review the rent expense reimbursed on Schedule VI – Property page of the rate sheet. Reconcile the amounts to the RHCF-4 Report Exhibit H and Schedule 15, and the facility's trial balance.

2. For significant lease agreements that are being reimbursed in the rate, obtain a copy of the lease (or at least the lease summary page) and include it in the permanent file.

3. For rent expense being reimbursed, review RHCF-4 Report Schedule 15 for items that appear to be general operating supplies as opposed to equipment leases. Operating supplies should be included in the appropriate operating expense cost center (subject to any applicable ceilings) as opposed to property expense. Obtain the supporting documentation and determine whether the items included in the lease are items of movable equipment.

4. Select the major items of rent expense for further review. Prepare a schedule showing the detail of the amounts charged to rent and, on a test basis, verify the amounts charged to expense for the year under audit. Assure that no operating supplies are included as part of the rental payment.

5. The auditor should pay special attention to any rent expense that resulted from a sale of an asset that was subsequently leased back. These "sale and leaseback" arrangements are covered by PRM-1 Section 110. Generally, the cost allowable is the amount the provider would have incurred had it maintained title to the asset (unless the specific criteria in Section 110 are met).

G-6 EXAMINATION OF START-UP/ORGANIZATIONAL COSTS

Start-Up Cost requirements can be found in PRM-1 Section 2132. Generally, these are costs incurred from the time preparation begins on a newly constructed building, wing, or floor to the time the first patient (any payor) is admitted for treatment. Such costs are capitalized and then amortized over a 60 month period. Organizational Costs are covered by PRM-1 Section 2134 and are costs directly incident to the creation of a corporation or business.

1. Review the amount reimbursed in the rate sheet and the actual start-up or organizational cost shown on the RHCF-4 Report Schedule 11.

2. Verify that start-up or organizational costs are related to patient care, allowable per the above cited regulations, and not also included in base year operating expense. To the extent they have been included in base year operating expense, they are not allowable.

3. Assure that such costs do not include amounts for "Goodwill" as the Commissioner has determined that Goodwill is not allowable for Medicaid reimbursement.

4. Review the detail and accumulation of such costs to the provider's accounting records and determine that such costs are proper, accumulated correctly, and accurate.

5. Be aware that, because of BLTCR rate methodology for new operating base years, the facility can receive actual rate year property costs until sufficient time has passed to calculate the property per diem on a two-year lag. Assure that the provider only receives reimbursement of such costs for 5 continual rate years.

6. Compare the amount found to be allowable per audit to the amount in the rate and adjust as necessary.

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G-7 EXAMINATION OF WORKING CAPITAL INTEREST EXPENSE

In accordance with 10 NYCRR Section 86-2.20(d), interest on current indebtedness is allowable, based on a two-year lag, as non-trendable expense. To be considered as an allowable cost, debt generating interest shall be incurred to satisfy a financial need, and interest expense shall be at a rate not in excess of what a prudent borrower would have had to pay in the money market at the time the loan was made. Also, the interest shall be paid to a lender not related through control, ownership, affiliation or personal relationship to the borrower, except in instances where the prior approval of the Commissioner of Health has been obtained. In addition, any interest expense is subject to offset by applicable investment income.

1. Reconcile any working capital interest reimbursed in the rate to the trial balance and certified statements.

2. Determine that the expense is not on a loan through a related party. If the loan is through a related party, determine whether prior approval has been obtained from the Department of Health (as noted above). If no prior approval has been obtained and the loan is through a related party, the interest is <u>not</u> allowable and a disallowance should be made.

3. Verify the loan conditions and the amount of interest expense paid to the lender. Also, determine that the interest incurred in not in excess of the "threshold" included under 10 NYCRR Section 86-2.20(d). If the interest incurred is in excess of the threshold, determine whether the facility has obtained Department of Health approval for exceeding the ceiling. Based on the information obtained and confirmed, adjust the interest expense on the rate sheet to that per audit.

G-8 REVIEW OF DIRECT ASSIGNMENT EXPENSES AND OTHER

1. Determine the nature of the expense included on this line and review any BLTCR calculations associated with the expense. Directly assigned expense is generally 100% applicable to the nursing home level of care. Based on the nature and type of expense involved, assure that the expense is not applicable to any other level of care.

2. Verify the expense reimbursed on this line to the facility's books and records and assure that such expense is appropriate, accurate, and related to patient care.

