



NC DEPARTMENT OF  
**HEALTH AND  
 HUMAN SERVICES**  
 Office of the Controller

ROY COOPER • Governor  
 KODY H. KINSLEY • Secretary  
 LAKETHA M. MILLER • Controller

**MEMORANDUM**

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

FROM: Laketha M. Miller DocuSigned by:  
Laketha M Miller  
423C6C605E08405...

DATE: May 12, 2023

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

**Applicability.** The 2016 Session of the North Carolina General Assembly modified legislation requiring adult care facilities with seven or more licensed bed capacity to submit audited Cost Reports every two years. **The Cost Report for the 2022-2023 year is required to be audited for facilities with seven or more licensed beds. After the 2022-23 cost reporting cycle, the next cycle will be 2024-2025.**

**Audit Requirements.** To meet the requirements of G.S. 131D-4.2 and to minimize the audit cost incurred by the facilities, the N. C. Department of Health and Human Services (Department) has developed procedures (attached) intended to be applied during an agreed-upon procedures engagement performed by a Certified Public Accountant (CPA). The procedures should be performed in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 10, *Attestation Standards: Revision and Recodification*. If a facility, in consultation with their CPA, prefers to have the CPA perform an audit in accordance with Statement on Auditing Standards (SAS) No. 62: *Special Reports*, this will be accepted by the Department. The Independent Accountant's Report on Applying Agreed-Upon Procedures or the SAS No. 62 Special Report, should be emailed by September 30, 2023. Files can be emailed to Susan Kesler at [Susan.Kesler@dhhs.nc.gov](mailto:Susan.Kesler@dhhs.nc.gov). As a last resort, AUPs can be mailed to: N. C. Department of Health and Human Services, DHHS Office of the Controller, Attn Susan Kesler, 2019 Mail Service Center, Raleigh, North Carolina 27699-2019. Cost Reports should be submitted using the new web-based Cost Report Program. No paper copies of the cost report will be accepted this cost reporting cycle.

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

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

**NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • OFFICE OF THE CONTROLLER**

LOCATION: 1050 Umstead Drive, Spruill Annex, Raleigh, NC 27603  
 MAILING ADDRESS: 2019 Mail Service Center, Raleigh, NC 27699-2019  
 www.ncdhhs.gov/control • TEL: 919-855-3700 • FAX: 919-733-1635


Because of existing certification procedures and peer review requirements established by the State Board of CPA Examiners, we are not requiring CPAs to provide the attached certification. Also, this only relates to the acceptance of the Independent Accountant's Report on Applying Agreed-Upon Procedures. The Department will **not** accept a SAS No. 62 Special Report from an Independent Accountant.

**Due Date.** The Cost Report which reflects the CPA's/Independent Accountant's adjustments is required to be submitted along with the Independent Accountant's Report on Applying Agreed-Upon Procedures by **September 30, 2023**.

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

If you have questions about this information, please submit them to the e-mail account at [AUP.questions@dhhs.nc.gov](mailto:AUP.questions@dhhs.nc.gov). Cost report program issues need to be direct to Susan Kesler ([susan.kesler@dhhs.nc.gov](mailto:susan.kesler@dhhs.nc.gov) or 919-855-3680).

LMM/sk

CC: Joyce Massey-Smith – Division of Aging and Adult Services  
Hank Bowers – Division of Aging and Adult Services  
Megan Lamphere – Division of Health Service Regulations  
Susan Kesler – Office of the Controller  
Curtis Crouch – Office of the Controller 

# **N.C. Department of Health and Human Services**

## **Agreed-Upon Procedures**

**for**

### **Adult Care Facilities With Special Care Unit Beds**

**(Licensed Capacity = 7 Beds or Greater)**

#### **Latest Completed Fiscal Year**

(Examples: October 1, 2021 through September 30, 2022;

January 1, 2022 through December 31, 2022;

July 1, 2022 through June 30, 2023)

## Introduction

The procedures specified in this document have been prepared by the N. C. Department of Health and Human Services to satisfy an engagement to perform agreed-upon procedures for Adult Care Homes **that have Special Care Unit beds** in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 10, *Attestation Standards: Revision and Recodification*. For purposes of this engagement, the items of a financial statement are the financial amounts included in the Adult Care Home Cost Report. This document should be considered the N. C. Department of Health and Human Services' requirements for the sufficiency (nature, timing, and extent) of the agreed-upon procedures for engagements for **the latest completed fiscal year** (examples: October 1, 2021 through September 30, 2022; January 1, 2022 through December 31, 2022; July 1, 2022 through June 30, 2023).

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

### *Schedule A, Part IV - Certification of Accuracy*

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

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

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

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

*performed and do not take responsibility for the sufficiency of the procedures for their purposes.” **Reports based on unapproved alternative procedures will not be accepted by the Department.***

**Requests for approval of alternative procedures should be addressed to:**

**AUP.questions@dhhs.nc.gov**

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

**The Independent Accountant’s Report on Applying Agreed-Upon Procedures along with the Adult Care Home Cost Report should be submitted by September 30, 2023.**

**DO NOT submit copies of AUP workpapers. If submitted, they will go straight into the shred bin. The AUP must be on the accountant/CPA/CPA firm’s letterhead and signed. It should resemble the example AUP shown below after the procedures.**

**Submit the AUPs by email to [susan.kesler@dhhs.nc.gov](mailto:susan.kesler@dhhs.nc.gov). AUPs will be matched up with the cost reports submitted using the web-based Adult Care Cost Report program. Information will be processed quicker and notifications that cost reports have been processed will get a reply email back. Only as a last resort should AUPs be submitted by fax or mailed. The fax number is 919-715-3095. If mailing, please make sure to include “Attn: Susan Kesler” on the envelope. The mailing address if used is as follows:**

N. C. Department of Health and Human Services  
DHHS Office of the Controller  
Attn: Susan Kesler  
2019 Mail Service Center  
Raleigh, North Carolina 27699-2019

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

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

**Paper copies of the cost report will not be accepted. The new web-based program must be used.**

---

(Name of Home)

**Adult Care Home Cost Report**  
**For the Period** (*beginning of fiscal yr.*) **through** (*end of fiscal yr.*)

**Agreed Upon Procedures**  
**for**  
**Adult Care Facilities**  
**With Special Care Unit Beds**

(Licensed Capacity = 7 Beds or Greater)

## Schedule A - Adult Care Home Cost Report

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p style="text-align: center;"><b><u>Line #19 Total of Resident Days</u></b></p> <p><i>(Note to the CPA/Independent Accountant: Resident days include days for all residents that were in the home, reserve bed days, and therapeutic leave days. Total resident days includes both paid and non-paid days.)</i></p> <p>Determine if the Home accumulated resident days through a daily resident census or admission/discharge logs. Depending on the method used to accumulate resident days, the auditor has two options for performing the procedures identified in <b>1a.</b> and <b>1b.</b></p>			
1a.	<p><b>Option #1 - <u>If the Home accumulated resident days through a daily census:</u></b></p> <p>Obtain or prepare a schedule which reflects a summary of the daily resident days <b>segregated by the Special Care Unit and all Other Beds</b> for the reporting period. Compare the Special Care Unit resident days total <b>and</b> the Other Beds resident days total to the respective total resident days reported in the Adult Care Home Cost Report.</p> <p><b><u>Report difference(s)</u></b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the respective totals on the Adult Care Home Cost Report.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>Option #2 - <u>If the Home accumulated resident days through the use of admission/discharge logs:</u></b></p> <p>Obtain or prepare a schedule which reflects a summary of the resident days by resident <b>segregated by the Special Care Unit and all Other Beds</b> for the reporting period. Compare the Special Care Unit resident days total <b>and</b> the Other Beds resident days total to the respective total resident days reported in the Adult Care Home Cost Report.</p> <p><i>(Note to the CPA/Independent Accountant - The schedule <u>must</u> indicate the admission and discharge date for each resident.)</i></p> <p><b><u>Report difference(s)</u></b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the respective totals on the Adult Care Home Cost Report.</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
1b.	<p><b>Option #1</b> - <u>If the Home accumulated resident days through a daily census:</u></p> <p><i>(Note to the CPA/Independent Accountant: The following procedures <b>must</b> be performed for <b>each</b> schedule prepared in step 1a. (Special Care Unit resident day totals and the all <b>Other Beds</b> resident day totals.)</i></p> <p>Within the first group of 10 daily resident days establish a random starting point and <u>select every tenth (10th) day</u> for the entire reporting period. For the selected sample, compare the schedule's daily total to the census for that day. Calculate the total possible difference in the population, if any, by multiplying the total sample difference by ten (10).</p> <p><b>Report difference(s)</b> in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the respective totals on the Adult Care Home Cost Report.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>Option #2</b> - <u>If the Home accumulated resident days through the use of admission/discharge logs:</u></p> <p><u>Randomly select at least 20%</u> of the <b>Special Care Unit</b> residents <b>and</b> the <b>Other Beds</b> residents from the schedule(s) for detail testing. For each resident in the sample:</p> <ul style="list-style-type: none"> <li>• verify the admission/discharge date,</li> <li>• calculate total resident days for the reporting period, and</li> <li>• compare to that resident's total as reflected on the summary of resident days by resident schedule.</li> </ul> <p>Summarize the differences identified in the sample and calculate the total possible difference in the population, if any, by multiplying the total sample difference by 5.</p> <p><b>Report difference(s)</b> in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the respective totals on the Adult Care Home Cost Report.</p>			



