907 KAR 1:031E
Payments for Home Health Agency Services

Material Incorporated by Reference

The "Annual Medicaid Home Health/HCB Cost Report"
(May 1991 edition) - clean

The "Annual Medicaid Home Health/HCB Cost Report Instructions"
(May 1991 edition) - clean

The "Government Auditing Standards"
(1994 edition) – clean

The "Annual Medicaid Home Health/HCB Cost Report"
(October 1999 edition) – dirty

The "Annual Medicaid Home Health/HCB Cost Report Instructions"
(October 1999 edition) – dirty

Filed: _____

CLEAN

ANNUAL COST REPORT

HOME HEALTH / HCB

FOR PERIOD BEGINNING _____

AND PERIOD ENDING _____

_____

NAME OF FACILITY

_____

VENDOR NUMBER

ADDRESS OF FACILITY

_____

_____

_____

_____

ANNUAL COST REPORT
HOME HEALTH & COMMUNITY BASED SERVICES
SCHEDULE A
STATISTICAL AND OTHER DATA

VENDOR NAME: _____ VENDOR NUMBER: _____

PERIOD COVERED BY STATEMENT: FROM: _____ TO: _____

TYPE OF CONTROL

1. VOLUNTARY NON-PROFIT:

CHURCH _____

OTHER-SPECIFY _____

_____

2. PROPRIETARY:

INDIVIDUAL _____

PARTNERSHIP _____

CORPORATION _____

3. GOVERNMENT:

STATE _____

COUNTY _____

CITY _____

HEALTH DEPT. _____

STATISTICS

		TOTAL UNIT/VISITS 1	XIX UNIT/VISITS 2
	HOME HEALTH		
1.	SKILLED NURSING		
2.	PHYSICAL THERAPY		
3.	SPEECH THERAPY		
4.	OCCUPATIONAL THERAPY		
5.	MEDICAL SOCIAL SERVICES		
6.	HOME HEALTH AIDE		
	HCB		
7.	CLIENT ASSESSMENT/REASSESSMENT		
8.	CASE MANAGEMENT		
9.	HOMEMAKER		
10.	PERSONAL CARE		
11.	RESPITE CARE		
12.	HOME ADAPTATION		
	HCB EXTENDED AREA		
13.	CLIENT ASSESSMENT/REASSESSMENT		
14.	CASE MANAGEMENT		
15.	HOMEMAKER		
16.	PERSONAL CARE		
17.	RESPITE CARE		
18.	HOME ADAPTATION		

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE B-1
ADJUSTMENTS TO EXPENSE

VENDOR NAME: _____
VENDOR NUMBER: _____
PERIOD ENDING: _____

(1) DESCRIPTION	(2) A/B	(3) INC / <DEC>	(4) LINE #
1. TRADE, QUANTITY, TIME AND OTHER DISCOUNTS ON PURCHASES			
2. REBATES AND REFUNDS OF EXPENSES			
3. HOME OFFICE COSTS			
4. ADJUSTMENTS RESULTING FROM TRANSACTIONS WITH RELATED ORGANIZATIONS			
5. SALE OF MEDICAL RECORDS AND ABSTRACTS			
6. INCOME FROM IMPOSITION OF INTEREST, FINANCE OR PENALTY CHARGES.			
7. SALE OF MEDICAL AND SURGICAL SUPPLIES TO OTHER THAN PATIENTS			
8. SALE OF DRUGS TO OTHER THAN PATIENTS			
9. PHYSICAL THERAPY ADJUSTMENT			
10. INTEREST EXPENSE ON MEDICAID OVERPAYMENTS AND BORROWINGS TO REPAY MEDICAID OVERPAYMENTS			
11. OFFSET OF INVESTMENT INCOME			
12.			
13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
21.			
22.			
23.			
24.			
25.			
26.			
27.			
28.			
TOTAL (TO SCHEDULE B LINE 40, COLUMN 4.)			

COLUMN 2, (A) COST (B) REVENUE

HOME HEALTH AGENCY
SCHEDULE B-1a

REASONABLE COST DETERMINATION FOR PHYSICAL THERAPY SERVICES FURNISHED BY OUTSIDE SUPPLIERS

VENDOR NAME:	VENDOR NO:	PERIOD ENDING:

PART I - GENERAL INFORMATION

1.	Total number of weeks worked (During which outside suppliers (excluding aides) worked)	
2.	Line 1 multiplied by 15 hours per week	
3.	Number of unduplicated HHA visits - Supervisors or therapists (See Instructions)	
4.	Number of unduplicated HHA visits - Therapy assistants (Include only visits made by therapy assistant and on which supervisor and/or therapist was not present during the visit) (See Instructions)	
5.	Standard travel expense rate	
6.	Optional travel expense rate per mile	

		Supervisors 1	Therapists 2	Assistants 3	Aides 4
7.	Total hours worked				
8.	AHSEA (See Instructions)				
9.	Standard travel allowance (Cols 1 and 2, one-half of col 2, line 8; col 3, one-half of col 3, line 8)				XXXXXXXXXXXX
10.	Number of travel hours (HHA only)				XXXXXXXXXXXX
11.	Number of miles driven (HHA only)				XXXXXXXXXXXX

PART II - SALARY EQUIVALENCY COMPUTATION

12.	Supervisors (Col 1, line 7 times col 1, line 8)	
13.	Therapists (Col 2, line 7 times col 2, line 8)	
14.	Assistants (Col 3, line 7 times col 3, line 8)	
15.	Subtotal Allowance Amount (Sum of lines 12-14)	
16.	Aides (Col 4, line 7 times col 4, line 8)	
17.	Total Allowance Amount (Sum of lines 15 and 16)	
	If the sum of cols 1-3, line 7, is greater than line 2, make no entries on lines 18 and 19 and enter on line 20 the amount from line 17. Otherwise, complete lines 18-20.	
18.	Weighted average rate excluding aides (Line 15 divided by the sum of cols 1-3, line 7)	
19.	Weighted allowance excluding aides (Line 2 times line 18)	
20.	Total Salary Equivalency (Line 17 or sum of lines 16 plus 19)	

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE B-1b

REASONABLE COST DETERMINATION FOR PHYSICAL THERAPY SERVICES FURNISHED BY OUTSIDE SUPPLIERS

VENDOR NAME:	VENDOR NO:	PERIOD ENDING:

PART III – STANDARD TRAVEL ALLOWANCE AND STANDARD TRAVEL EXPENSE COMPUTATION – PROVIDER SITE
Standard Travel Allowance

21.	Therapists (Line 3 times column 2, line 9)	
22.	Assistants (Line 4 times column 3, line 9)	
23.	Subtotal (Sum of lines 21 and 22)	
24.	Standard Travel Expense (Line 5 times sum of lines 3 and 4)	
25.	Total Standard Travel Allowance and Standard Travel Expense at the Provider Site (Sum of lines 23 and 24)	

PART IV – STANDARD TRAVEL ALLOWANCE AND STANDARD TRAVEL EXPENSE COMPUTATION – HHA SERVICES OUTSIDE PROVIDER SITE
Standard Travel Expense

26.	Therapists (Line 3 times col 2, line 9)	
27.	Assistants (Line 4 times col 3, line 9)	
28.	Subtotal (Sum of lines 26 and 27)	
29.	Standard Travel Expense (Line 5 times sum of lines 3 and 4)	

Optional Travel Allowance and Optional Travel Expense

30.	Therapists (Sum of cols 1 and 2, line 10 times col 2, line 8)	
31.	Assistants (Col 3, line 10 times Col. 3, line 8)	
32.	Subtotal (Sum of lines 30 and 31)	
33.	Optional Travel Expense (Line 6 times sum of cols 1-3, line 11)	

Total Travel Allowance and Travel Expense – HHA Services; Complete one of the following three lines 34, 35 or 36, as appropriate.

34.	Standard Travel Allowance and Standard Travel Expense (Sum of lines 28 and 29 – See Instructions)	
35.	Optional Travel Allowance and Standard Travel Expense (Sum of lines 32 and 29 – See Instructions)	
36.	Optional Travel Allowance and Optional Travel Expense (Sum of lines 32 and 33 – See Instructions)	

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE B-1c

REASONABLE COST DETERMINATION FOR PHYSICAL THERAPY SERVICES FURNISHED BY OUTSIDE SUPPLIERS

VENDOR NAME:	VENDOR NO:	PERIOD ENDING:

PART V – OVERTIME COMPUTATION

	DESCRIPTION	THERAPISTS 1	ASSISTANTS 2	AIDES 3	TOTAL 4
37.	Overtime hours worked during cost reporting period (If col 4, line 37, is zero or equal to or greater than 2,080, do not complete lines 38–45 and enter zero in each column of line 46)				
38.	Overtime rate (Multiply the amounts in cols 2–4, line 8 (AHSEA) times 1.5)				
39.	Total overtime (Including base and overtime allowance) (Multiply line 37 by line 38)				
Calculation of Limit:					
40.	Percentage of overtime hours by category (Divide the hours in each column on line 37 by the total overtime worked – col. 4, line 37)				
41.	Allocation of provider's standard workyear for one full-time employee times the percentages on line 40 (See Instructions)				
Determination of Overtime Allowance:					
42.	Adjusted hourly salary equivalency amount (AHSEA) (From Part I, cols 2–4, line 8)				
43.	Overtime cost limitation (Line 41 times line 42)				
44.	Maximum overtime cost (Enter the lesser of line 39 or line 43)				
45.	Portion of overtime already included in hourly computation at the AHSEA (Multiply line 37 by line 42)				
46.	Overtime allowance (Line 44 minus line 45 – if negative enter zero) (Col 4, sum of cols 1–3)				

PART VI – COMPUTATION OF PHYSICAL THERAPY LIMITATION AND EXCESS COST ADJUSTMENT

47.	Salary equivalency amount (from Part II, line 20)	
48.	Travel allowance and expense – provider site (from Part III, line 25)	
49.	Travel allowance and expense – HHA services (from Part IV, lines 34, 35 or 36)	
50.	Overtime allowance (from Part V, col. 4, line 46)	
51.	Equipment cost (See Instructions)	
52.	Supplies (See Instructions)	
53.	Total Allowance (Sum of lines 47–52)	
54.	Total cost of outside supplier services (from provider records)	
55.	Excess over limitation (line 54 minus line 53 – transfer amount to line 9, SCH. B-1, if negative, enter zero)	