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H-1	**RECOVERY OF EXPENSE ANALYSIS**			
	According to 10 NYCRR Section 86-2.18, operating costs shall be reduced by the costs of services and activities which are not properly chargeable to patient care. In the event that the State Commissioner of Health determines that it is not practical to establish the costs of such services and activities, the income derived therefrom may be substituted for costs of these services and activities.			
1.	Reconcile the non-patient revenues on the RHCF-4 Exhibit E with the certified statement and audited trial balance. Determine what revenue amounts have been offset against expense in the rate and what were not.			
2.	For services that are <u>not</u> considered "related to patient care", determine whether the <u>costs</u> associated with such activities can be readily determined. If so, the <u>cost</u> should be eliminated rather than the associated revenue.			
3.	Where it is not practical to determine the cost of services not related to patient care or for cost recoveries in areas associated with patient care, the auditor must determine whether the revenue should be offset. Any revenues not offset should be reviewed and offset if required by 10 NYCRR Section 86-2.18.			
4.	Ascertain by inquiry and reference to the records if "cost recovery" revenue accounts (i.e. purchase discounts and allowances, refunds of expense) have been properly reported as reductions of expense.			
5.	Analyze any material "miscellaneous" income accounts to determine the composition and if income can be appropriately offset to expense.			
6.	Investigate significant variations in the recoveries of expense as compared to prior years.			
	<u>Steps for Analysis of Offset of Investment Income</u> According to 10 NYCRR Section 86-2.20(c), interest expense shall be reduced by investment income <u>with the exception of income from funded depreciation, qualified pension funds, trusteed malpractice insurance funds, or in instances where income from gifts or grants is restricted by donors</u>. Interest on funds borrowed from a donor-restricted fund or funded depreciation is an allowable expense. Investment income shall be defined as the aggregate net amount realized from dividends, interest, rental income, interest earned on temporary investment of withholding taxes, as well as all gains and losses. If the aggregate net amount realized is a loss, the loss is not allowable. Investment income is to be offset against working capital interest first and then secondly against property interest expense. The following steps should be completed for the investment income offset.			
7.	Analyze investment income by source of fund, using such sources as board minutes, bank correspondence, provider records, etc. to identify all income generated from funds and investments and determine whether the source of the income is applicable to: o Board Restricted Funds (offsetable) o Donor Restricted Funds (offsetable unless donor also restricts the investment income o Unrestricted Funds (offsetable) o Funded Depreciation (not offsetable) o Sinking Fund (determined by nature of the fund) o Pension Fund (not offsetable) o 28-A Contingency Reserve (not offsetable) o 28-A Replacement Reserves (not offsetable) o Other			

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H-2 REVIEW OF COST ALLOCATION STATISTICS

"Cost-finding practices and procedures and the mandated statistical bases for cost allocation can be found in 10 NYCRR Part 456 and the New York State RHCF Accounting and Reporting Manual. For facilities with multiple levels of care and/or non-patient related activities/areas, the cost allocation statistics should be reviewed to assure that the non-allowable activities/areas are being allocated their proper amount of costs.

1. Determine whether any review of cost statistics is necessary based on the levels of care or non-allowable activities/areas at the facility. Also, if the levels of care or non-allowable activities exist, determine whether they are reflected on the Medicaid stepdown or if the facility made an attempt to remove such costs "pre-stepdown". Generally, the latter is not acceptable for significant costs as any non-allowable activities should run through the stepdown to pick up the appropriate indirect cost allocations.

2. Where a review of statistics is necessary, compare the current period statistics reported and analyze significant variations with prior years as to basis used, sequence, consistency between years and relative amounts by cost center, and ensure that such variations are justified. Assure that the statistical bases being used conform to the mandated bases in the regulations.

3. Based on discussion with appropriate provider personnel, observations during the tour of the facility, and the facts that arise during the course of the audit, determine if changes have been made in the provider's operations and/or plant layout that would require recognition in the cost allocation statistics for the periods under audit.

4. Obtain/prepare a list of provider pre-allocation (reclassifications) and review as deemed necessary for propriety and allowability.

5. For those targeted statistics, perform the following procedures:

   - Test accumulation of statistics from source data.
   - Discuss with provider personnel methods employed in gathering statistical data. Evaluate and comment.
   - Discuss with provider personnel to determine if statistical basis used reflects actual operations.
   - To extent possible, test by measurement, observations, etc.
   - Note that statistics reflect reclassifications made on the trial balance, i.e. square footage, salaries, etc.

6. Review the cost allocation of non-allowable cost centers to ensure the proper allocation of all applicable overhead costs was made to non-allowable cost centers such as physician office rentals etc. Also, compare the revenue received in the above cost centers with that of the direct and indirect costs to ensure that the monies received are comparable with the cost incurred.

7. For hospital based and/or home office cost allocations of indirect costs, review allocations to ensure that the bases used conform to the regulations and that all related costs have been allocated.

8. Determine if the provider operates any outside entities (apartments etc.). Review the impact on reimbursable expenses. Determine if overhead from the provider operation should be allocated to these entities.