# Schedule C - Adult Care Home Cost Report

## Schedule of Expenses

Procedure No.	Description	Initials	Date	Workpaper Reference
	<b><u>Lines: 1, 21, 41, 91, 121, 141 and 161 - Salaries and Wages</u></b>			
2.	<p><b>a.</b> For the reporting period prepare or obtain a <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper. <i>(Note to CPA/Independent Accountant: See example of workpaper format - Attachment I).</i></p> <p>Reconcile the salary total on the <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper to the Home's general ledger salary totals.</p> <p><b>b.</b> Obtain from management a list of all employees dedicated <b>100%</b> to a specific cost center.  <i>(Direct Cost Centers: Housekeeping/Laundry, Dietary, Recreation Activities,</i>  <i>Indirect Cost Centers: Administration &amp; General, Operation/Maintenance; and,</i>  <i>Other Cost Center: Medically Related Patient Transportation, Mental Health Services).</i></p> <p>Based on each employee's <u>written</u> job description, post the employee's percentage of time, hours paid and salary to the correct cost center column on the <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper.</p> <p><i>(Note to CPA/Independent Accountant: If the home does <b>not</b> maintain <u>written</u> job descriptions for employees dedicated <b>100%</b> to a specific cost center, this should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures. If the job description indicates that the employee works in multiple cost centers and the employee did <b>not</b> keep timesheets sufficient to allocate salaries and wages among cost centers, this should also be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.</i></p> <p><b>c.</b> For all employees whose duties relate to more than one cost center, prepare a <b>Summary of Employee's Time (Hours Worked) by Cost Center</b> workpaper (<b>Attachment II</b>) which summarizes the hours worked from the individual employee's "<b>Timesheet for Cost Report</b>" (<b>Attachment III</b>) or other time record. Calculate the percentage of total time for each cost center by employee.</p> <p><i>(Note to CPA/Independent Accountant: See example of workpaper format - Attachment II. Homes were notified in February 1996 that timesheets were required beginning in March 1996 as a basis for allocating salaries and wages among cost centers. If the Home did <b>not</b> maintain timesheets sufficient to allocate salaries and wages among cost centers, this should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures. Also, if time records are only available for a portion of the required period, this should also be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures and the above procedure performed for the period that time records were maintained.)</i></p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
2.(cont'd)	<p>Post each employee's percentage of total time for each cost center to the appropriate column on the <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper prepared in Step 2.a. above.</p> <p><b>d.</b> For employees whose duties relate to more than one cost center, calculate each employee's salary and total paid hours applicable to each cost center based on the percentage of time computed in step 2.c. Post salary and paid hours amounts for the reporting period of all employees allocated to multiple cost centers to the correct cost center column on the <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper.</p> <p><b>e.</b> Add the salaries and paid hours for each cost center and compare total salaries and paid hours by cost centers as reflected on <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper to the amounts reported in the Adult Care Home Cost Report.</p> <p><b>f. <u>Report any differences</u></b> in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b><u>post adjustments</u></b> to the appropriate cost center for salary and wages and paid hours in the Adult Care Home Cost Report.</p>			
	<p><b><u>Lines: 3, 4, 23, 24, 43, 44, 93, 94, 123, 124, 143, 144, 163, and 164</u></b>  <b><u>Payroll Taxes and Employee Benefit Program</u></b></p>			
3.	<p><b>Option 1 - <u>If the Home allocates payroll taxes and employee benefits to cost centers based on the allocation of salaries and wages.</u></b></p> <p><b>a.</b> Prepare a schedule of <b>net</b> payroll tax payments and <b>net</b> employee benefit program payments for the reporting period.</p> <p><b>b.</b> Reconcile the schedule's payroll tax and employee benefits totals to the Home's respective general ledger totals.</p> <p><b>c.</b> Agree the schedules of payroll taxes to supporting documentation (941, state unemployment tax returns). Agree health insurance and worker's compensation benefits to supporting documentation (invoices, policies, transmittals, etc.). Prepare a table reflecting employee benefits by category (health insurance, worker's compensation, retirement, uniforms, etc.) Expand testing as needed if errors detected.</p> <p><b>d.</b> Use the percentage of salaries reflected for each cost center on the <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper prepared in Step 2, to allocate the payroll taxes and employee benefits totals to the respective cost centers.</p> <p><b>e.</b> For each cost center, compare that product to the amount reported in the Adult Care Home Cost Report for payroll taxes and employee benefits.</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
3.(cont'd)	<p><b>Report difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>Option 2 - If the Home allocates payroll taxes and employee benefits to cost centers based on employee time</b></p> <p><b>a.</b> Prepare a schedule of payroll taxes and employee benefits for each employee.</p> <p><b>b.</b> Reconcile the schedule's payroll tax and employee benefits totals to the Home's respective general ledger totals.</p> <p><b>c.</b> Agree the schedule of payroll taxes to supporting documentation (941, state unemployment tax returns). Agree health insurance and workers compensation benefits to supporting documentation (invoices, policies, transmittals, etc.). Prepare a table reflecting employee benefits by category (health insurance, workers compensation, retirement, uniforms, etc.) Expand testing as needed if errors detected.</p> <p><b>d.</b> Use the percentage of time devoted to each cost center for each employee listed on the <b>Summary of Salaries and Wages and Hours Paid by Employee</b> workpaper prepared in Step 2, to allocate each employee's payroll taxes and employee benefits totals to the respective cost centers.</p> <p><b>e.</b> For each cost center, compare that product to the amount reported in the Adult Care Home Cost Report for payroll taxes and employee benefits.</p> <p><b>Report difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
	<b><u>Line 29 Food</u></b>			
4a.	<p>From the accounting records obtain or prepare a schedule of <b>all</b> detail transactions/payments for food and compare the total to the <b>total</b> amount reported on Line 29 of Schedule C.</p> <p><b>Report difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
4b.	<p>Within the first group of twenty detail transactions/payments for food purchases, establish a random starting point and select every twentieth (<b>20th</b>) detail transaction/payment for the purchase of food and compare amount recorded on the disbursements journal with the amount of the <b>canceled</b> check and the invoice. Calculate the total possible difference, if any, for the total of food purchases reported on Schedule C by dividing the dollar error noted by the total dollar amount of the sample and multiply by the total reported food costs. Expand testing as needed if errors detected.</p> <p><b>Based upon the allocation method specified on Schedule E, reallocate the adjusted total of food costs to the Special Care Unit and the Adult Care Bed cost centers.</b></p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
4b.(cont'd)	<p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Adult Care Home Cost Report. The Cost Report should only be adjusted for identifiable errors {i.e.: posting errors, incorrect amounts, non-allowable costs, etc.}. <b>Missing documentation errors should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.</b>)</i></p> <p><b>Report the calculated difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report. If the difference is a result of a misclassified expenditure, reclassify the amount to the proper cost report line.</p>			
	<p><b><u>Line 152 Interest – Automobile, Line 179 Interest – Mortgage and Line 180 Interest – Other Capital Assets</u></b></p>			
5.	<p>From the accounting records obtain or prepare a schedule of <b>all</b> detail interest transactions for mortgages, automobiles and other capital assets. Agree all interest transactions to either a detailed mortgage/loan amortization schedule, loan document, or invoice or statement provided by lender. Compare <b>total</b> interest expense to the total interest reflected on Lines 152, 179 &amp; 180.</p> <p><i>(Note to the CPA/Independent Accountant: The verification of interest expense allocated to automobiles used for Medically Related Patient Transportation would involve a detailed verification of the percentage of medical transportation miles to total miles. Although possible, in most instances the amount allocated for medically related transportation of residents would not justify cost of the procedure. Therefore, the focus of this procedure should concern mortgage interest which is significant to many homes. In most instances errors in <b>auto interest</b> can be adjusted to Line 180 of the Adult Care Home Cost Report <u>unless you can specifically identify the error to interest expense related to medical transportation.</u>)</i></p> <p><b>Based upon the allocation method specified on Schedule E, reallocate the adjusted total of interest expense to the respective line items within the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><b>Report the difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p> <p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Adult Care Home Cost Report. The Cost Report should only be adjusted for identifiable errors {i.e.: posting errors, incorrect amounts, non-allowable costs, etc.}. <b>Missing documentation errors should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.</b>)</i></p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
	<b><u>Line 175 Rent for Facility</u></b>			
6.	<p>From the accounting records obtain or prepare a schedule of <b>all</b> detail transactions for rental of facility. Agree detail transactions to rental agreement documents. Compare <b>total</b> rent expense to the <b>total</b> of Line 175 Rent for Facility of Schedule C.</p> <p><b>Based upon the allocation method specified on Schedule E, reallocate the adjusted total of facility rent to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><b>Report difference</b>, if any, in the Independent Accountant’s Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p> <p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Adult Care Home Cost Report. The Cost Report should only be adjusted for identifiable errors {i.e.: posting errors, incorrect amounts, non-allowable costs, etc.}. <b>Missing documentation errors {rental agreements and/or invoices} should be reported in the Independent Accountant’s Report on Applying Agreed-Upon Procedures.</b>)</i></p>			
	<b><u>Line 176 Rent for Buildings/Land</u></b>			
7.	<p>From the accounting records obtain or prepare a schedule of <b>all</b> detail transactions for rental of buildings/land. Agree detail transactions to rental agreement documents. Compare <b>total</b> rent expense to the <b>total</b> of Line 176 Rent for Buildings/Land of Schedule C.</p> <p><b>Based upon the allocation method specified on Schedule E, reallocate the adjusted total of Rent for Buildings/Land to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><b>Report difference</b>, if any, in the Independent Accountant’s Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p> <p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Adult Care Home Cost Report. The Cost Report should only be adjusted for identifiable errors {i.e.: posting errors, incorrect amounts, non-allowable costs, etc.}. <b>Missing documentation errors {rental agreements and/or invoices} should be reported in the Independent Accountant’s Report on Applying Agreed-Upon Procedures.</b>)</i></p>			
	<b><u>Line 132 Utilities</u></b>			
8a.	<p>From the accounting records obtain or prepare a schedule of <b>all</b> detail transactions for utilities and compare the total to the amount reported on Line 132 of Schedule C.</p> <p><b>Report the difference</b>, if any, in the Independent Accountant’s Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
8b.(cont'd)	<p>Within the first group of ten utility transactions establish a random starting point and, select every tenth (<b>10th</b>) transaction for utilities and compare amount recorded on the disbursements journal with the amount of the <b>canceled</b> check and the invoice. Calculate the total possible difference, if any, for the total of utilities reported on Schedule C by dividing the dollar error noted by the total dollar amount of the sample and multiply by the total reported utility costs. Expand testing as needed if errors detected.</p> <p><b>Based upon the allocation method specified on Schedule E, reallocate the adjusted total of utilities to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Adult Care Home Cost Report. The Cost Report should only be adjusted for identifiable errors {i.e.: posting errors, incorrect amounts, non-allowable costs, etc.}. <b>Missing documentation errors should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.</b>)</i></p> <p><b>Report the calculated difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
	<b><u>Line 100 Management Services</u></b>			
9a.	<p>From the accounting records obtain or prepare a schedule of <b>all</b> detail transactions/payments for management services and compare the total to the amount reported on Line 100 of Schedule C. Agree detail transactions to management services agreement/contract document(s).</p> <p><b>Report difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
9b.	<p>Within the first group of five detail transactions/payments for management services, establish a random starting point and select every fifth (<b>5th</b>) detail transaction/payment for management services and compare amount recorded on the disbursements journal with the amount of the <b>canceled</b> check and the invoice. Calculate the total possible difference, if any, for the total of management services reported on Schedule C by dividing the dollar error noted by the total dollar amount of the sample and multiply by the total reported management services. Expand testing as needed if errors detected.</p> <p><b>Based upon the allocation method specified on Schedule E, reallocate the adjusted management services total to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Adult Care Home Cost Report. The Cost Report should only be adjusted for identifiable errors {i.e.: posting errors, incorrect amounts, non-allowable costs, etc.}. <b>Missing documentation errors {management contracts and/or</b></i></p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
9b.(cont'd)	<p><i>invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report the calculated difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
	<p><b><u>Lines: 9, 27, 47, 97, 127, 147, and 167</u></b>  <b><u>Contract Services</u></b></p>			
10a.	<p>From the accounting records obtain or prepare a schedule of <b>all</b> detail transactions/payments and paid hours for contract services <u>by cost center (line number)</u> and compare the totals to the corresponding amounts reported on Schedule C. Agree detail transactions to contract services agreement document(s).</p> <p><b>Report difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
10b.	<p>Within the first group of five detail transactions/payments for contract services <u>for each cost center (line number)</u>, establish a random starting point and select every fifth (<b>5th</b>) detail transaction/payment for contract services and compare amount recorded on the disbursements journal with the amount of the <b>canceled</b> check and the invoice. Calculate the total possible difference, if any, <u>for each cost center total</u> of contract services reported on Schedule C by multiplying the total difference by 5.</p> <p><b>Based upon the allocation method specified on Schedule E, reallocate each contract services cost center (line number) adjusted total to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Adult Care Home Cost Report. The Cost Report should only be adjusted for identifiable errors {i.e.: posting errors, incorrect amounts, non-allowable costs, etc.}. <b>Missing documentation errors {contracts and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.</b>)</i></p> <p><b>Report the calculated difference</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
	<p><b><u>Lines: 20, 40, 50, 60, 80, 90, 120, 140, 160, 170, 190, 200, 210, 215, 220, 225, 230, 235 and 240</u></b>  <b><u>Cost Center Totals</u></b></p>			
11.	<p>Verify addition of <u>all cost center totals</u> on Schedule C and the total of all cost centers (Line 260) <b>for columns 1, 2, 3, 4, 5, 6 and 7.</b></p> <p><i>(Note to the Auditor: The Total of All Cost Centers [line 240 of Schedule C for columns 3, 6 and 7] should also be reflected on line 19 of Schedule B in columns 1, 3 and 5.)</i></p>			