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE B-2

RECLASSIFICATION TO EXPENSE

VENDOR NAME: _____ VENDOR NUMBER: _____

PERIOD ENDING: _____

(1) DESCRIPTION	(2) LINE #	(3) INCREASE	(4) <DECREASE>
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
21.			
22.			
23.			
24.			
25.			
26.			
27.			
28.			
29.			
30.			
31.			
32.			
33.			
34. TOTAL			

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE C

COST ALLOCATION STATISTICS

VENDOR NAME: _____ VENDOR NUMBER: _____ PERIOD ENDING: _____

	(1) SQUARE FOOTAGE	(2) MILEAGE	(3) SALARIES	(4) ACCUMULATED COSTS
DIRECT SERVICES – HOME HEALTH				
17. MEDICAL SUPPLIES				
18. SKILLED NURSING				
19. PHYSICAL THERAPY				
20. SPEECH THERAPY				
21. OCCUPATIONAL THERAPY				
22. MEDICAL SOCIAL SERVICE				
23. HOME HEALTH AIDE				
DIRECT SERVICES – HCB				
24. CLIENT ASSESSMENT/REASSESSMENT				
25. CASE MANAGEMENT				
26. HOMEMAKER				
27. PERSONAL CARE				
28. RESPITE CARE				
29. HOME ADAPTATION				
DIRECT SERVICES – HCB EXTENDED AREA				
30. CLIENT ASSESSMENT/REASSESSMENT				
31. CASE MANAGEMENT				
32. HOMEMAKER				
33. PERSONAL CARE				
34. RESPITE CARE				
35. HOME ADAPTATION				
NON-REIMBURSABLE				
36. WAIVER #1 (24HR)				
37. WAIVER #2 (16HR)				
38. _____				
39. _____				
40. TOTAL				
41. TOTAL TO ALLOCATE				
42. UNIT COST MULTIPLIER				

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE C–1

COST ALLOCATION

VDOR NAME: _____ VENDOR NUMBER: _____ PERIOD ENDING: _____

	DIRECT EXPENSE 1	DEPR. BLDG. & EQUIP. PROPERTY TAXES, INS. PLANT & EQUIPMENT 2	VEHICLE DEPR. TRANS. VEHICLE INS. 3	EMPLOYEE HEALTH & WELFARE 4	SUB TOTAL 5	ALL OTHER GENERAL SERVICES COSTS 6	TOTAL COSTS 7
DIRECT SERVICES – HHA							
MEDICAL SUPPLIES							
SKILLED NURSING							
PHYSICAL THERAPY							
SPEECH THERAPY							
OCCUPATIONAL THERAPY							
MEDICAL SOCIAL SERVICES							
HOME HEALTH AIDES							
DIRECT SERVICES – HCB							
CLIENT ASSESSMENT/REASSESSMENT							
CASE MANAGEMENT							
HOMEMAKER							
PERSONAL CARE							
RESPITE CARE							
HOME ADAPTATION							
DIRECT SERVICES – HCB EXTENDED AREA							
CLIENT ASSESSMENT/REASSESSMENT							
CASE MANAGEMENT							
HOMEMAKER							
PERSONAL CARE							
RESPITE CARE							
HOME ADAPTATION							
NON–REIMBURSABLE							
WAIVER #1 (24HR)							
WAIVER #2 (16HR)							
_____							
_____							
TOTALS							

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE D
APPORTIONMENT OF PATIENT SERVICE COSTS

VENDOR NAME: _____ VENDOR NUMBER: _____ PERIOD ENDING: _____

PART I:

VISITS BEFORE 07-01--

PATIENT SERVICES	AMOUNTS (Sch C-1 Col 7)	TOTAL UNIT/ VISITS	AVERAGE COST PER UNIT/VISITS	XVIII COST LIMITS	XIX COSTS LIMITS		XIX PROGRAM UNIT/VISITS	COST OF SERVICES AVERAGE	COST OF SERVICES XVIII	COST OF SERVICES XIX
1	2	3	4	5	6	7	8	9	10	11
1. SKILLED NURSING						XXXXXXX				
2. PHYSICAL THERAPY						XXXXXXX				
3. SPEECH THERAPY						XXXXXXX				
4. OCCUPATIONAL THERAPY						XXXXXXX				
5. MEDICAL SOCIAL SERVICES						XXXXXXX				
6. HOME HEALTH AID SERVICES						XXXXXXX				
7. TOTAL (SUM OF LINES 1-6)			XXXXXXXX	XXXXX	XXXXXXXXXXXXXX	XXXXXXX				
8. TOTAL COST (LESSER OF COL. 9, 10, 11)										

PART II:

VISITS AFTER 07-01--

PATIENT SERVICES	AMOUNTS (Sch C-1 Col 7)	TOTAL UNIT/ VISITS	AVERAGE COST PER UNIT/VISITS	XVIII COST LIMITS	XIX COSTS LIMITS		XIX PROGRAM UNIT/VISITS	COST OF SERVICES AVERAGE	COST OF SERVICES XVIII	COST OF SERVICES XIX
1	2	3	4	5	6	7	8	9	10	11
1. SKILLED NURSING						XXXXXXX				
2. PHYSICAL THERAPY						XXXXXXX				
3. SPEECH THERAPY						XXXXXXX				
4. OCCUPATIONAL THERAPY						XXXXXXX				
5. MEDICAL SOCIAL SERVICES						XXXXXXX				
6. HOME HEALTH AID SERVICES						XXXXXXX				
7. TOTAL (SUM OF LINES 1-6)			XXXXXXXX	XXXXX	XXXXXXXXXXXXXX	XXXXXXX				
8. TOTAL COST (LESSER OF COL. 9, 10, 11)										
9. TOTAL XIX VISITS (LINE 7, COL 8, PART I + LINE 7, COL 8, PART II)							XXXXXXXXX			

PART III:

MEDICAL SUPPLIES COMPUTATION

	TOTAL COST	TOTAL CHARGE	RATIO	XIX CHARGE	XIX COST
	1	2	3	4	5
1. MEDICAL SUPPLIES					
2. TOTAL COST OF SERVICES (LINE 8, COL 11, PART I + LINE 8, COL 11, PART II + LINE 1, COL. 5, PART III)					

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE D-1

CALCULATION OF REIMBURSEMENT SETTLEMENT

VENDOR NAME: _____ VENDOR # _____

PERIOD ENDING: _____

PART I - COMPUTATION OF THE LESSER OF REASONABLE COST OR CUSTOMARY CHARGES

1. COST OF SERVICES (FROM SCHEDULE D, PART III, LINE 2) _____
2. TOTAL CHARGES FOR TITLE XIX SERVICES (FROM PCL'S) _____
3. EXCESS OF REASONABLE COST OVER CUSTOMARY CHARGES (COMPLETE ONLY IF LINE 1 EXCEEDS LINE 2) _____

PART II COMPUTATION OF REIMBURSEMENT SETTLEMENT

4. TOTAL REASONABLE COST (FROM LINE 1) _____
5. EXCESS REASONABLE COST (FROM LINE 3) _____
6. SUBTOTAL (LINE 4 MINUS LINE 5) _____
7. AMOUNTS REC'D. FROM TPL / OTHER SOURCES (PCL'S) _____
8. AMOUNTS REC'D. FROM THE MEDICAID PROGRAM (PCL'S) _____
9. AMOUNT RECEIVED AS INCENTIVE PAYMENTS (PCL'S) _____
10. TOTAL INTERIM PAYMENTS (LINE 7 plus 8 minus 9) _____
11. BALANCE DUE PROVIDER / MEDICAID PROGRAM (LN. 6 minus 10) (INDICATE OVERPAYMENTS IN PARENTHESES) _____

ANNUAL COST REPORT
HOME AND COMMUNITY BASED
SCHEDULE E
APPORTIONMENT OF PATIENT SERVICE COSTS

VENDOR NAME:_____ VENDOR NUMBER:_____ PERIOD ENDING:_____

PART I

VISITS BEFORE 07-01-____

PATIENT SERVICE	AMOUNTS (Sch C-1 Col 7)	TOTAL UNIT/VISITS	AVERAGE COST PER UNIT/VISIT	XIX COST LIMITS	XIX UNIT/VISITS	COST OF SERVICES AVERAGE	COST OF SERVICES XIX
1	2	3	4	5	6	7	8
1. CLIENT ASSESSMENT/REASSESSMENT							
2. CASE MANAGEMENT							
3. HOMEMAKER							
4. PERSONAL CARE							
5. RESPITE CARE							
6. ADAPTATION PROGRAM							
7. TOTAL (SUM OF LINE 1-6)			XXXXXXXXXXX	XXXXXXX			

PART II

VISITS AFTER 07-01-____

PATIENT SERVICE	AMOUNTS (Sch C-1 Col 7)	TOTAL UNIT/VISITS	AVERAGE COST PER UNIT/VISIT	XIX COST LIMITS	XIX UNIT/VISITS	COST OF SERVICES AVERAGE	COST OF SERVICES XIX
1	2	3	4	5	6	7	8
8. CLIENT ASSESSMENT/REASSESSMENT							
9. CASE MANAGEMENT							
10. HOMEMAKER							
11. PERSONAL CARE							
12. RESPITE CARE							
13. ADAPTATION PROGRAM							
14. TOTAL (SUM OF LINE 8-13)			XXXXXXXXXXX	XXXXXXX			

PART III

CALCULATION OF REIMBURSEMENT SETTLEMENT

15. ALLOWABLE COST OF PATIENT SERVICES (LESSER OF LINE 7, COL. 7 OR LINE 7, COL. 8.)
16. ALLOWABLE COST OF PATIENT SERVICES (LESSER OF LINE 14, COL. 7 OR LINE 14 COL 8.)
17. TOTAL ALLOWABLE COST OF PATIENT SERVICES, (LINE 15 + LINE 16, LESS AMOUNTS FROM SCHEDULE E-1, AND E-2)
18. TOTAL CHARGES FOR WAIVER PROGRAM SERVICES FROM PCL'S.
19. REIMBURSABLE COST (LESSER OF LINE 17 OR LINE 18).
20a. AMOUNT RECEIVED FROM PROGRAM FOR WAIVER PROGRAM SERVICES.
20b. CONTINUING INCOME OR TPL.
21. TOTAL RECEIVED (LINE 20a + 20b)
22. BALANCE DUE (PROGRAM)/VENDOR (LINE 19 minus 21)