9. Alternate/Additional tests performed.

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H-3 REVIEW OF PATIENT DAY STATISTICS

The regulations regarding patient day statistics are included in 10 NYCRR Section 86-2.8. Patient day reporting is in the RHCF-4 Report Part I, Page 3.

1. Based on the total overall patient day utilization for the audit periods in question, determine which, if any, years will be tested for propriety (i.e., years with a 98% or 99% utilization probably offer little chance for findings for the time expended). Also, patient days shall be determined by using the higher of minimum utilization of 90% of certified beds or the actual patients days reported. Assure that rates were computed in accordance with this requirement.

2. For the years to be reviewed, obtain the "admissions and discharge" records, the daily census reports, and the monthly summaries. Prepare a workpaper showing the following data by month:

   Col. a. Total Potential Patient Days
   Col. b. Reported Patient Days
   Col. c. Variance between a and b

3. Determine that the facility's patient day detail agrees with the days reported on the RHCF-4 Report. Check and discrepancies and adjust if necessary. In addition, investigate unusual variances found in Col. C in step #2, also significant changes in variances from month to month. Compare monthly statistics between years and account for variances; explain unusually high and low variances.

4. For additional testing on months with larger variances, test the provider's accumulation of total patient days and perform the following.

   a. List by day the number of admissions, discharges, and resultant patient day accumulation.
   b. Test tabulation for selected sample period for accuracy.
   c. Trace the beginning and ending census of patients (midnight as of the last day of month preceding the month being tested and midnight of the last day of the month being tested) to nurses' floor counts of patients in the NF.
   d. Reconcile the indicated census of patients in the NF at midnight to the nurses' floor counts for an appropriate number of sample days of the month being tested.
   e. Trace the balance of total patients at the end of the day to daily census reports (or nursing station reports). Select a representative number of patients from the daily census reports and trace the dates of services from their medical records to see that they were, in fact, "in-house" on that date indicated on the census report.
   f. Review the admission and discharge records for the month being tested to ascertain that days of care furnished patients admitted and discharged during the same day have been included in total inpatient days as reported.
   g. Trace the provider's statistical admission and discharge data for selected patients to the records of the admitting office.
   h. Trace data on the admission and discharge records to patient medical records.
   i. List names and dates from the Admission and Discharge Book(s) for the sample period. Trace the entries to the census reports to verify timely entries to the census reports.
   j. To audit reserve bed days, list names and discharge dates of persons discharged to hospitals for the sample period. Compare Medicaid reimbursement statements and patient billing records with daily census reports to determine if reserve bed days have been included in census figures. The day of discharge from the NF shall be counted, but not the day of readmission.
   k. Determine that the provider is counting the day of admission and not the day of discharge in accordance with 10 NYCRR Section 86-2.8(b).

5. For years with low or questionable patient day utilization, perform a "revenue test" to determine consistency with patient day reporting. The auditor should segregate patient day by payor (i.e., private, medicare, Medicaid, etc.) and multiply those days by the general or average rate in effect by payor for that year. This results in "total patient revenue". The calculated total patient revenue less the facility's trial balance "patient revenue contractual adjustments" will result in estimated net patient revenue. Compare this amount to the net patient revenue on the facility's trial balance and certified statement and investigate any large discrepancies.

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SECTION I – RATE APPEAL, PER DIEM ADJUSTMENT, AND OTHER REVIEWS

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.

I-1 REVIEW OF RATE APPEALS

1. Obtain Appeal Log and copies of approved and outstanding appeals as noted in Section D2-2.

2. For the rate period under audit, prepare a workpaper summarizing <u>approved</u> appeals including:

   a. Appeal number
   b. Amount of the appeal
   c. Description of item being appealed

3. For the rate period under audit, prepare a workpaper summarizing <u>outstanding</u> appeals including:

   a. Appeal number
   b. Amount of the appeal
   c. Description of item being appealed

4. Determine the propriety, accuracy, and documentation of any significant approved appeals that were included in the rates under audit. If discrepancies are noted, an adjustment may be necessary. In addition, if there are items in any outstanding appeals that can be handled on audit, consult with the audit manager whether the items, whether negative or positive, should be handled on audit with notification of such to BLTCR.

I-2 REVIEW OF PER DIEM ADJUSTMENTS

Certain per diem adjustments may be subject to audit. Generally, these would encompass the nursing, OBRA, and Gloves adjustments as well as the Health Retention & Recruitment grant per diem and the Nursing Home Quality Improvement grant per diem. Check with the audit manager for other per diems included in the rates audited.