<b>Procedure No.</b>	<b>Description</b>	<b>Initials</b>	<b>Date</b>	<b>Workpaper Reference</b>
11.(cont'd)	<b>Report differences</b> , if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.			



# Schedule B - Adult Care Home Cost Report

## Schedule of Profit and Loss

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p><i>Note to CPA/Independent Accountant: The following guidance was provided to homes with respect to presenting refunds on Schedule B of the Adult Care Home Cost Report:</i></p> <ul style="list-style-type: none"> <li>• Refunds due to the personal allowance adjustments of State/County Special Assistance to Adults (SA) funds should be reported on Line 8, Refunds.</li> <li>• Refunds due to either the resident's death or the resident's movement from the home should be reported on either Line 8 or Line 13 (Refunds), depending on the type of resident (SA Resident versus Private Pay Resident)</li> <li>• Payments of a portion of the resident's income, which has been determined/designated by HUD to help offset facility costs, should be treated like a resident refund. This amount should be reported on either Line 8 or Line 13 (Refunds), depending on the type of resident (SA Resident versus Private Pay Resident)</li> <li>• Refunds from non-resident revenue sources should be reported on Line 16, Refunds</li> <li>• Refunds due to PCS overpayments/recoupments should be reported on Line 9.</li> </ul>			
	<p><b><u>Receipts on Behalf of State/County Special Assistance Residents</u></b>  <b><u>Lines 1 through 9: State County Special Assistance to Adults, Social Security, Supplemental Security Income, Personal Care Services, Medical Transportation, Mental Health Revenues, Other (Insurance, Veteran Benefits, Railroad, Etc.), Refunds and PCS Overpayments/Recoupments.</u></b></p>			
12.	<p><b>a.</b> Prepare/obtain a schedule of income received on behalf of State/County Special Assistance residents <b>segregated by the Special Care Unit and all Other Beds</b> for the following revenue categories: State/County Special Assistance to Adults, Social Security, Supplemental Security Income, Personal Care Services, Medical Transportation, Mental Health Revenue, Other (Insurance, Veteran Benefits, Railroad, Etc.), Refunds and PCS Overpayments/Recoupments. Adjust amounts received by subtracting beginning of period accounts receivable and adding end of period accounts receivable for accrual basis reports. Reconcile schedule totals to income totals as reflected in the Home's accounting records by revenue category totals.</p> <p><b>b.</b> Compare total for each income category <b>segregated by the Special Care Unit and all Other Beds</b> for the reporting period to the amounts entered on Lines 1 through 9 of Schedule B.</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
12.(cont'd)	<b>Report differences</b> , if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.			
	<b><u>Receipts from Private Pay Residents</u></b> <b><u>Lines 11 through 13: Private Pay Receipts (Social Security, Supplemental Security Income, Insurance, Veteran Benefits, Railroad, Etc.), Mental Health Revenues and Refunds.</u></b>			
13.	<p><b>a.</b> Prepare/obtain a schedule of income received on behalf of Private Pay residents <b>segregated by the Special Care Unit and all Other Beds</b> for the following revenue categories: Private Pay Receipts (Social Security, Supplemental Security Income, Veteran Benefits, Railroad, Etc.), Mental Health Revenues and Refunds. Adjust amounts received by subtracting beginning of period accounts receivable and adding end of period accounts receivable for accrual basis reports. Reconcile schedule totals to income totals as reflected in the Home's accounting records by revenue category totals.</p> <p><b>b.</b> Compare total for each income category <b>segregated by the Special Care Unit and all Other Beds</b> for the reporting period to the amounts entered on Lines 11 through 13 of Schedule B.</p> <p><b>Report differences</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			
	<b><u>Non-Resident Related Receipts</u></b> <b><u>Lines 15 through 16:</u></b>			
14.	<p><b>a.</b> Prepare/obtain a schedule of non-resident related income <b>segregated by the Special Care Unit and all Other Beds</b> received for the following revenue categories: Receipts From Other Sources and Refunds. Adjust amounts received by subtracting beginning of period accounts receivable and adding end of period accounts receivable for accrual basis reports. Reconcile schedule totals to income totals as reflected in the Home's accounting records by revenue category totals.</p> <p><b>b.</b> Compare total for each income category <b>segregated by the Special Care Unit and all Other Beds</b> for the reporting period to the amounts entered on Lines 15 through 16 of Schedule B.</p> <p><b>Report differences</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report.</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p><b><u>Lines: 10, 14, 17, 18, 19 and 20</u></b>  <b><u>Schedule of Profit and Loss Totals</u></b></p>			
15.	<p>Verify addition of all revenue totals as presented on Schedule B (lines 10, 14, 17, 18, 19 and 20) <b>for columns 2, 4 and 5.</b>  <i>(Note to the CPA/Independent Accountant: Verify that the Total Expenses [line 19 of Schedule B] amounts in columns 1, 3 and 5 are the same amounts that are reflected on line 240 of Schedule C in columns 3, 6 and 7.)</i></p> <p><b><u>Report differences</u></b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b><u>adjust</u></b> the Adult Care Home Cost Report as appropriate.</p>			