ANNUAL COST REPORT
HOME & COMMUNITY BASED WAIVER
SCHEDULE E-1
RESPITE CARE COST LIMITATION

VENDOR NAME: ______________________________

VENDOR NO.: ____________ PERIOD ENDING: ____________

KMAP RECIPIENT 1	(A) RESPITE UNITS 2	AVG. COST 3	TOTAL COST 4	COST IN EXCESS OF LIMITATION (B) 5
TOTAL NON-ALLOWABLE COST (TO SCHEDULE E, LINE 17)				

(A) UNITS FOR FISCAL YEAR (COLUMN 2)

(B) COST IN EXCESS OF $2,000.00 PER MEDICAID RECIPIENT PER FISCAL YEAR

ANNUAL COST REPORT
HOME & COMMUNITY BASED WAIVER
SCHEDULE E-2

STATEMENT TO HOME ADAPTATION EXPENSE

VENDOR NAME: _____

VENDOR NUMBER: _____

PERIOD ENDING: _____

1. TOTAL ADAPTATION EXPENSE (FROM SCHEDULE E, LINE 6, COL 2) _____
2. DIRECT ADAPTATION EXPENSE (FROM SCHEDULE B, LINE 29, COL.6) _____
3. OVERHEAD FACTOR (DIVIDE LINE 1 by LINE 2) _____

KMAP RECIPIENT 1	DIRECT COST 2	ADJUSTED COST (A) 3	COST IN EXCESS OF LIMITATION (B) 4
4. TOTAL NON-ALLOWABLE KMAP COST (TRANSFER TO SCH. E, LINE 17)			

(A) DIRECT COST X OVERHEAD FACTOR (LINE 3)

(B) COST IN EXCESS OF $500.00 PER MEDICAID RECIPIENT PER FISCAL YEAR

ANNUAL COST REPORT
HOME AND COMMUNITY BASED (EXTENDED AREA)
SCHEDULE F

APPORTIONMENT OF PATIENT SERVICE COSTS

VENDOR NAME:_____ VENDOR NUMBER:_____ PERIOD ENDING:_____

PATIENT SERVICE	AMOUNTS (Sch C-1 Col 7)	TOTAL UNIT/VISITS	AVERAGE COST PER UNIT/VISITS	XIX UNIT/VISITS	XIX COST
1	2	3	4	5	6
1. CLIENT ASSESSMENT/REASSESSMENT					
2. CASE MANAGEMENT					
3. HOMEMAKER					
4. PERSONAL CARE					
5. RESPITE CARE					
6. HOME ADAPTATION PROGRAM					
7. TOTAL (SUM OF LINE 1-6)					
8. ALLOWABLE COST OF PATIENT SERVICES (LINE 7, COL. 6)			XXXXXXXXXXX		

9. TOTAL OF ALLOWABLE COST OF PATIENT SERVICES, (LINE 8, LESS AMOUNTS FROM SCHEDULE F-1, AND F-2)_____ _____
10. TOTAL CHARGES FOR WAIVER PROGRAM SERVICES FROM PCL'S. _____
11. REIMBURSABLE COST (LESSER OF LINE 9 OR LINE 10). _____
12a. AMOUNT RECEIVED FROM PROGRAM FOR WAIVER PROGRAM SERVICES. _____
12b. CONTINUING INCOME OR TPL. _____
13. TOTAL RECEIVED (LINE 12a + 12b) _____
14. BALANCE DUE (PROGRAM)/VENDOR (LINE 11 minus LINE 13) _____

ANNUAL COST REPORT
HOME & COMMUNITY BASED WAIVER (EXTENDED AREA)
SCHEDULE F-1
RESPITE CARE COST LIMITATION

VENDOR NAME: ______________________________

VENDOR NO: __________ PERIOD ENDING: __________

KMAP RECIPIENT 1	(A) RESPITE UNITS 2	AVG. COST 3	TOTAL COST 4	COST IN EXCESS OF LIMITATION (B) 5
TOTAL NON-ALLOWABLE COST (TO SCHEDULE F, LINE 9)				

(A) UNITS FOR FISCAL YEAR (COLUMN 2)

(B) COST IN EXCESS OF $2,000.00 PER MEDICAID RECIPIENT PER FISCAL YEAR

ANNUAL COST REPORT
HOME & COMMUNITY BASED WAIVER (EXTENDED AREA)
SCHEDULE F-2

STATEMENT TO HOME ADAPTATION EXPENSE

VENDOR NAME: _____

VENDOR NUMBER: _____

PERIOD ENDING: _____

1. TOTAL ADAPTATION EXPENSE (FROM SCHEDULE E, LINE 6, COL 2) _____
2. DIRECT ADAPTATION EXPENSE (FROM SCHEDULE B, LINE 35, COL.6) _____
3. OVERHEAD FACTOR (DIVIDE LINE 1 by LINE 2) _____

KMAP RECIPIENT 1	DIRECT COST 2	ADJUSTED COST (A) 3	COST IN EXCESS OF LIMITATION (B) 4
4. TOTAL NON-ALLOWABLE KMAP COST (TRANSFER TO SCH. F, LINE 9)			

(A) DIRECT COST X OVERHEAD FACTOR (LINE 3)
(B) COST IN EXCESS OF $500.00 PER MEDICAID RECIPIENT PER FISCAL YEAR

ANNUAL COST REPORT
HOME HEALTH AGENCY
SCHEDULE G
HOME HEALTH AGENCY DATA

VENDOR NAME: _____
VENDOR NUMBER: _____
PERIOD ENDING: _____

All vendors are to complete A, B, C and D

A. STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS

1. In the amount at cost to be reimbursed by the Program, are any costs included which are the result of transactions with any related organizations?

_____ YES _____ NO

2. Enter related party transactions below, if additional space is required attach additional sheet(s).

SCHEDULE	LINE NO.	ITEM	AMOUNT

3. Name and percent of direct or indirect ownership of the related organization.

NAME OF OWNER	NAME OF RELATED ORGANIZATION	PERCENT

B. STATEMENT OF COMPENSATION OF OWNERS

NAME	TITLE AND FUNCTION	PERCENT OF CUSTOMARY WORK WEEK DEVOTED TO BUSINESS	PARTNERS: PERCENT OF OPERATING PROFIT OR LOSS	CORPORATION OFFICERS: PERCENT OF VENDOR'S STOCK OWNED	TOTAL COMPEN-SATION

C. STATEMENT OF COMPENSATION PAID TO ADMINISTRATORS AND / OR ASSISTANT ADMINISTRATORS (OTHER THAN OWNERS)

NAME	TITLE AND FUNCTION	PERCENT OF CUSTOMARY WORK WEEK DEVOTED TO BUSINESS	PERCENT OF PERIOD EMPLOYED	TOTAL COMPENSATION FOR THE PERIOD

D. CERTIFICATION BY OFFICER OR DIRECTOR OF THE AGENCY

INTENTIONAL MISREPRESENTATIONS OR FALSIFICATION OF ANY INFORMATION CONTAINED IN THIS COST REPORT MAY BE PUNISHABLE BY FINE AND / OR IMPRISONMENT UNDER FEDERAL LAW.

I HEREBY CERTIFY that I have read the above statement and that I have examined the accompanying Home Health Agency Cost Report(s) for the cost reporting period beginning _____, prepared from the books and records of the provider in accordance with applicable instructions, except as noted.

_____

Signature of Officer or Director | Title | Date

113. INTRODUCTION

These instructions are intended to guide vendors in preparing the annual cost report. These forms shall be used by all participating home health agencies for cost reporting periods beginning on or after June 1, 1990. Some schedules are not required for all vendors and these need not be completed. However, the entire cost report shall be submitted to the Department. Schedules which do not apply shall be marked accordingly, and a brief explanation as to why these are not needed shall be annotated on the appropriate schedules.

In completing the schedules the period beginning and period ending, the vendor name, identification number and address shall be indicated on the cover page. In addition, the vendor name, the vendor identification number and the inclusive dates covered by this cost report shall be indicated on each page. Facilities shall submit a cost report prepared on the accrual basis of accounting and otherwise consistent with generally accepted accounting principles.

Also, in completing the schedules, reductions to expenses shall always be shown in brackets.

SCHEDULE A - HOME HEALTH AND COMMUNITY-BASED SERVICES

STATISTICAL AND OTHER DATA

A. General -

Item 1 - Home Health Agency Information -- Enter the requested information in the space provided. Include the name of the agency and the vendor number. Enter the beginning and ending dates of the period covered by this cost report.

Item 2 - Agency Identifier -- Check the appropriate line for items 1 through 3.

1. Voluntary Non-Profit -- Indicate by checking appropriate line -- Church or Other.

2. Proprietary Organization -- Check if the Home Health Agency (HHA) is owned and operated by an individual or a business corporation. The organization may be a sole proprietorship, partnership (including limited partnership and joint stock company) or corporation.

3. Official (Governmental Agency) -- Check if the HHA is administered by a state, county, city, or health department. Indicate the type of official agency by checking the appropriate line.

B. Statistics --

Columns 1 and 2. Enter in Column 1, the number of the total agency visits/units for each discipline lines 1 through 18. Enter in Column 2, the number of Title XIX visits/units for each discipline lines 1 through 18.

SCHEDULE B-1 - ADJUSTMENTS TO EXPENSE

This schedule provides for the adjustments to the expense listed on Schedule B, Column 3. These adjustments are to be made on the basis of "cost" or "amount received" as indicated by the symbols entered in Column 2 "A" for cost or "B" for amount received. Line descriptions indicate the more common activities which affect allowable cost, or result in costs incurred for reasons other than patient care and, thus, require adjustments.

If an adjustment to an expense affects more than one (1) cost center, the adjustments to expense shall reflect the adjustment to each cost center on a separate line on Schedule B-1.