1. <u>Nursing Adjustment, OBRA, and Gloves Per Diem Adjustments</u>. These adjustments were first included in the following rates: 7/2/89 nursing adjustment, 4/1/91 OBRA, and 4/1/94 gloves. Since base year costs after those dates included the costs that the per diem add-ons were intended to reimburse, a duplication of reimbursement may have resulted. If the provider received the direct component base or cost, the total amount of the nursing adjustment, OBRA, and gloves per diem adjustments should be disallowed. If the facility received direct component ceiling, the facility is entitled to those per diem add-ons since the direct ceiling is based on 1983 costs. However, the total amount of the per diem add-ons is limited to the lower of the total of the per diem add-ons or the amount the direct costs are over the ceiling. Determine if a duplication of reimbursement resulted from these per diem add-ons being included in the promulgated rate. The auditor should be aware that the calculation must be revised for any audit adjustments to the direct component of the rate.

2. Nursing Home Quality Improvement Demonstration Program Approved Projects Per Diem
   a. Obtain a copy of the facility's proposal and the actual grant award
   b. Determine if the facility incurred the additional costs the grant was intended to reimburse and that the same costs were not included in the operating base period costs and duplicated.
   c. Revise the <u>estimated</u> rate year Medicaid patient days used in the promulgated rate to the <u>actual</u> rate years Medicaid patient days obtained from the Rochester server if the difference is significant.

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3.	Health Retention and Recruitment Per Diem a. Obtain copy of the "written certification" required to be submitted within 30 days of receipt of 3/8/02 Van Guysling letter. b. Determine if the facility incurred the additional costs that the per diem was intended to reimburse. c. Revise the <u>estimated</u> rate year Medicaid patient days used in the promulgated rate to the actual <u>base</u> year (on a 2-year lag) Medicaid patient days obtained from the Rochester server. (**NB** By regulation the days were an estimate which could not be changed to actual rate year days, but that could be corrected to represent the actual base year days that were used for the estimate)			
4.	Other Per Diem Adjustments ______________________________ ______________________________			
I-3	**TERMINATED SERVICES AND OTHER REVIEWS** This section is for a review of terminated services (10 NYCRR Section 86-2.27) and any other areas of the rate that may fall subject to audit based on the audit manager's pre-audit determination. **<u>Termination of Services Steps</u>**			
1.	Obtain the completed terminated services letter of representation mentioned in the pre-audit steps from the provider. Review to determine whether any billable ancillary or other services are no longer in rate year costs when such costs were included in the base year used to set the facility's operating rate.			
2.	Check the information obtained from the provider to rate year RHCF-4 Reports to see whether any ancillary services have dramatically decreased or gone to zero costs from the operating base period to the rate periods under audit. Follow up on questionable areas and determine whether any operating base year costs have to be removed from the rate due to the terminated service. **<u>Other Steps</u>** ______________________________ ______________________________ ______________________________ ______________________________			

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SECTION J – REVIEW AND CONCLUSION

Section Number	Audit Step	Section to be Performed	Work Comp. by/Date	W/P Ref.
	SECTION J – REVIEW AND CONCLUSION			
1.	Review the workpapers to assure that they are properly cross-referenced and that all workpapers, schedules and necessary documentation is included to support the audit adjustments.			
2.	Update the permanent file as necessary.			
3.	Review the audit program to determine that all applicable steps listed herein have been completed and signed off.			
4.	Using the rate audit template (Rochester Server), calculate the estimated Medicaid impact for the proposed adjustments.			
5.	Prepare the "Exit Conference Summary". (Source: Exit Conference Template.doc on Rochester Server)			
6.	Submit the audit file to the audit manager for final review and sign-off.			
7.	When the audit file is approved and the exit conference summary approval is received, conduct an Exit Conference with the facility. Obtain the necessary "Letters of Representation" if the owner is designating someone to act on his/her behalf. Bring an "Exit Conference Sign-In Sheet" (Rochester Server) with you and have all exit conference attendees sign in.			
8.	Prepare the Draft Report using the latest approved format on the Rochester server and give it to the audit manager for review, approval, and signature. (The facility has 30 days to respond to the Draft Report per 18 NYCRR Section 517.5(c))			
9.	Upon receiving the response from the facility, determine whether the facility has included any documentation or argument that would change the audit findings. Prepare the Final Report including the facility's comments and the auditor's response. Give to the audit manager for review and forwarding for final audited rates.			
10.	When the final audited rates are received from BLTCR, compare them to the final rates in Exhibit I of the Final Report. Any discrepancies should be reviewed and brought to the attention of the audit manager. If there are no discrepancies, notify the audit manager that the rates agree and that the rates can be forwarded for final approval.			
11.	Upon completion of all items by auditor, print a final copy of the Audit Time Budget Calculation and associated Progress Reports and Budget extensions and put them in the main folder.			

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