# Schedule D - Adult Care Home Cost Report

## Schedule of Related Party Costs

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p><i>Note to CPA/Independent Accountant: See <b>Attachment IV</b> for a recap of the guidance that is provided to homes with respect to defining and reporting related party transactions /costs on <b>Schedule D</b> of the Adult Care Home Cost Report.</i></p>			
16a.	<p>From the accounting records obtain or prepare a summary of <b>all</b> detail transactions by <u>expense type</u> (line number) <b>segregated by Special Care Unit and Adult Care Beds</b> that meet the definition of related party transactions and compare the <u>line number totals</u> to the corresponding amounts reported on Schedule D.</p> <p><b>Note:</b> If <i>salaries and wages, casual labor and contract services</i> are identified as related party transactions, then the summary worksheet should also reflect the corresponding number of paid hours for each of these expenses. The line item totals of paid hours should then be compared to the corresponding amounts reported on Schedule D.</p> <p><b>Report differences</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p>			
16b.	<p><i>(Note to the CPA/Independent Accountant: Do <b>not</b> include missing documentation errors in the calculation for adjusting the Cost Report. The Cost Report should only be adjusted for identifiable errors (i.e.: posting errors, incorrect amounts, non-allowable costs, etc.).</i></p> <p>For <u>each type</u> of related party transactions/expenses identified on Schedule D, perform the following specified procedures.)</p> <p><b>(1) Salaries and Wages</b> Reconcile <b>total</b> paid hours and <b>total</b> salaries paid by cost center (line number) <u>for each employee</u> identified on Schedule D to the respective employee's salary and paid hours totals reflected on the <b>Summary of Salaries and Wages and Hours Paid by Employees</b> workpaper (Attachment I) prepared in procedure #2.</p> <p><b>Report difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(2) Payroll Taxes and Employee Benefit Program</b> Calculate <b>total</b> payroll taxes and <b>total</b> employee benefit costs paid by cost center (line number) <u>for each employee</u> identified on Schedule D. For each cost center line item, compare that product to the amount reported on Schedule D.</p> <p><b>Report difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
16b.(cont'd)	<p><b>(3) Rent for Facility (Line 175)</b></p> <p>a. Agree detail transactions reflected on schedule prepared in procedure 16a to rental agreement documents.</p> <p>b. Obtain or prepare a schedule that adjusts facility rent recorded to the amount of facility costs incurred by the related party. Compare the amount recorded on Line 175 and the related party adjustment amount to the amount reported on Schedule D.</p> <p><b>c. Based upon the allocation method specified on Schedule E, reallocate the adjusted total of facility rent to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {rental agreements and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(4) Rent for Buildings/Land (Line 176)</b></p> <p>a. Agree detail transactions reflected on schedule prepared in procedure 16a to rental agreement documents.</p> <p>b. Obtain or prepare a schedule that adjusts building/land rent recorded to the amount of building/land costs incurred by the related party. Compare the amount recorded to line 176 and the related party adjustment amount to the amount reported on Schedule D.</p> <p><b>c. Based upon the allocation method specified on Schedule E, reallocate the adjusted total of Rent for Other Buildings/Land to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {rental agreements and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(5) Rent for Equipment (Line 149)</b></p> <p>a. Agree detail transactions reflected on schedule prepared in procedure 16a to rental agreement documents.</p> <p>b. Obtain or prepare a schedule that adjusts equipment rent recorded to the amount of equipment costs incurred by the related party. Compare the amount recorded to line 149 and the related party adjustment amount to the amount reported on Schedule D.</p> <p>c. Within the first group of five rental transactions, establish a random starting point and select every fifth (<b>5th</b>) transaction for equipment rent and compare amount recorded on the schedule with the amount of the <b>canceled</b> check and the invoice. Calculate the total possible difference, if any, for the related party rent for equipment reported on Schedule C by dividing the dollar error noted by the total dollar amount of the sample and multiply by the total reported related party rent for equipment. Expand testing as needed if errors detected.</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
16b.(cont'd)	<p><b>(5) Rent for Equipment (Line 149)</b></p> <p><b>d. Based upon the allocation method specified on Schedule E, reallocate the adjusted total of Rent for Equipment to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {rental agreements and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(6) Rent for Automobiles/Equipment (Line 177)</b></p> <p>a. Agree detail transactions reflected on schedule prepared in procedure 16a to rental agreement documents.</p> <p>b. Obtain or prepare a schedule that adjusts automobile/equipment rent recorded to the amount of automobile/equipment costs incurred by the related party. Compare the amount recorded to line 149 and the related party adjustment amount to the amount reported on Schedule D.</p> <p>c. Within the first group of five rental transactions, establish a random starting point and select every fifth (<b>5th</b>) transaction for equipment rent and compare amount recorded on the schedule with the amount of the <b>canceled</b> check and the invoice. Calculate the total possible difference, if any, for the related party rent for automobile/equipment reported on Schedule C by dividing the dollar error noted by the total dollar amount of the sample and multiply by the total reported related party rent for automobile/equipment. Expand testing as needed if error detected.</p> <p><b>d. Based upon the allocation method specified on Schedule E, reallocate the adjusted total of Rent for Other (Automobiles/Equipment) to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {rental agreements and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(7) Contract Services</b></p> <p>a. Agree detail transactions reflected on schedule prepared in procedure 16a to contractual agreement documents.</p> <p>b. Obtain or prepare a schedule that adjusts contract services recorded to the amount of contract services cost incurred by the related party. Compare the amount recorded to each contract service line that includes related party costs to the amount per the schedule and compare the related party adjustment amounts to those reported on Schedule D for each cost center (line number).</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
16b.(cont'd)	<p><b>(7) Contract Services</b></p> <p>c. <b>Based upon the allocation method specified on Schedule E, reallocate each contract services cost center (line number) adjusted total to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {contracts and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report the calculated difference(s),</b> if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(8) Management Services (Line 100)</b></p> <p>a. Agree detail transactions reflected on schedule prepared in procedure 16a to management agreement documents.</p> <p>b. Obtain or prepare a schedule that adjusts management service recorded to the amount of management service costs incurred/allocated by the related party. Compare the amount recorded to line 100 and the related party adjustment amount to the amount reported on Schedule D.</p> <p>c. <b>Based upon the allocation method specified on Schedule E, reallocate the adjusted management services total to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {contracts and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report the calculated difference(s),</b> if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(9) Central Office Overhead (Line 101)</b></p> <p>a. Obtain or prepare a schedule that adjusts central office overhead recorded to the amount of central office overhead costs incurred / allocated by the related party. Compare the amount recorded to line 101 and the related party adjustment amount to the amount reported on Schedule D.</p> <p>b. Within the first group of five central office overhead transactions, establish a random starting point and select every fifth (5th) transaction for central office overhead and compare amount recorded on the schedule with the amount of the canceled check and the invoice or to the amount of overhead expense allocation per allocation schedules. Calculate the total possible difference, if any, for the related party central office overhead reported on Schedule C by dividing the dollar error noted by the total dollar amount of the sample and multiply by the total reported related party rent for central office overhead. Expand testing as needed if errors detected.</p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
16b.(cont'd)	<p><b>(9) Central Office Overhead (Line 101)</b></p> <p>c. <b>Based upon the allocation method specified on Schedule E, reallocate the adjusted Central Office Overhead total to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report the calculated difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p> <p><b>(10) All Other Types of Related Party Expenses</b></p> <p><i>(Note to the CPA/Independent Accountant: The following procedures should be performed for all of the other types of related party expenses (not previously addressed in steps 1 through 10) that are identified on Schedule D.</i></p> <p>a. Compare total of <u>each type</u> of related party expense per the schedule to the amount reported on Schedule D for each cost center (line number).</p> <p>b. Within the first group of five transactions for each type of related party transaction for each cost center (line number), establish a random starting point and select every fifth (<b>5th</b>) transaction and compare amount recorded on the schedule with the amount of the <b>canceled</b> check and the invoice. Calculate the total possible difference, if any, for the total of each type of related party expense reported on Schedule C by dividing the dollar error noted by the total dollar amount of the sample and multiply by the total reported related party expense. Expand testing as needed if errors detected.</p> <p>c. <b>Based upon the allocation method specified on Schedule E for the other types of related party expenses being reported, reallocate the various adjusted totals to the Special Care Unit and the Adult Care Bed cost centers.</b></p> <p><i>(Missing documentation errors {contracts and/or invoices} should be reported in the Independent Accountant's Report on Applying Agreed-Upon Procedures.)</i></p> <p><b>Report the calculated difference(s)</b>, if any, in the Independent Accountant's Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report (<b>Schedule D</b>).</p>			