Types of items to be entered on Schedule B-1 are:
(1) those needed to adjust expenses to reflect actual expenses incurred; (2) those items which constitute recovery of expenses through sales, charges, fees, grants, gifts, etc.; (3) those items needed to adjust expenses in accordance with Medicaid principles of reimbursement; and (4) those items which are provided for separately in the cost apportionment process. Hospital-based facilities shall adjust their cost on this schedule to agree with cost on Medicare Worksheet H-4, Column 6.

Salary expenses shall be reported in Column 1. The costs of purchased services, supplies and all other costs are entered in Column 2.

Column 3: Enter the sum of Columns 1 and 2.

Column 4: This column is for adjustments to allowable costs as may be necessary in accordance with general policies and principles. Enter on appropriate lines as indicated on Schedule B-1.

Column 5: This column is utilized to reclassify expenses. Reclassification shall be detailed on Schedule B-2.

Column 6: Enter the sum of Columns 3, 4, and 5.

SCHEDULE B - OPERATING EXPENSES

This Schedule provides for recording of direct costs such as salaries, fringe benefits, transportation and contracted services, as well as other costs to arrive to identifiable agency costs in Column 6. Also, it provides for the reclassification and adjustments to certain accounts. The total direct expenses before grouping, reclassifications and adjustments are obtained from the vendor's records.

The costs to be entered in Columns 1 and 2 are only those actual costs incurred by or for the HHA for which the cost report is prepared. If the reporting entity is a certified "sub unit" of a State Health Department, the amounts to be entered are only those amounts that are directly applicable to the "sub unit." The aggregation and reallocation of costs at the State level shall not be acceptable.

Schedule B shall be completed by all facilities.

Columns 1 and 2: The expenses listed in these columns shall agree with the provider's records. Hospital-based facilities should transfer the direct cost for salaries and other off their Medicare Supplemental Worksheet H and include in Columns 1 and 2 on Schedule B.

Column 1, Line Descriptions:

Line 1 - Trade, Quantity, Time and Other Discounts on Purchases

Line 2 - Rebates and Refunds of Expenses

Line 3 - Home Office Costs - Enter on this line allowable home office costs which have been allocated to the provider.

Line 4 - Adjustments Resulting from Transactions with Related Organizations - The amount to be entered on this line is obtained from schedule G Part A, Subpart 2.

Line 5 - Sale of Medical Records and Abstracts - Enter the amount received from the sale of medical records and abstracts and offset the amount against the A & G cost centers.

Line 6 - Income from Imposition of Interest, Finance or Penalty Charges - Enter on this line the cash received from imposition of interest, finance or penalty charges on overdue receivables. This income shall be used to offset the allowable A & G costs.

Line 7 - Sale of Medical and Surgical Supplies to Other than Patients

Line 8 - Sale of Drugs to Other than Patients

Line 9 - Physical Therapy Adjustment - Where an HHA purchases physical therapy services furnished by an outside supplier. Schedules B-1a, B-1b, and B-1c shall be completed to compute the reasonable cost determination. Enter on this line any adjustment (Excess cost over Limitations) from Schedule B-1c, Part V, line 49.

Line 10 - Interest Expense on Borrowing to Repay Medicaid Overpayments

Line 11 - Offset of Investment Income

Line 12-28 - Enter on these lines any additional adjustments which are required which affect proper cost allocation of expenses. The lines shall be appropriately labeled to indicate the nature of the required adjustments.

Column 2: On each line enter an "A" if the amount in Column 3 is actual cost or a "B" if the amount in Column 3 is the revenue received for the item in Column 1.

Column 3: On each line indicate the amount to be adjusted.

Column 4: Indicate the line number on Schedule B that is to be adjusted.

SCHEDULE B-1a - REASONABLE COST DETERMINATION FOR PHYSICAL THERAPY SERVICES FURNISHED BY OUTSIDE SUPPLIERS

This schedule provides for the computation of any needed adjustments to costs applicable to physical therapy services furnished by outside suppliers. The information required on this worksheet shall provide for, in the aggregate, all data for physical therapy services furnished by all outside suppliers in determining the reasonableness of physical therapy costs.

If a provider contracts with an outside supplier for physical therapy services, the potential for limitation and the amount of payment a provider can receive depends on several factors:

1. an initial test to determine where these services are categorized as intermittent part-time or full-time services;

2. the location where the services are rendered, i.e., provider site or HHA home visit;

3. for HHA services, whether detailed time and mileage records are maintained by the contractor and HHA;

4. add-ons for supervisory functions, aides, overtime, equipment and supplies;

5. determinations of reasonableness of rates charged by the supplier compared with the going rates in the area.

Part I - General Information - This part provides for furnishing certain information concerning physical therapy services furnished by outside suppliers.

Line 1 - Enter on this line the number of weeks that services were performed at the provider site, count only those weeks during which a supervisor, therapist or an assistant was on site. For services performed at the patient's residence, count only those weeks during which services were rendered by supervisors, therapists, or assistants to patients of the home health agency. Weeks where services were performed both at the provider's site and at the patient's home are only counted once.

Line 2 - Multiply the amount on line 1 by 15 hours per week. This calculation is used to determine whether services are full-time or intermittent part-time.

Line 3 - Enter the number of unduplicated HHA visits made by the supervisor or therapist. Only count one (1) visit when both the supervisor and therapist were present during the same visit.

Line 4 - Enter the number of unduplicated HHA visits made by the therapy assistant. Do not include in the count on this line the visits where either the supervisor or therapist were present during the same visit.

Line 5 - Enter on this line the Standard Travel Expense Rate applicable as published in HCFA Pub. 15-I, Chapter 14.

Line 6 - Enter on this line the Optional Travel Expense Rate applicable as published in HCFA Pub. 15-I, Chapter 14. This rate may only be used for home health patient services for which time records are available.

Line 7 - Enter on this line and in the appropriate columns the total number of hours worked for physical therapy supervisors, therapists, therapy assistants, and aides furnished by outside suppliers.

Line 8 - Enter in each column on this line the appropriate adjusted hourly salary equivalency amount (AHSEA). These amounts are the prevailing hourly salary rate plus the fringe benefit and expense factor described in HCFA Pub. 15-I, Chapter 14. These amounts are determined on a periodic basis for appropriate geographical areas, and are published as exhibits at the end of Chapter 14. Use the appropriate exhibit for the period of this cost report.

Enter in column 1 the supervisor's AHSEA, adjusted for administrative and supervisory responsibilities, which are determined in accordance with the provisions of HCFA Pub. 15-I, Subsection 1412.5. Enter in columns 2, 3, and 4 (for therapists, assistants and aides respectively) the AHSEA from the appropriate exhibit found in HCFA Pub. 15-I, at the end of Chapter 14 or the latest publication of rates. Where assistants' going hourly rate in the area is unobtainable, no more than 75 percent of the therapist AHSEA shall be used. The cost of services of a therapy aide or trainee shall be evaluated at the hourly rate not to exceed the hourly rate paid to the provider's employees of comparable classification or qualification, e.g., nurses' aides.

Line 9 - Enter on this line the standard travel allowance equal to one-half of the AHSEA as follows: enter in columns 1 and 2, one-half of the amount in column 2, line 8, and enter in column 3, one-half of the amount in column 3, line 8.

Lines 10 and 11 - Enter on these lines, for HHA services only, the number of travel hours and number of miles driven, respectively, where time records of visits are kept.

NOTE: No travel allowance for aides employed by outside suppliers shall be allowed.

Part II - Salary Equivalency Computation - This part provides for the computation of the full-time or intermittent part-time salary equivalency.

Where the provider furnishes physical therapy services by outside suppliers for health care program patients, but simply arranges for the services for nonhealth care program patients and does not pay the nonhealth care program portion of the services, its books shall reflect only the cost of the health care program portion. Where

the provider can "gross up" its costs and charges in accordance with provisions of HCFA Pub. 15-I, Subsection 2314, the facility shall complete Part II, lines 12 through 17 and 20 in all cases, and lines 18 and 19 where appropriate.

Line 12-17 - These lines shall be completed for the purpose of computing the total salary equivalency allowance amounts by multiplying the total hours worked (line 7) times the adjusted hourly salary equivalency amount for supervisors, therapists, assistants and aides.

Lines 18 and 19 - These lines shall be completed if the sum of hours in columns 1-3, line 7, is less than or equal to the product found on line 2. (See exception above where the provider shall not "gross up" its costs and charges and services are provided to program patients only.)

Line 20 - Where there are no entries on lines 18 and 19, enter the amount on line 17, otherwise enter the sum of the amounts on line 16 plus line 19.

SCHEDULE B-1b - Part III - Travel Allowance and Travel Expense Computation - Provider Site. This part provides for the computation of the standard travel allowance and standard travel expense for services rendered on site.

Lines 23-27 - These lines provide for the computation of the standard travel allowance and standard travel expense for physical therapy services performed at your site. One (1) standard travel allowance is recognized for each day an outside supplier performs skilled physical therapy services at your site. For example, if a contracting organization sends three (3) therapists to you each day, only one (1) travel allowance is recognized per day.

Line 23 - Include the standard travel allowance for supervisors and therapists. This standard travel allowance for supervisors appropriately does not take into account the additional allowance for administrative and supervisory responsibilities.

Part IV - Travel Allowance and Travel Expense Computation - HHA Services Outside Provider Site. - This part provides for the computation of both the standard travel allowance and standard travel expense and the optional travel allowance and the optional travel expense.

Lines 26-29 - These lines provide for the computation of the standard travel allowance and standard travel expense for physical therapy services performed in conjunction with home health agency visits. These lines shall be used only if the provider does not use the optional method of computing travel. A standard travel allowance shall be recognized for each visit to a patient's residence. If services are furnished to more than one (1) patient at the same location, only one (1) standard travel allowance shall be permitted, regardless of the number of patients treated.

Lines 30-33 - These lines provide for the optional travel allowance and optional travel expense computations for physical therapy services in conjunction with home health services. The optional travel allowance is computed on lines 30 through 32. The optional travel expense is computed on line 33.

Lines 34-36 - Only one (1) of the options on lines 34-36 shall be chosen and completed. However, lines 35 or 36 may be used where the provider maintains time records of visits.