## Schedule E – Basis of Allocating Expenses Between Special Care and Adult Care Beds

Procedure No.	Description	Initials	Date	Workpaper Reference
	<i>Note to CPA/Independent Accountant: Refer to the <b>Schedule E instructions</b> for a recap of the guidance that is provided to homes with respect to defining and reporting costs and other information on <b>Schedule E</b> of the Adult Care Home Cost Report.</i>			
17.	<p>a. Obtain from management and/or the accounting records documentation to support the various allocation basis data reported on Schedule E.</p> <p>b. Review documentation for each allocation basis for accuracy and reasonableness. <i>(Missing documentation errors {contracts, rental agreements, census reports, meals served, invoices, etc.} should be reported in the Independent Accountant’s Report on Applying Agreed-Upon Procedures.)</i></p> <p>c. Verify allocation calculation for each type of cost (line item) reported on Schedule C that is being allocated to the Special Care Unit.</p> <p><b>Report differences</b>, if any, in the Independent Accountant’s Report on Applying Agreed-Upon Procedures and <b>adjust</b> the Adult Care Home Cost Report as appropriate.</p>			

## Schedule F- Adult Care Cost Model Verification

Procedure No.	Description	Initials	Date	Workpaper Reference
	<i>Note to the CPA/Independent Accountant: The nature of procedure eighteen (18) is to determine if the position titles in the facility are matched with those on Schedule F as closely as possible to the position titles and definitions defined by the US Dept. of Labor. Please use the list provided by NC DHHS Office of the Controller.</i>			
18.	<p>This procedure is only required for facilities licensed as HAL <b>and</b> are licensed for 31 or more beds.</p> <p>In Procedures #2 and #10, the hours by employee or contract employees are summarized and keyed into the Paid Hours, Unpaid Hours columns for each cost center of Schedule C-Direct and Schedule C-Indirect.</p> <p>Based on the job descriptions determined in the procedures mentioned above, match the facility job descriptions, on Schedule F <u>as closely as possible</u> to job titles and descriptions on the list provided by the Office of the Controller. The list can be found at: <a href="http://www.ncdhhs.gov/about/administrative-offices/office-controller/adult-care-facilities">www.ncdhhs.gov/about/administrative-offices/office-controller/adult-care-facilities</a>.</p> <p>One or multiple job descriptions can be assigned to each cost center on Schedule F. The total hours for each job description in each cost center must match the summarized hours keyed on Schedule C-Direct and Schedule C-Indirect in the Paid Hours, Unpaid Hours and Contract Hours columns/lines.</p> <p><i>Scenario: In the Dietary cost center of Schedule C-Direct in the Paid</i></p>			

Procedure No.	Description	Initials	Date	Workpaper Reference
	<p><i>Hours column, the total summarized hours keyed for line 21 was 4,824 in the Adult Care Paid Hours column and 4,824 in the SCU Paid Hours column.</i></p> <p><i>Example 1: All the hours matched the job title and description of Food Preparer. Next on Schedule F under Position, use the drop-down box and select Food Preparation Worker. Under Cost Center select Dietary. Under AdultCarePaidHours key 4,824 and under SCUPaidHours key 4,824</i></p> <p><i>Example 2: There are 4 facility positions that match 4 different job titles and descriptions: a cook, dietetic tech, supervisor and food servers. On Schedule F under Positions select the title Cook, Institution &amp; Cafeteria. Under Cost Center select Dietary. Under AdultCarePaidHours key 1,040 and under SCUPaidHours key 1,040. On the next line under Positions, select the title Dietetic Technician. Under Cost Center select Dietary. Under AdultCarePaidHours key 1,040 and under SCUPaidHours key 1,040. On the next line under Positions, select the title Food-Supervisors/Managers of Food Preparation and Serving Workers. Under Cost Center select Dietary. Under AdultCarePaidHours key 1,040 and under SCUPaidHours key 1,040. On the next line under Positions select Food Server, Non-Restaurant. Under Cost Center select Dietary. Under AdultCarePaidHours key the remaining 1,704 hours and under SCUPaidHours key the remaining 1,704 hours. In this example, the hours for all four positions listed for the Dietary cost center on Schedule F equal the 4,824 hours keyed on line 21 of the Dietary cost center on Schedule C-Direct in both the Adult Care Paid Hours column and the SCU Paid Hours column.</i></p> <p>For a facility with SCU beds, additional columns are on Schedule F to reflect the additional columns added to Schedule C-Direct and Schedule C-Indirect. These columns serve to separate the regular adult care bed position hours and the SCU related position hours. Again, the total hours in the AdultCarePaidHours and SCUPaidHours columns on Schedule F must match the keyed hours on Schedule C-Direct and Schedule C-Indirect.</p> <p><b><u>Report that</u></b>, job description with the facility were matched as closely as possible to the list provided and the total hours on Schedule F match the total summarized hours on Schedules C-Direct and C-Indirect.</p> <p style="text-align: center;"><b><u>or</u></b></p> <p>N/A for any HAL licensed facility with under 31 beds or an MHL facility not required to perform this step.</p>			

**“Example Report for 7 Bed or Greater Adult Care Facility with SCU Beds”**

**Independent Accountant’s Report on Applying Agreed-Upon Procedures to the Adult Care Home Cost Report submitted to the N. C. Department of Health and Human Services for the period (beginning of fiscal yr.) through (end of fiscal yr.)**

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

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

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

The procedures and the associated findings are as follows:

**Schedule A: Facility Data**

**Total Number of Resident Days: Line #19**

1. We compared the summary of daily resident days by resident **segregated by the Special Care Unit and all Other Beds** to the Cost Report. We also compared every 10th day (sample size of 36 days) as reflected on the summary of residence days to the **Special Care Unit and all Other Beds** daily census taken by the facility for that day.

Included in our sample were three days in which the daily patient census for the **Special Care Unit** exceeded the patient days used to prepare the Cost Report. These three days resulted in an understatement of eight (8) resident days for our sample. This total multiplied by ten (8 X 10) would result in an increase of eighty (80) **Special Care Unit** resident days. This difference has been adjusted on the Cost Report.

***OR (OPTION #2)***

We compared the summary of resident days by resident **segregated by the Special Care Unit and all Other Beds** to the Cost Report. We also selected 20% of the Special Care Unit residents (sample size of 3 residents) **and** the **Other Beds** residents (sample size of 8 residents) as reflected on the summary of residence days for detail testing.

Included in our sample were two **Special Care Unit** residents in which the individual resident’s total resident days based upon admission/discharged dates was less than the resident days used to prepare the Cost Report. These two residents resulted in an overstatement of nine (9) resident days for our sample. This total multiplied by five (9 X 5) would result in a decrease of forty-five (45) **Special Care Unit** resident days. This difference has been adjusted on the Cost Report.

## **Schedule C: Expenses**

### **Salaries and Wages: Lines 1, 21, 41, 91, 121, 141 and 161**

2. We compared total salaries and wages paid to employees and the total hours the employees were paid for as reflected on the facility's accounting records to the amounts entered on the Cost Report. We allocated each employee's salaries and wages and total paid hours to the various cost centers based on either the total hours worked in each cost center as reflected on the employee's timesheets or the employee's job description. We compared the allocated salaries and wages and paid hours totals by cost center to the reported amounts entered on the Cost Report.

We noted that total salaries and wages and total paid hours reported on the Cost Report were under-reported by \$2,710.00 and 379 hours, respectively, when compared to the salaries and wages amount and total paid hours documented on the accounting records. In addition, we noted that the facility did not maintain timesheets sufficient to allocate salaries and wages among the various cost centers until July 1, 2008. We adjusted the following salaries and wages and total paid hours reported in the various cost centers as a result of these procedures:

Salaries and Wages (Line # and Cost Center)		Adjustments { Increase / (Decrease) }			
		Adult Care Beds		Special Care Unit	
		Paid Hours	Salaries	Paid Hours	Salaries
Line #1	Housekeeping & Laundry	22	\$ -	0	\$ -
Line #21	Dietary	106	(5.00)	0	-
Line #41	Recreational Activities	70	700.00	16	70.00
Line #91	Administration & General	36	450.00	12	140.00
Line #121	Operations / Maintenance	25	300.00	3	53.00
Line #141	Medically Related Patient Transportation	89	1,002.00	0	-
Line #161	Mental Health Contracted Services	0	-	0	-
		<u>348</u>	<u>\$2,447.00</u>	<u>31</u>	<u>\$ 263.00</u>

### **Payroll Taxes and Employee Benefit Program: Lines 3, 4, 23, 24, 43, 44, 93, 94, 123, 124, 143, 144, 163, and 164**

3. We compared net payroll taxes and net employee benefits paid to employees as reflected on the facility's accounting records to the amounts entered on the Cost Report. We agreed net payroll taxes and net employee benefits payments to supporting documentation. We reallocated net payroll taxes and net employee benefits to the various cost centers based on the total salaries and wages in each cost center as reflected on the Summary of Salaries and Wages and Hours Paid by Employee workpaper. We compared the net payroll taxes and net employee benefits totals by cost center to the amounts entered on the Cost Report.

We noted that total payroll taxes and total employee benefits reported on the Cost Report were over-reported by \$370.00 and \$98.00, respectively, when compared to the net payroll taxes and net employee benefits documented on the accounting records. We adjusted the net payroll taxes and net employee benefits reported in the following cost centers as a result of these procedures:

		Adjustments { Increase / (Decrease) }			
		Adult Care Beds		Special Care Unit	
Payroll Taxes	Employee Benefit (Line = and Cost Center)	Payroll Taxes	Employee Benefits	Payroll Taxes	Employee Benefits
Line =3 & 4	Housekeeping & Laundry	\$ 17.00	\$ (94.00)	\$ -	\$ -
Line =23 & 24	Dietary	(138.00)	74.00	-	-
Line =43 & 44	Recreational Activities	50.00	40.00	10.00	23.00
Line =93 & 94	Administration & General	(80.00)	(175.00)	(30.00)	(42.00)
Line =123 & 124	Operations / Maintenance	(150.00)	12.00	(48.00)	4.00
Line =143 & 144	Medically Related Patient Transportation	(1.00)	60.00	-	-
Line =163 & 164	Mental Health Contracted Services	-	-	-	-
		<u>\$ (302.00)</u>	<u>\$ (83.00)</u>	<u>\$ (68.00)</u>	<u>\$ (15.00)</u>

OR

We compared total payroll taxes and total employee benefits paid to employees as reflected on the facility's accounting records to the amounts entered on the Cost Report. We agreed totals for net payroll taxes and net employee benefits payments to supporting documentation. We reallocated each individual employee's payroll taxes and employee benefits to the various cost centers based on either the individual employee's total hours worked in each cost center or the employee's job description as reflected on the Summary of Salaries and Wages and Hours Paid by Employee workpaper. We compared the payroll taxes and employee benefits totals by cost center to the amounts entered on the Cost Report.

We noted that total payroll taxes and employee benefits reported on the Cost Report were over-reported by \$370.00 and \$98.00, respectively, when compared to the total payroll taxes and total employee benefits documented on the accounting records. We adjusted the total payroll taxes and total employee benefits reported in the following cost centers as a result of these procedures:

		Adjustments { Increase / (Decrease) }			
		Adult Care Beds		Special Care Unit	
Payroll Taxes	Employee Benefit (Line = and Cost Center)	Payroll Taxes	Employee Benefits	Payroll Taxes	Employee Benefits
Line =3 & 4	Housekeeping & Laundry	\$ 17.00	\$ (94.00)	\$ -	\$ -
Line =23 & 24	Dietary	(138.00)	74.00	-	-
Line =43 & 44	Recreational Activities	50.00	40.00	10.00	23.00
Line =93 & 94	Administration & General	(80.00)	(175.00)	(30.00)	(42.00)
Line =123 & 124	Operations / Maintenance	(150.00)	12.00	(48.00)	4.00
Line =143 & 144	Medically Related Patient Transportation	(1.00)	60.00	-	-
Line =163 & 164	Mental Health Contracted Services	-	-	-	-
		<u>\$ (302.00)</u>	<u>\$ (83.00)</u>	<u>\$ (68.00)</u>	<u>\$ (15.00)</u>

## **Food (Line #29)**

4. We compared a summary of food purchases (detail transactions) as recorded on the facility's accounting records with the amount reported on the Cost Report. We compared the amount recorded in the facility's disbursement journal with the amount of the canceled check and the invoice for every twentieth (sample size of 15 food purchases) payment.

We decreased the reported amount by \$236.49 to reflect the total amount of food costs as reflected on the facility's accounting records. In addition, we found four discrepancies in the sample between the amounts recorded in the accounting records, the canceled check amount and invoice total. These four discrepancies resulted in the sample's food costs being overstated by \$8.95. The \$8.95 overstatement identified in the sample was divided by \$500, the total of the sample, and then multiplied by the total food costs of \$2,500 to arrive at a projected overstatement total of \$44.75. The facility's amount of food costs reported on the Cost Report was also decreased by \$44.75 to reflect the projected overstatement. We also noted in our sample that five food purchases/payments totaling \$85.38 were not supported by invoices. No adjustment was made to the reported total for the missing invoices.

**Based upon the allocation method specified on Schedule E, we reallocated the adjusted total of food costs to the Special Care Unit and the Adult Care Bed cost centers.**

## **Interest - Automobile (Line #152), Interest - Mortgage (Line #179) and Interest - Other Capital Assets (Line #180)**

5. We traced the interest expense (detail transactions) for mortgages, automobiles and other capital assets recorded in the facility's accounting records to either a detailed mortgage/loan amortization schedule, loan document, or invoice/statement provided by the lender. We compared the total interest expense to the total interest reported in the Cost Report on lines 152, 179 and 180.

We noted that total interest expense for mortgages, automobiles and other capital assets reported on the Cost Report was over-reported by \$473.00 when compared to the interest expense documented by the accounting records. We decreased the reported amounts on the Cost Report for Interest - Automobiles (Line #152) by \$122.00, Interest - Mortgages (Line #179) by \$300.00 and Interest - Other Capital Assets (Line #180) by \$51.00 as a result of these procedures.

**Based upon the allocation method specified on Schedule E, we reallocated the adjusted total of interest expense to the respective line items within the Special Care Unit and the Adult Care Bed cost centers.**

## **Rent for Facility (Line #175)**

6. We traced the rental expense (detail transactions) for the facility recorded in the facility's accounting records to a rental agreement document. We compared the total rental expense to the total rental reported in the Cost Report on line 175. **Based upon the allocation method specified on Schedule E, we reallocated the adjusted total of facility rent to the Special Care Unit and the Adult Care Bed cost centers.**

The facility did not have a written rental agreement for facility rent; however, the total rental expense per the accounting records agreed to the Cost Report. No other discrepancies were noted.

### **Rent for Buildings/Land (Line #176)**

7. We traced the rental expense (detail transactions) for buildings/land recorded in the facility's accounting records to a rental agreement document. We compared the total rental expense to the total rental reported in the Cost Report on line 176. **Based upon the allocation method specified on Schedule E, we reallocated the adjusted total of Rent for Buildings/Land to the Special Care Unit and the Adult Care Bed cost centers.**

We found no exceptions as a result of this procedure.

### **Utilities (Line #132)**

8. We compared a summary of the detail transactions for utilities as recorded in the accounting records with the amount reported in the Cost Report. We compared every tenth (sample size of # \_\_\_ utility payments) utility payment as recorded in the accounting records to the amount of the canceled check and the invoice. **Based upon the allocation method specified on Schedule E, we reallocated the adjusted total of utilities to the Special Care Unit and the Adult Care Bed cost centers.**

We found no exceptions as a result of this procedure.

### **Management Services (Line #100)**

9. We traced the management services expense (detail transactions) recorded in the facility's accounting records to a management agreement document. We compared the total management services expense to the management services total reported in the Cost Report on line 100. We also compared the amount recorded in the facility's disbursement journal with the amount of the canceled check and the invoice for every fifth (sample size of # \_\_\_) transaction/payment.

The facility did not have a written agreement for management services; however, the total management services expense per the accounting records agreed to the Cost Report. **Based upon the allocation method specified on Schedule E, we reallocated the adjusted management services total to the Special Care Unit and the Adult Care Bed cost centers.** No other exceptions were noted as a result of this procedure.