SCHEDULE B-1c - Part V - Overtime Computation - This part provides for the computation of an overtime allowance if an individual employee of the outside supplier performs services for the provider in excess of the provider's standard work week. No overtime allowance shall be given to a therapist who receives an additional allowance for supervisory or administrative duties.

Line 37 - Enter in the appropriate columns the total overtime hours worked. If the total hours in column 4 are either zero or equal to or greater than 2080 the overtime computation shall not be applicable, no further entries on lines 38-45 shall be made, and zero shall be entered in each column of line 46. The sum of the hours recorded in columns 1 through 3 shall be entered in column 4.

Line 38 - Enter in the appropriate column the overtime rate which is the AHSEA from line 8, column as appropriate, times 1.5.

Line 40 - Enter the percentage of overtime hours, by class of employee, which is determined by dividing each column on line 37 by the total overtime hours in column 4, line 37.

Line 41 - This line is for the allocation of a provider's standard workyear for one (1) full-time employee. Enter the number of hours in the standard workyear for one (1) full-time employee in column 4 of this line. Multiply the standard workyear in column 4 by the percentage on line 40 and enter the results in the corresponding columns of this line.

Line 42 - Enter in columns 1 through 3 the AHSEA from Part I, line 8, columns 2 through 4, as appropriate.

Part VI - Computation of Physical Therapy Limitation and Excess Cost Adjustment - This part provides for the calculation of the adjustment to physical therapy service costs in determining the reasonableness of physical therapy cost.

Lines 51 and 52 - If the outside supplier provides the equipment and supplies used in furnishing direct services to the provider's patients, the actual cost of the equipment and supplies incurred by the outside supplier, as specified in HCFA Pub. 15-I, Subsection 1412.1, may be considered as an additional allowance in computing the limitation.

Line 54 - Enter the amounts paid or payable to the outside suppliers for physical therapy services rendered during the period as reported in the cost report. This includes any payments for supplies, equipment use, overtime or any other expense related to supplying physical therapy services for the provider.

Line 55 - Enter on this line the excess cost over the limitation, i.e., line 54 minus line 53. If negative, enter zero. Transfer the amount on this line to Schedule B-1, line 9.

SCHEDULE B-2 - RECLASSIFICATIONS TO EXPENSE

This schedule provides for the reclassification of expense accounts to effect proper cost allocation under cost finding. The following are some examples of costs which shall be reclassified.

A. Licenses and Taxes (Other Than Income Taxes) - This expense consists of the business license expense and tax expense incidental to the operation of the agency. These expenses shall be included in the Administrative and General (A & G) cost centers, Schedule B, line 8.

B. Interest - Short-term interest expense relates to borrowings for agency operations. The full amount of this cost shall be reclassified to A & G, Schedule B, line 8.

C. Insurance - Malpractice, Insurance - Other - Reclassify these insurance expenses to A & G, Schedule B, line 8. Malpractice insurance may be reclassified directly to the applicable cost centers (other than A & G) only if the insurance policy specifically and separately identifies the premium for each cost center involved.

D. If a provider purchases services (e.g., physical therapy) under arrangements for Medicaid patients, but does not purchase the services under arrangements for non-Medicaid patients, the providers' books shall reflect only the cost of the Medicaid services. However, if the provider does not use the "grossing up" technique for purposes of allocating overhead, and if the provider incurs related direct costs applicable to all patients, Medicaid and non-Medicaid (e.g., paramedics or aides who assist a physical therapist in performing physical therapy services), the related costs shall be reclassified from the HHA Reimbursable Service cost center and allocated as part of administrative and general expense.

E. Leases - This expense consists of all rental costs of buildings and equipment incidental to the operation of the HHA. Any lease which cannot be identified to a special cost center and is incidental to the general overall operation of the agency shall be included in the A & G account, Schedule B, line 8.

Column 1: Indicate the description of item to be reclassified on lines 1 through 33.

Column 2: Indicate line number from Schedule B where reclassification is entered.

Columns 3 and 4: Enter the amounts of the increase or decrease. The totals on line 34 column 3 and column 4 should be equal.

SCHEDULES C, C-1 - COST ALLOCATION STATISTICS AND COST ALLOCATIONS

Schedules C and C-1 provide for simplified cost finding. The simplified cost finding methodology provides for allocating general service (overhead) costs directly to revenue producing and non-reimbursable cost centers.

Schedule C: This schedule is used to provide the statistics necessary for the allocation of general services costs among the service areas on Schedule C-1.

Column 1: Enter in Column 1, the total square feet of the building and fixtures applicable to the cost center to which depreciation shall be allocated on Lines 17 through 39.

Line 40 is the total of lines 17 through 39.

Line 41 is the total of Lines 1, 3, 4, 10, 11, and 14, Column 6, Schedule B.

Line 42, divide line 41 by line 40 and enter the amount on line 42.

Column 2: Enter in column 2, the mileage for each service area on Lines 17 through 39.

Line 40 is the total of lines 17 through 39.

Line 41 is the total of lines 2, 5 and 13, Column 6, Schedule B.

Line 42, divide line 41 by line 40 and enter the amount on line 42.

Column 3: Enter in Column 3 the gross salaries paid to employees in each service area on Lines 18 through 39.

Line 40 is the total of lines 17 through 39.

Line 41 is the total of line 7, Column 6, Schedule B.

Line 42, divide line 41 by line 40 and enter the amount on line 42.

Column 4: Enter in Column 4, accumulated costs on lines 17 through 39, Column 5, Schedule C-1.

Line 40 is the total of lines 17 through 39, Column 4.

Line 41 is the total of lines 6, 8, 9, 12, 15 and 16, Schedule B.

Line 42, divide line 41 by line 40; enter the resulting unit cost multiplier on line 42 (Example: round to four decimal places .6224).

SCHEDULE C-1: COST ALLOCATION

Column 1: Enter the direct costs associated with the services listed on lines 17 through 39, Column 6, Schedule B.

Columns 2, 3, and 4: Multiply the unit cost multiplier on Schedule C by the detail on Schedule C. The products shall be entered on the corresponding lines on C-1.

Column 5: The sum of Columns 1, 2, 3, and 4.

Column 6: Multiply the unit cost multiplier on Schedule C, Column 4, by the detail on Schedule C, Column 4.

Column 7: Enter sum of lines 5 and 6 for each service area and transfer amounts in Column 7, lines 17 through 23, before and after, to Schedule D, Column 2; and Column 7, Lines 24 through 29, before and after, to Schedule E, Column 2; and Column 7, Lines 30 through 35 to Schedule F, Column 2.

SCHEDULE D - Apportionment of Patient Service Costs

This worksheet provides for the apportionment of home health patient service costs to Title XIX only. In addition, this worksheet provides for the application of the Title XVIII and Title XIX cost limitations, if applicable, to each home health agency's total allowable cost in determining the Medicaid reimbursable cost.

The computation of Medicaid reimbursable cost shall be determined by utilizing the lower of the average cost per visit, Title XVIII cost limits, or Title XIX cost limits compared on an aggregate basis.

Cost Per Visit Computation (for visits with service dates prior to 7/1)

Column 2 - Amounts - Enter in column 2 the amount for each discipline from Schedule C-1, column 7, lines as indicated in column 1.

Column 3 - Enter the total agency visits from statistical data Schedule A, column 1, for each type of discipline on lines 1 through 6.

Column 4 - This is the average cost per visit for each type of discipline. Divide the cost (column 2) by number of visits (column 3) for each discipline.

Column 5 - Enter Title XVIII limits from the Medicare notification letter for each discipline, lines 1 through 6.

Column 6 - Enter Title XIX limits as specified in the appropriate reimbursement letter for each discipline, lines 1 through 6, if applicable.

Column 8 - Enter Title XIX Program Visits (utilizing Medicaid Paid Claims Listings) for each discipline, lines 1 through 6.

Column 9 - Multiply the average cost per visit (column 4) by the Title XIX visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 9.

Column 10 - Multiply the Title XVIII Cost Limits (column 5) by the Title XIX visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 10.

Column 11 - Multiply the Title XIX cost limits (column 6) by the Title XIX visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 11.

Line 7: Sum of lines 1 through 6 for appropriate column.

Line 8: Enter the lesser of column 9, column 10, or column 11.

Part II -- Cost Per Visit Computation (for visits with service dates on or after 7/1).

See instructions for Part I, columns 2 through 11.

Line 8: Enter the lesser of column 9, column 10, or column 11.

Line 9 -- Enter the total visits from Part I, line 7, Column 8 and Part II, line 7, Column 8.

PART III - Medical Supplies Computation

Column 1 - Enter cost from line 17, column 7, Schedule C-1.

Column 2 - Enter total charges from facility records.

Column 3 - Divide amount in column 1 by amount in column 2.

Column 4 - Enter Title XIX charges from Paid Claims Listings.

Column 5, Line 1 - Multiply ratio in column 3 by amount in column 4.

Column 5, Line 2 - Add amount in column 11, line 8, Part I, column 11, line 8, Part II, and column 5, line 1, Part III.

Schedule D-1, Calculation of Reimbursement Settlement

Part I, Computation of the Lesser of Reasonable Cost or Customary Charges

Line 1 -- Cost of services from Schedule D, Part III, line 2, column 5.

Line 2 -- Amount of charges from Medicaid paid claim listings.

Line 3 -- If line 1 is greater than line 2, enter the excess cost on line 3, if applicable.

Part II, Computation of Reimbursable Settlement

Line 4 -- Enter total reasonable cost from line 1.

Line 5 -- Enter excess reasonable cost from line 3, if applicable.

Line 6 -- Subtract line 5 from line 4.

Line 7 -- Enter amounts received from third party payors (from Title XIX paid claim listings).

Line 8 - Enter amounts received from the Medicaid Program (from Title XIX paid claim listings).

Line 9 -- Enter incentive payment (from Title XIX Paid Claim listings).

Line 10 -- Enter total interim payments (lines 7+8-9).

Line 11 -- Enter balance due Provider/Medicaid Program (line 6-10). Indicate overpayments in parentheses ( ).

Schedule E - Apportionment of Patient Service Costs (Waiver Program)

Part I, Before 07-01-

Column 2 - Enter amount in Column 2 from Schedule C-1, Column 7, lines 24 through 29.

Column 3 - Enter in Column 3, lines 1 through 6 total units/visits from Schedule A, Column 1, lines 7-12, for each discipline.