### **Contract Services: Lines #9, 27, 47, 97, 127, 147, and 167**

10. We traced the contract services expenses (detail transactions) recorded in the facility's accounting records to written contracts. For each cost center, we compared the total contract services expense and the related number of paid hours to the corresponding contract services totals reported in the Cost Report. We also compared the amount recorded in the facility's disbursement journal with the amount of the canceled check and the invoice for every fifth contract services transaction/payment within each cost center (total sample size of 22).

The facility was unable to locate the contract for one service provider that was paid \$800 (line #9). Total contract services expense and total paid hours per the accounting records agreed to the amounts reported on Schedule C for each cost center. We also found six discrepancies in the samples for three expense line items between the amounts recorded in the accounting records, the canceled check amount and invoice total. These six discrepancies resulted in the sample's contract services costs being overstated by \$30.00, \$15.00 and \$25.00 respectively for three expense line items. In addition, the number of paid hours associated with these six discrepancies were overstated by 3, 2 and 2 hours respectively. The expense and number of paid hours overstatements identified in the sample were multiplied by five to arrive at a projected overstatement for three expense line items. **Based upon the allocation method specified on Schedule E, we reallocated each contract services cost center (line number) adjusted total to the Special Care Unit and the Adult Care Bed cost centers.** We adjusted the following Schedule C contract services line number totals as a result of this procedure:

Contract Services (Line # and Cost Center)	Adjustments { Increase / (Decrease) }			
	Adult Care Beds		Special Care Unit	
	Paid Hours	Salaries	Paid Hours	Salaries
Line #97 Administration & General	-20	(150.00)	10	25.00
	-20	\$ (150.00)	10	\$ 25.00

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

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

We noted no exceptions in the original Cost Report that was submitted by facility management as a result of this procedure. However, the following totals on Schedule C were adjusted to encompass the adjustments that were reported/identified in procedures 2 through 10:

Cost Center (Line # and Description)	Total	Adjustments {Increase / (Decrease)}	
		Adult Care Beds Expenses	Special Care Unit Expenses
Line #20 Total of Housekeeping & Laundry	\$ (77.00)	\$ (77.00)	\$ -
Line #40 Total of Dietary	\$ (484.49)	\$ (381.36)	\$ (103.13)
Line #50 Total of Recreational Activities	\$ 893.00	\$ 790.00	\$ 103.00
Line #60 Total of Personal Care	\$ (1,210.00)	\$ (914.00)	\$ (296.00)
Line #80 Total of Health Services	\$ 1,185.00	\$ 855.00	\$ 330.00
Line #90 Total of Initial / Orientation Aide Training	\$ 955.00	\$ -	\$ 955.00
Line #120 Total of Administration & General	\$ 138.00	\$ 45.00	\$ 93.00
Line #140 Total of Operations / Maintenance	\$ 171.00	\$ 162.00	\$ 9.00
Line #160 Total of Medically Related Patient Transportation	\$ 939.00	\$ 986.00	\$ (47.00)
Line #170 Total of Mental Health Contracted Services	\$ -	\$ -	\$ -
Line #190 Total of Property / Ownership / Use	\$ (351.00)	\$ (281.00)	\$ (70.00)
Line #200 Total of Non-Reimbursable	\$ -	\$ -	\$ -
Line #210 Total of Direct Cost Center	\$ 331.51	\$ 331.64	\$ (0.13)
Line #215 Total of PCS Cost Center	\$ 930.00	\$ (59.00)	\$ 989.00
Line #220 Total of Indirect Cost Centers	\$ 309.00	\$ 207.00	\$ 102.00
Line #225 Total of Other Cost Centers	\$ 939.00	\$ 986.00	\$ (47.00)
Line #230 Total of Capital Cost Centers	\$ (351.00)	\$ (281.00)	\$ (70.00)
Line #235 Total of Non-Reimbursable Cost Centers	\$ -	\$ -	\$ -
Line #240 Total of All Cost Centers	\$ 2,158.51	\$ 1,184.64	\$ 973.87



**Schedule B: Schedule of Profit and Loss**

**Receipts on Behalf of State/County Special Assistance Residents: Lines 1 through 9**

12. We prepared/obtained a summary of revenues as reflected on the facility’s accounting records which were received on behalf of State/County Special Assistance residents **segregated by the Special Care Unit and all Other Beds** for the following revenue categories: State/County Special Assistance, Social Security, Supplemental Security Income, Personal Care Services, Medical Transportation, Mental Health Revenue, Other (Insurance, Veteran Benefits, Railroad, Etc.), Refunds and **PCS Overpayments/ Recoupments**. We compared the total for each revenue category to the amounts entered on the Cost Report.

We adjusted the following revenue categories on the Cost Report as a result of this procedure:

<u>Revenue Category (Line # and Description)</u>	<u>Adjustments {Increase / (Decrease)}</u>		
	Adult	Special	<u>Total</u>
	Care Beds	Care Unit	
	<u>Revenues</u>	<u>Revenues</u>	
Line #1 State/County Special Assistance	\$ 160.00	\$ 427.00	\$ 587.00
Line #4 Personal Care Services	41.00	(100.00)	(59.00)
Line #6 Mental Health Revenues	7,192.00	1,500.00	8,692.00
Line #7 Other (Insurance, Veteran Benefits, Railroad, etc.)	(725.00)	-	(725.00)
Line #8 Refunds	248.00	100.00	348.00
Line #9 PCS Overpayments or Recoupments	(167.00)	(50.00)	(217.00)

**Receipts from Private Pay Residents: Lines 11 through 13**

13. We prepared/obtained a summary of revenues as reflected on the facility’s accounting records which were received on behalf of Private Pay residents **segregated by the Special Care Unit and all Other Beds** for the following revenue categories: Private Pay Receipts (Social Security, Supplemental Security Income, Insurance, Veteran Benefits, Railroad, etc.), Mental Health Revenues and Refunds. We compared the total for each revenue category to the amounts entered on the Cost Report.

We adjusted the following revenue categories on the Cost Report as a result of this procedure:

<u>Revenue Category (Line # and Description)</u>	<u>Adjustments {Increase / (Decrease)}</u>		
	Adult	Special	<u>Total</u>
	Care Beds	Care Unit	
	<u>Revenues</u>	<u>Revenues</u>	
Line #11 Private Pay Receipts	\$ 637.00	\$ -	\$ 637.00
Line #12 Mental Health Revenues	347.00	2,000.00	2,347.00
Line #13 Refunds	129.00	-	129.00

**Non-Resident Related Receipts: Lines 15 through 16**

14. We prepared/obtained a summary of non-resident related revenues as reflected on the facility’s accounting records **segregated by the Special Care Unit and all Other Beds** for the following revenue categories: Receipts From Other Sources and Refunds. We compared the total for each revenue category to the amounts entered on the Cost Report.

We adjusted the following revenue categories on the Cost Report as a result of this procedure:

<u>Revenue Category (Line # and Description)</u>	<u>Adjustments {Increase / (Decrease)}</u>		
	<u>Adult Care Beds Revenues</u>	<u>Special Care Unit Revenues</u>	<u>Total</u>
Line #15 Receipts From Other Sources	\$ 1,158.00	\$ -	\$ 1,158.00
Line #16 Refunds	45.00	-	45.00

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

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

We noted no exceptions in the original Cost Report that was submitted by facility management as a result of this procedure. However, the following totals on Schedule B were adjusted to encompass the adjustments that were reported/identified in procedures 11, 12, 13 and 14:

<u>Revenue Category (Line # and Description)</u>	<u>Adjustments {Increase / (Decrease)}</u>		
	<u>Adult Care Beds Revenues</u>	<u>Special Care Unit Revenues</u>	<u>Total</u>
Line #10 Total SA Resident Revenues	\$ 6,587.00	\$ 1,777.00	\$ 8,364.00
Line #14 Total Private Pay Revenues	855.00	2,000.00	2,855.00
Line #17 Total Non-Resident Related Revenues	<u>1,113.00</u>	<u>-</u>	<u>1,113.00</u>
Line #18 Total Income Reported	\$ 8,555.00	\$ 3,777.00	\$ 12,332.00
Line #19 Less: Total Expenses	<u>1,184.64</u>	<u>973.87</u>	<u>2,158.51</u>
Line #20 Net Profit (Loss)	<u>\$ 7,370.36</u>	<u>\$ 2,803.13</u>	<u>\$ 10,173.49</u>

**Schedule D: Schedule of Related Party Costs**

16. We prepared/obtained a summary by line number of the detail transactions **segregated by Special Care Unit and Adult Care Beds** from the accounting records that met the definition of related party transactions and compared the totals for each type of related party expense (line number) with the amount reported on Schedule D. We selected every fifth transaction for specified types of related party expenses and compared the amount recorded in the accounting records with the amount of the canceled check and invoice. For related party salaries and wages, we reconciled the total salary paid by cost center for each employee identified on Schedule D to the salary amount reflected on the Summary of Salaries and Wages and Hours Paid by Employee workpaper prepared in procedure 2a. We also agreed detail transactions to rental/contract/ management agreement documents, if applicable.