Column 4 - Compute the average cost per visit for each type of discipline. Divide the number of visits (Column 3) into the cost (Column 2) for each discipline of service on lines 1 through 6.

Column 5 - Enter the Medicaid Cost Limits per discipline or Average Cost. (The Department for Medicaid Services shall furnish the limits to the HHA effective July 1 of each year.)

Column 6 - Enter the Title XIX units/visits from the Medicaid Paid Claim Listings on lines 1 through 6.

Column 7 - Enter in Column 7 cost of services (Column 4 times Column 6 = Column 7) on lines 1 through 6.

Column 8 - Enter the product of Column 5 times Column 6 to determine Medicaid cost of services.

Part II, On or After 07-01-

Column 2 - Enter amount in Column 2 from Schedule C-1, Column 7, lines 24 through 29.

Column 3 - Enter in Column 3, lines 8 through 13 total units/visits from Schedule A, Column 1, lines 7-12 for each discipline.

Column 4 - Compute the average cost per visit for each type of discipline. Divide the number of visits (Column 3) into the cost (Column 2) for each discipline of service on lines 8 through 13.

Column 5 - Medicaid Cost Limits or Average Cost - Enter the Medicaid Cost Limits per discipline as indicated or average cost.

Column 6 - Enter the Title XIX units/visits from the Medicaid Paid Claim Listings on lines 8 through 13.

Column 7 - Enter in Column 7 cost of services (Column 4 times Column 6 = Column 7) on lines 8 through 13.

Column 8 - Title XIX Cost of Services - Enter the product of Column 5 times Column 6 to determine Medicaid cost of services per discipline on lines 8 through 13.

Part III - Calculation of Reimbursement Settlement

Line 15 - Enter cost of patient services (lesser of line 7, column 7, or line 7, column 8).

Line 16 - Enter cost of patient services (Lesser of line 14, column 7, or line 14, column 8).

Line 17 - Enter the total of allowable cost of patient services (Line 15 + Line 16, less amounts from Schedules E-1 and E-2).

Line 18 - Enter the total charges for the Waiver Program services from the Medicaid Paid Claim Listings.

Line 19 - Enter the lesser of line 17 or line 18.

Line 20a - Enter amount received from the Program for Waiver Program services from the Medicaid Paid Claim Listings.

Line 20b - Enter Continuing Income or TPL from the Medicaid Paid Claim Listings.

Line 21 - Enter Total Received (line 20a + 20b).

Line 22 - Enter Balance Due Program/Vendor (line 19-21). Indicate overpayments in parentheses ().

Schedule E-1 - Respite Care Cost Limitation

Column 1 - Enter in first column the name of each recipient.

Column 2 - Enter in Column 2 units of service per Medicaid recipient per fiscal year.

Column 3 - Enter in Column 3 Average Cost (from Schedule E, Part I, line 5, Column 4).

Column 4 - Enter in column 4 Total cost per Medicaid recipient per fiscal year (Column 2 X Column 3).

Column 5 - Enter in Column 5 excess of cost over $2,000 for each recipient for the fiscal year.

Schedule E-2, Adjustment to Home Adaptation Expense

Line 1 - Enter in line 1 the amount from Schedule E, line 6, Column 2.

Line 2 - Enter in line 2 the amount from Schedule B, line 29, Column 6.

Line 3 - Enter on line 3 Overhead Factor (line 1 divided by line 2).

Column 1 - Enter in Column 1 name of Medicaid recipient.

Column 2 - Enter in Column 2, Direct Cost for each recipient (from vendor records).

Column 3 - Enter in Column 3 Direct Cost X Overhead Factor (line 3).

Column 4 - Enter in Column 4 Cost in excess of the $500 limit per Medicaid recipient.

Line 4 - Enter on Line 4 the Total of the cost in excess of the KMAP limits (the sum of Column 4).

Home- and Community-Based Waiver (Extended Area)

Schedule F, Apportionment of Patient Service Costs (Extended Area)

Column 2 - Enter amounts from Schedule C-1, Column 7, lines 30 through 35.

Column 3 - Enter total units/visits from Schedule A, Column 1, lines 13-18 for each discipline.

Column 4 - Divide the number of visits (Column 3) into the cost (Column 2) for each discipline of service.

Column 5 - Enter the Title XIX units/visits from the Medicaid Paid Claim Listings.

Column 6 - Multiply Column 4 by Column 5 and enter results.

Line 7 - Enter the sum of lines 1 through 6.

Line 8 - Enter allowable cost of patient services (Line 7, Column 6).

Line 9 - Enter allowable cost of patient services (Line 8, less amounts from Schedules F-1 and F-2).

Line 10 - Enter the total charges for the Extended Area Program services from the Medicaid Paid Claim Listings.

Line 11 - Enter the lesser of line 9 or line 10.

Line 12a - Enter amount received from the Program for Extended Area Program services from the Medicaid Paid Claim Listings.

Line 12b - Enter Continuing Income or Third Party Liability (TPL) from the Medicaid Paid Claim Listings.

Line 13 - Enter Total Received (line 12a + 12b).

Line 14 - Enter Balance Due Program/Vendor (line 11-13). Indicate overpayments in parentheses ().

Schedule F-1 - Respite Care Cost Limitation

Column 1 - Enter in first column the name of each recipient.

Column 2 - Enter in Column 2 units of service per Medicaid recipient per fiscal year.

Column 3 - Enter in Column 3 Average Cost (from Schedule F, Part I, line 5, Column 4).

Column 4 - Enter in column 4 Total cost per Medicaid recipient per fiscal year (Column 2 X Column 3).

Column 5 - Enter in Column 5 excess of cost over $2,000 for each recipient for the fiscal year.

Schedule F-2, Adjustment to Home Adaptation Expense

Line 1 - Enter in line 1 the amount from Schedule F, line 6, Column 2.

Line 2 - Enter in line 2 the amount from Schedule B, line 35, Column 6.

Line 3 - Enter on line 3 Overhead Factor (line 1 divided by line 2).

Column 1 - Enter in Column 1 name of Medicaid recipient.

Column 2 - Enter in Column 2, Direct Cost for each recipient (from vendor records).

Column 3 - Enter in Column 3 Direct Cost X Overhead Factor (line 3).

Column 4 - Enter in Column 4 Cost in excess of the $500 limit per Medicaid recipient.

Line 4 - Enter on Line 4 the Total of the cost in excess of the KMAP limits (the sum of Column 4).

(L) SCHEDULE G - HOME HEALTH AGENCY DATA

A. STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS:

Section A is provided to show whether the amount of costs to be reimbursed by the Medicaid Program includes costs resulting from services, facilities, and supplies furnished to the vendor by organizations related to the vendor by common ownership or control.

Section A shall be completed by all vendors.

B. Section B is provided to show the total compensation paid for the period for sole proprietors, partners, and corporation officers, as owner(s) of the Home Health Agency. Compensation is defined as the total benefit received (or receivable) by the owner for the services he renders to the institution. It includes salary amount paid for managerial, administrative, professional and other services; amounts paid by the agency for the personal benefit of the owner; and the cost of the assets and services which the owner receives from the agency and deferred compensation.

C. Section C is provided to show total compensation paid to each employed person(s) to perform duties as administrators or assistant administrators. List each administrator or assistant administrator who has been employed during the fiscal period. List the name, title, percent of customary work week devoted to business, percent of the fiscal period employed, and total compensation for the period.

D. Section D - Certification by Officer or Director of the Agency. This form shall be read and signed by an officer or director of the HHA. Sections 1877(a)(1) of the Social Security Act state that, "Whoever knowingly and willfully makes or causes to be made any false statement or representation of material fact in any application for any benefit or payment under this title--shall (i) in the case of such a statement, representation, concealment, failure or conversion by any person in connection with the furnishing (by that person) of items or services for which payment is or may be made under this title, be guilty of a felony and

upon conviction thereof fined not more than $25,000 or imprisoned for not more than 5 years, or both, or (ii) in the case of such statement, representation, concealment, failure or conversion by any other person, be guilty of a misdemeanor and upon conviction thereof fined not more than $10,000 or imprisoned for not more than 1 year or both."

upon conviction thereof fined not more than $25,000 or imprisoned for not more than 5 years, or both, or (ii) in the case of such statement, representation, concealment, failure or conversion by any other person, be guilty of a misdemeanor and upon conviction thereof fined not more than $10,000 or imprisoned for not more than 1 year or both."

United States General Accounting Office

GAO

By the Comptroller General of the United States

June 1994

Government Auditing Standards

1994 Revision

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This revision of the standards supersedes the 1988 revision. Its provisions are effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995. Early application is permissible.

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Foreword

To meet demands for more responsive and cost-effective governments, policymakers and managers need reliable financial and performance information. The assurance auditors provide about that information, as well as about systems producing it, may be more important now than ever before. This reliance on auditors enhances the need for standards to guide auditors and allow others to rely on auditors' work.

Certain laws, regulations, and contracts require auditors to follow generally accepted government auditing standards promulgated by the Comptroller General of the United States. This is the third revision of the standards since my predecessor issued them in 1972.

These standards are broad statements of auditors' responsibilities. Auditors will face many situations in which they could best serve the public by doing work exceeding the standards' minimum requirements. I encourage auditors to seek opportunities to do that additional work, particularly in testing and reporting on internal controls.

I thank those who suggested improvements to the standards, and I especially commend the Government Auditing Standards Advisory Council and the project team for their efforts.

Charles A. Bowsher
Comptroller General
of the United States

June 1994

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Abbreviations

AICPA	American Institute of Certified Public Accountants
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAGAS	generally accepted government auditing standards
GASB	Governmental Accounting Standards Board
GAO	U.S. General Accounting Office
OMB	Office of Management and Budget
SAS	AICPA's statement on auditing standards
SSAE	AICPA's statement on standards for attestation engagements

Purpose

1.1 This document contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. The standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

Applicability

1.2 Federal legislation requires that the federal inspectors general comply with the Comptroller General's standards for audits of federal organizations, programs, activities, and functions. The legislation further states that the inspectors general are to ensure that nonfederal auditors comply with these standards when they audit federal organizations, programs, activities, and functions.[1]

1.3 Other federal auditors must also follow these standards. The Office of Management and Budget (OMB) included these standards in OMB Circular A-73[2] as basic audit criteria for federal executive departments and agencies.

1.4 The Chief Financial Officers Act of 1990 requires that these standards be followed in audits of federal departments and agencies.[3]

[1]The Inspector General Act of 1978, as amended, 5 U.S.C. App. (1982).

[2]Section 6 of OMB Circular A-73, "Audit of Federal Operations and Programs."

[3]The Chief Financial Officers Act of 1990 (Public Law 101-576).

1.5 The Single Audit Act of 1984 requires that thes standards be followed in audits of state and local governments which receive federal financial assistance.[4]

1.6 Other federal policies and regulations, such as OMB Circular A-133, require that these standards be followed in audits of institutions of higher educati and other nonprofit organizations that receive fed financial assistance.[5]

1.7 Auditors conducting audits under agreement o contract also may be required to comply with thes standards under the terms of the agreement or contract.

1.8 The standards in this document are generally relevant to and recommended for use by state and local government auditors and public accountants audits of state and local government organizations programs, activities, and functions. Several state a local audit organizations, as well as several nation have officially adopted these standards.

1.9 The American Institute of Certified Public Accountants (AICPA) has issued auditing and attestation standards that apply in financial audits discussed in chapters 4 and 5. The Institute of Inte Auditors and the American Evaluation Associatior (formerly the Evaluation Research Society) have issued related standards.[6]

[4]The Single Audit Act of 1984 (31 U.S.C. 7501-7507).

[5]OMB Circular A-133, "Audits of Institutions of Higher Educati and Other Nonprofit Institutions."

[6]Codification of the Standards for the Professional Practice of Internal Auditing, The Institute of Internal Auditors, Inc., copyr 1993; and New Directions for Program Evaluation: Standards f Evaluation Practice, no. 15. San Francisco: Jossey-Bass, September 1982.

Accountability

1.10 Our system of managing public programs today rests on an elaborate structure of relationships among all levels of government. Officials and employees who manage these programs need to render an account of their activities to the public. While not always specified by law, this accountability concept is inherent in the governing processes of this nation.

1.11 The need for accountability has caused a demand for more information about government programs and services. Public officials, legislators, and citizens want and need to know whether government funds are handled properly and in compliance with laws and regulations. They also want and need to know whether government organizations, programs, and services are achieving their purposes and whether these organizations, programs, and services are operating economically and efficiently.

1.12 This document provides auditing standards to help provide accountability and to assist public officials and employees in carrying out their responsibilities. These standards are more than the codification of current practices. They include concepts and audit areas that are still evolving and are vital to the accountability objectives sought in auditing governments and their programs and services.

Basic Premises

1.13 The following premises underlie these standards and were considered in their development.

a. The term "audit" includes both financial and performance audits.

b. Public officials and others entrusted with handling public resources (for example, managers of a not-for-profit organization that receives federal assistance) are responsible for applying those

resources efficiently, economically, and effectively achieve the purposes for which the resources were furnished. This responsibility applies to all resourc whether entrusted to public officials or others by their own constituencies or by other levels of government.

c. Public officials and others entrusted with public resources are responsible for complying with applicable laws and regulations. That responsibilit encompasses identifying the requirements with wh the entity and the official must comply and implementing systems designed to achieve that compliance.

d. Public officials and others entrusted with public resources are responsible for establishing and maintaining effective controls to ensure that appropriate goals and objectives are met; resource are safeguarded; laws and regulations are followed and reliable data are obtained, maintained, and fair disclosed.

e. Public officials and others entrusted with public resources are accountable both to the public and tc other levels and branches of government for the resources provided to carry out government progra and services. Consequently, they should provide appropriate reports to those to whom they are accountable.

f. Audit of government reporting is an essential element of public control and accountability. Aud provides credibility to the information reported by obtained from management through objectively acquiring and evaluating evidence. The importance and comprehensive nature of auditing place a speci responsibility on public officials or others entrusted with public resources who authorize or arrange aud to be done in accordance with these standards. This

responsibility is to provide audit coverage that is broad enough to help fulfill the reasonable needs of potential users of the audit report. Auditors can assist public officials and others in understanding the auditors' responsibilities under GAGAS and other audit coverage required by law or regulation. This comprehensive nature of auditing also highlights the importance of auditors clearly understanding the audit objectives, the scope of the work to be conducted, and the reporting requirements.

g. Financial auditing contributes to providing accountability since it provides independent reports on whether an entity's financial information is presented fairly and/or on its internal controls and compliance with laws and regulations.

h. Performance auditing contributes to providing accountability because it provides an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

i. To realize governmental accountability, the citizens, their elected representatives, and program managers need information to assess the integrity, performance, and stewardship of the government's activities. Thus, unless legal restrictions or ethical considerations prevent it, audit reports should be available to the public and to other levels of government that have supplied resources.[7]

Auditors' Responsibilities

1.14 The comprehensive nature of auditing done in accordance with these standards places on the audit organization the responsibility for ensuring that

[7]The Single Audit Act (31 U.S.C. 7502(f)) requires that the report on single audits be made available for public inspection.

(1) the audit is conducted by personnel who collectively have the necessary skills, (2) independence is maintained, (3) applicable standards are followed in planning and conducting audits and reporting the results, (4) the organizati has an appropriate internal quality control system place, and (5) the organization undergoes an exter quality control review.

Procurement of Audit Services

1.15 While not an audit standard, it is important th a sound procurement practice be followed when contracting for audit services. Sound contract awa and approval procedures, including the monitorin contract performance, should be in place. The objectives and scope of the audit should be made clear. In addition to price, other factors to be considered include the responsiveness of the bidd to the request for proposal; the experience of the bidder; availability of bidder staff with professiona qualifications and technical abilities; and the resul of the bidders' external quality control reviews.[8]

[8]See How to Avoid a Substandard Audit: Suggestions for Procur an Audit, National Intergovernmental Audit Forum, May 1988.

Purpose

2.1 This chapter describes the types of audits that government and nongovernment audit organizations conduct and that organizations arrange to have conducted, of government organizations, programs, activities, functions, and funds. This description is not intended to limit or require the types of audits that may be conducted or arranged. In conducting these types of audits, auditors should follow the applicable standards included and incorporated in the chapters which follow.

2.2 All audits begin with objectives, and those objectives determine the type of audit to be conducted and the audit standards to be followed. The types of audits, as defined by their objectives, are classified in these standards as financial audits or performance audits.

2.3 Audits may have a combination of financial and performance audit objectives or may have objectives limited to only some aspects of one audit type. For example, auditors conduct audits of government contracts and grants with private sector organizations, as well as government and nonprofit organizations, that often include both financial and performance objectives. These are commonly referred to as "contract audits" or "grant audits." Other examples of such audits include audits of specific internal controls, compliance issues, and computer-based systems. Auditors should follow the standards that are applicable to the individual objectives of the audit.

Financial Audits

2.4 Financial audits include financial statement and financial related audits.

a. Financial statement audits provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position,

results of operations, and cash flows in conformit with generally accepted accounting principles.[1] Financial statement audits also include audits of financial statements prepared in conformity with of several other bases of accounting discussed in auditing standards issued by the American Institu Certified Public Accountants (AICPA).

b. Financial related audits include determining whether (1) financial information is presented in accordance with established or stated criteria, (2) entity has adhered to specific financial complianc requirements, or (3) the entity's internal control structure over financial reporting and/or safeguar assets is suitably designed and implemented to achieve the control objectives.

2.5 Financial related audits may, for example, inc audits of the following items:

a. Segments of financial statements; financial information (for example, statement of revenue a expenses, statement of cash receipts and disbursements, statement of fixed assets); budget requests; and variances between estimated and a financial performance.

b. Internal controls over compliance with laws ar regulations, such as those governing the (1) biddi for, (2) accounting for, and (3) reporting on grant

[1]Three authoritative bodies for generally accepted accounting principles are the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), a the sponsors of the Federal Accounting Standards Advisory B (FASAB). GASB establishes accounting principles and financi reporting standards for state and local government entities. F establishes accounting principles and financial reporting stan for nongovernment entities. The sponsors of FASAB—the Sec of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General—jointly establish accou principles and financial reporting standards for the federal government, based on recommendations from FASAB.

and contracts (including proposals, amounts billed, amounts due on termination claims, and so forth).

c. Internal controls over financial reporting and/or safeguarding assets, including controls using computer-based systems.

d. Compliance with laws and regulations and allegations of fraud.

Performance Audits

2.6 A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

2.7 Performance audits include economy and efficiency and program audits.

a. Economy and efficiency audits include determining (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the entity has complied with laws and regulations on matters of economy and efficiency.

b. Program audits include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (2) the effectiveness of organizations, programs, activities, or functions, and (3) whether the entity has complied with significant laws and regulations applicable to the program.

2.8 Economy and efficiency audits may, for example consider whether the entity

a. is following sound procurement practices;

b. is acquiring the appropriate type, quality, and amount of resources at an appropriate cost;

c. is properly protecting and maintaining its resources;

d. is avoiding duplication of effort by employees and work that serves little or no purpose;

e. is avoiding idleness and overstaffing;

f. is using efficient operating procedures;

g. is using the optimum amount of resources (staff, equipment, and facilities) in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;

h. is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources;

i. has an adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency; and

j. has reported measures of economy and efficiency that are valid and reliable.

2.9 Program audits[2] may, for example

a. assess whether the objectives of a new, or ongoing program are proper, suitable, or relevant;

b. determine the extent to which a program achieves a desired level of program results;

c. assess the effectiveness of the program and/or of individual program components;

d. identify factors inhibiting satisfactory performance;

e. determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost;

f. determine whether the program complements, duplicates, overlaps, or conflicts with other related programs;

g. identify ways of making programs work better;

h. assess compliance with laws and regulations applicable to the program;

i. assess the adequacy of the management control system for measuring, reporting, and monitoring a program's effectiveness; and

j. determine whether management has reported measures of program effectiveness that are valid and reliable.

[2]These audits may apply to services, activities, and functions as well as programs.