As a result of our review of related party transactions, we noted the following:

(1) Salaries and Wages

The salaries paid to two related party employees were under reported by a total of \$120.00. The salaries and paid hours were also incorrectly allocated to their respective cost centers **within the Special Care Unit and the Adult Care Beds cost center**. We adjusted the following Schedule D line number totals as a result of this procedure:

Related Party Salaries (Line # and Cost Center)		Adjustments { Increase / (Decrease) }			
		Adult Care Beds		Special Care Unit	
Line #	Cost Center	Paid Hours	Salaries	Paid Hours	Salaries
Line #59	Personal Care - Miscellaneous		\$ (150.00)		\$ (34.00)
Line #72	Health Services - Miscellaneous		100.00		200.00
Line #91	Administration & General	(4)	(60.00)	(3)	(20.00)
Line #141	Medically Related Patient Transportation	7	84.00	0	-
		<u>3</u>	<u>\$ (26.00)</u>	<u>-3</u>	<u>\$ 146.00</u>

(2) Payroll Taxes and Employee Benefit Program Expenses

Total related party payroll taxes and total employee benefits reported on Schedule D were under-reported by \$78.00 and \$23.00, respectively. The payroll taxes and employee benefits were also incorrectly allocated to their respective cost centers **within the Special Care Unit and the Adult Care Beds cost center**. We adjusted the following Schedule D line number totals as a result of this procedure:

Related Party Payroll Taxes (Line # and Cost Center)		Adjustments { Increase / (Decrease) }		
		Total	Adult Care Beds Expenses	Special Care Unit Expenses
Line #59	Personal Care	\$ (32.00)	\$ (26.00)	\$ (6.00)
Line #72	Health Services	\$ 110.00	\$ 35.00	\$ 75.00
Line #93	Administration & General	\$ (10.00)	\$ (7.50)	\$ (2.50)
Line #143	Medically Related Patient Transportation	\$ 10.00	\$ 10.00	\$ -
		<u>\$ 78.00</u>	<u>\$ 11.50</u>	<u>\$ 66.50</u>

Related Party Employee Benefit (Line # and Cost Center)		Adjustments { Increase / (Decrease) }		
		Total	Adult Care Beds Expenses	Special Care Unit Expenses
Line #59	Personal Care	\$ (9.00)	\$ (7.20)	\$ (1.80)
Line #72	Health Services	\$ 35.00	\$ 10.00	\$ 25.00
Line #94	Administration & General	\$ (7.00)	\$ (4.50)	\$ (2.50)
Line #144	Medically Related Patient Transportation	\$ 4.00	\$ 4.00	\$ -
		<u>\$ 23.00</u>	<u>\$ 2.30</u>	<u>\$ 20.70</u>

(3) Rent for Facility (Line 175)

The facility did not have a written rental agreement for facility rent; however, the total rental expense per the accounting records agreed to the amount reported on Schedule D. **Based upon the allocation method specified on Schedule E, we reallocated the rent for facility expense to the Special Care Unit and the Adult Care Bed cost centers.** No other exceptions were noted as a result of this procedure.

(4) Rent for Other Buildings/Land (Line 176)

Since the payments for rent of buildings/land did not meet the definitions of a related party transaction, no review of the payments was required

(5) Rent for Equipment (Line 149)

We found no exceptions as a result of this procedure.

(6) Rent for Automobiles/Equipment (Line 177)

We decreased the reported amount by \$63.49 to reflect the total amount of other rental costs as reflected on the facility's accounting records. In addition, we found three discrepancies in the sample between the amounts recorded in the accounting records, the canceled check amount and invoice total. These three discrepancies resulted in the sample's other rental costs being overstated by \$3.50. The \$3.50 overstatement identified in the sample was divided by \$150, the total of the sample size, then multiplied by \$500, the total related party rent, to arrive at a projected overstatement total of \$11.67. The facility's amount of other rental costs reported on Schedule D was also decreased by \$11.67 to reflect the projected overstatement. We also noted in our sample that two other rental purchases/ payments totaling \$129.38 were not supported by invoices. No adjustment was made to the reported total for the missing invoices.

**Based upon the allocation method specified on Schedule E, we reallocated the adjusted total of Rent for Automobiles/Equipment to the Special Care Unit and the Adult Care Bed cost centers.**

(7) Contract Services

The facility did not have written contractual agreements for the contract services amounts reported on Schedule D; however, the total contract services expense and total paid hours per the accounting records agreed to the amounts reported on Schedule D. We also noted in our sample for contract services (line #97), that two payments totaling \$1,000.00 were not supported by invoices. No adjustment was made to the reported total for the missing invoices. **Based upon the allocation method specified on Schedule E, we reallocated each contract services cost center (line number) adjusted total to the Special Care Unit and the Adult Care Bed cost centers.** No other exceptions were noted as a result of this procedure.

(8) Management Services (Line 100)

The facility did not have a written agreement for management services; however, the total management service expense per the accounting records agreed to the amount reported on Schedule D. **Based upon the allocation method specified on Schedule E, we reallocated the adjusted management services total to the Special Care Unit and the Adult Care Bed cost centers.** No other exceptions were noted as a result of this procedure.

(9) Central Office Overhead (Line 101)

We found no exceptions as a result of this procedure.

(10) All Other Types of Related Party Expenses

We found no exceptions as a result of this procedure.

**Schedule E – Basis of Allocating Expenses Between Special Care and Adult Care Beds**

17. We reviewed the documentation supporting the various allocation bases reported on Schedule E for accuracy and reasonableness. We also verified the allocation calculation for each type of cost (line item) reported on Schedule C that was being allocated to the Special Care Unit.

We found no exceptions as a result of this procedure.

**Adult Care Cost Model Verification**

18. Job descriptions within the facility were matched up as close as possible to the list provided. The total hours on Schedule F match the total summarized hours keyed on Schedules C-Direct and C-Indirect.

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

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

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Date)

(Please print or type)

**(Name of Accountant / Firm)**

**(Address of Accountant / Firm)**

**(City and Zip Code of Accountant / Firm)**

**(Telephone Number of Accountant / Firm)**

**(Fax Number of Accountant / Firm)**

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

## Related Party Transactions/Costs

---

### Definitions:

- A. Related to the home means that the home to a significant extent is associated or affiliated with, or has control of, or is controlled by, the organization and/or individual furnishing the services, facilities, or supplies.
- B. Common ownership exists when an individual or individuals possess significant ownership or equity in the home and the institution or organization serving the home.
- C. Control exists where an individual or an organization has the power, directly or indirectly, significantly to influence or direct the actions or policies of an organization or institution. The term "control" includes any kind of control, whether or not it is legally enforceable and however it is exercisable or exercised. It is the reality of the control which is decisive, not its form or the mode of its exercise.

In determining whether a home is related to a supplying organization and/or individual, the tests of common ownership and control are to be applied separately. If the elements of common ownership or control are not present in both organizations, the organizations are deemed not to be related to each other.

Examples of transactions between **related parties** include transactions between

- (a) a parent company and its subsidiaries;
- (b) subsidiaries of a common parent;
- (c) an enterprise and trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of the enterprise's management;
- (d) an enterprise and its principal owners, management, or members of their immediate families;
- (e) affiliates; and
- (f) any self-dealing from different divisions within the same company.

The existence of an immediate family relationship will create an irrebuttable presumption of relatedness through control or attribution of ownership or equity interests. The following persons are considered immediate family for adult care program purposes:

- (1) husband and wife,
- (2) natural parent, child and sibling,
- (3) adopted child and adoptive parent,
- (4) step-parent, step-child, step-sister, and step-brother,
- (5) father-in-law, mother-in-law, sister-in-law, brother-in-law, son-in-law, and daughter-in-law,
- (6) grandparent and grandchild.

Some examples of common types of transactions between related parties are:

- (a) sales;
- (b) purchases;
- (c) transfers of realty and personal property;
- (d) services received or furnished, for example:
  - accounting,
  - management,
  - engineering, and

- legal services
- (e) use of property and equipment by lease or otherwise;
- (f) borrowings and lendings;
- (g) guarantees;
- (h) maintenance of bank balances as compensating balances for the benefit of another;
- (i) intercompany billings based on allocations of common costs; and
- (j) filings of consolidated tax returns.

**General Instructions for Completing Schedule D:**

For each type of related party cost/expense, please complete the following fields:

- (1) Description of the expense/cost line item;
- (2) Identification of the line-item number and the Cost Center that the expense/cost was reported under;
- (3) Name of the Related Party (organization and/or individual);
- (4) Description of the relationship between the related party and the home; and,

**Examples are:**

- Parent company
  - Subsidiary
  - Subsidiary of a common parent company
  - Principal owner
  - Immediate family of principal owners
  - Management
  - Immediate family of management
  - Affiliate (a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the home)
  - Different divisions within the same company
- (5) Total amount of the related party transaction.
  - (6) Total number of paid hours, if applicable, that corresponds to the expense (salaries and wages, casual labor, and contract services) being reported.