Other Activities of an Audit Organization

2.10 Auditors may perform services other than audi
For example, some auditors may

a. assist a legislative body by developing questions f
use at hearings,

b. develop methods and approaches to be applied in
evaluating a new or a proposed program,

c. forecast potential program outcomes under vario
assumptions without evaluating current operations,
and

d. perform investigative work.

2.11 The head of the audit organization may wish tc
establish policies applying standards in this stateme
to its employees performing these and other types o
nonaudit work.

Purpose

3.1 This chapter prescribes general standards for conducting financial and performance audits. These general standards relate to the qualifications of the staff, the audit organization's and the individual auditor's independence, the exercise of due professional care in conducting the audit and in preparing related reports, and the presence of quality controls. General standards are distinct from those standards that relate to conducting field work and preparing related reports.

3.2 These general standards apply to all audit organizations, both government and nongovernment (for example, public accounting firms and consulting firms), conducting audits of government organizations, programs, activities, and functions and of government assistance received by nongovernment organizations.

Qualifications

3.3 The first general standard is:

The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

3.4 This standard places responsibility on the audit organization to ensure that each audit is conducted by staff who collectively have the knowledge and skills necessary for that audit. They should also have a thorough knowledge of government auditing and of the specific or unique environment in which the audited entity operates, relative to the nature of the audit being conducted.

3.5 The qualifications mentioned here apply to the knowledge and skills of the audit organization as a whole and not necessarily to each individual auditor. An organization may need to employ personnel or hire outside consultants knowledgeable in such areas

as accounting, statistics, law, engineering, audit design and methodology, automated data processing public administration, economics, social sciences, o actuarial science.

Continuing Education Requirements

3.6 To meet this standard, the audit organization should have a program to ensure that its staff maintain professional proficiency through continuin education and training. Thus, each auditor responsible for planning, directing, conducting, or reporting on audits under these standards should complete, every 2 years, at least 80 hours of continuing education and training which contributes to the auditor's professional proficiency. At least 20 hours should be completed in any 1 year of the 2-yea period. Individuals responsible for planning or directing an audit, conducting substantial portions o the field work, or reporting on the audit under these standards should complete at least 24 of the 80 hour of continuing education and training in subjects directly related to the government environment and t government auditing. If the audited entity operates ir a specific or unique environment, auditors should receive training that is related to that environment.

3.7 The audit organization is responsible for establishing and implementing a program to ensure that auditors meet the continuing education and training requirements just stated. The organization should maintain documentation of the education and training completed.[1]

[1]The qualifications standard and continuing education requiremen place responsibilities on both the audit organization and individual auditors. Carrying out these responsibilities requires sound professional judgment. To assist audit organizations and individual auditors in exercising that judgment, the General Accounting Offic (GAO) issued Interpretation of Continuing Education and Training Requirements, April 1991, Government Printing Office stock number 020-000-00250-6.

3.8 The continuing education and training may include such topics as current developments in audit methodology, accounting, assessment of internal controls, principles of management or supervision, financial management, statistical sampling, evaluation design, and data analysis. It may also include subjects related to the auditor's field of work, such as public administration, public policy and structure, industrial engineering, economics, social sciences, or computer science.

3.9 External consultants and internal experts and specialists should be qualified and maintain professional proficiency in their areas of expertise and/or specialization but are not required to meet the above continuing education and training requirements. Auditors performing nonaudit activities and services also are not required to meet the above continuing education and training requirements.

Staff Qualifications

3.10 Qualifications for staff members conducting audits include:

a. Knowledge of the methods and techniques applicable to government auditing and the education, skills, and experience to apply such knowledge to the audit being conducted.

b. Knowledge of government organizations, programs, activities, and functions.

c. Skills to communicate clearly and effectively, both orally and in writing.

d. Skills appropriate for the audit work being conducted. For instance

(1) if the work requires use of statistical sampling, the staff or consultants to the staff should include persons with statistical sampling skills;

(2) if the work requires extensive review of computerized systems, the staff or consultants to the staff should include persons with computer audit skills;

(3) if the work involves review of complex engineering data, the staff or consultants to the staff should include persons with engineering skills; or

(4) if the work involves the use of nontraditional audit methodologies, the staff or consultants to the staff should include persons with skills in those methodologies.

e. The following qualifications are needed for financial audits that lead to an expression of an opinion.

(1) The auditors should be proficient in the appropriate accounting principles and in government auditing standards.

(2) The public accountants engaged to conduct audits should be (a) licensed certified public accountants or persons working for a licensed certified public accounting firm or (b) public accountants licensed on or before December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970.[2]

[2]Accountants and accounting firms meeting these licensing requirements should also comply with the applicable provisions of the public accountancy law and rules of the jurisdiction(s) where the audit is being conducted and the jurisdiction(s) in which the accountants and their firms are licensed.

Independence

3.11 The second general standard is:

In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.

3.12 This standard places responsibility on each auditor and the audit organization to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

3.13 Auditors should consider not only whether they are independent and their attitudes and beliefs permit them to be independent but also whether there is anything about their situations that might lead others to question their independence. All situations deserve consideration because it is essential not only that auditors are, in fact, independent and impartial, but also that knowledgeable third parties consider them so.

3.14 Government auditors, including hired consultants and internal experts and specialists, need to consider three general classes of impairments to independence—personal, external, and organizational. If one or more of these impairments affects an auditor's ability to do the work and report findings impartially, that auditor should either decline to perform the audit, or in those situations where that auditor cannot decline to perform the audit, the impairment(s) should be reported in the scope section of the audit report. Also, when auditors are employees of the audited entity, that fact should be reflected in a prominent place in the audit report.

3.15 Nongovernment auditors also need to consider those personal and external impairments that might affect their ability to do their work and report their findings impartially. If their ability is adversely affected, they should decline to perform the audit. Public accountants should also follow the American Institute of Certified Public Accountants (AICPA) code of professional conduct, the code of professional conduct of the state board with jurisdiction over the practice of the public accountant and the audit organization, and the guidance on personal and external impairments in these standards.

Personal Impairments

3.16 There are circumstances under which auditors may not be impartial, or may not be perceived as impartial. The audit organization is responsible for having policies and procedures in place to help determine if auditors have any personal impairments. Managers and supervisors need to be alert for personal impairments of their staff members. Auditors are responsible for notifying the appropriate official within their audit organization if they have any personal impairments. These impairments apply to individual auditors, but they may also apply to the audit organization. Personal impairments may include, but are not limited to, the following:

a. official, professional, personal, or financial relationships that might cause an auditor to limit the extent of the inquiry, to limit disclosure, or to weaken or slant audit findings in any way;

b. preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit;

c. previous responsibility for decision-making or managing an entity that would affect current operations of the entity or program being audited;

d. biases, including those induced by political or social convictions, that result from employment in, or loyalty to, a particular group, organization, or level of government;

e. subsequent performance of an audit by the same individual who, for example, had previously approved invoices, payrolls, claims, and other proposed payments of the entity or program being audited;

f. concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records;[3] and

g. financial interest that is direct, or is substantial though indirect, in the audited entity or program.

External Impairments

3.17 Factors external to the audit organization may restrict the audit or interfere with an auditor's ability to form independent and objective opinions and conclusions. For example, under the following conditions, an audit may be adversely affected and an auditor may not have complete freedom to make an independent and objective judgment:

a. external interference or influence that improperly or imprudently limits or modifies the scope of an audit;

[3]For example, an individual performs a substantial part of the accounting process or cycle, such as analyzing, journalizing, posting, preparing, adjusting and closing entries, and preparing the financial statements, and later the same individual performs an audit. In instances in which the auditor acts as the main processor for transactions initiated by the audited entity, but the audited entity acknowledges responsibility for the financial records and financial statements, the independence of the auditor is not necessarily impaired.

b. external interference with the selection or application of audit procedures or in the selection of transactions to be examined;

c. unreasonable restrictions on the time allowed to complete an audit;

d. interference external to the audit organization in the assignment, appointment, and promotion of audi personnel;

e. restrictions on funds or other resources provided to the audit organization that would adversely affect the audit organization's ability to carry out its responsibilities;

f. authority to overrule or to influence the auditor's judgment as to the appropriate content of an audit report; and

g. influences that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

Organizational Independence

3.18 Government auditors' independence can be affected by their place within the structure of the government entity to which they are assigned and also by whether they are auditing internally or auditing other entities.

Internal Auditors

3.19 A federal, state, or local government audit organization, or an audit organization within other government entities, such as a public college, university, or hospital, may be subject to administrative direction from persons involved in the government management process. To help achieve organizational independence, audit organizations should report the results of their audits and be accountable to the head or deputy head of the

government entity and should be organizationally located outside the staff or line management function of the unit under audit. The audit organization's independence is enhanced when it also reports regularly to the entity's independent audit committee and/or the appropriate government oversight body.

3.20 Auditors should also be sufficiently removed from political pressures to ensure that they can conduct their audits objectively and can report their findings, opinions, and conclusions objectively without fear of political repercussion. Whenever feasible, they should be under a personnel system in which compensation, training, job tenure, and advancement are based on merit.

3.21 If the above conditions are met, and no personal or external impairments exist, the audit staff should be considered organizationally independent to audit internally and free to report objectively to top management.

3.22 When organizationally independent internal auditors conduct audits external to the government entity to which they are directly assigned, they may be considered independent of the audited entity and free to report objectively to the head or deputy head of the government entity to which they are assigned.

External Auditors

3.23 Government auditors employed by audit organizations whose heads are elected and legislative auditors auditing executive entities may be considered free of organizational impairments when auditing outside the government entity to which they are assigned.

3.24 Government auditors may be presumed to be independent of the audited entity, assuming no personal or external impairments exist, if the entity is

a. a level of government other than the one to which they are assigned (federal, state, or local) or

b. a different branch of government within the level of government to which they are assigned (legislative, executive, or judicial).

3.25 Government auditors may also be presumed to be independent, assuming no personal or external impairments exist, if the audit organization's head is

a. elected by the citizens of their jurisdiction,

b. elected or appointed by a legislative body of the level of government to which they are assigned and report the results of audits to, and are accountable to the legislative body, or

c. appointed by the chief executive but confirmed by, report the results of audits to, and are accountable to a legislative body of the level of government to which they are assigned.

Due Professional Care

3.26 The third general standard is:

Due professional care should be used in conducting the audit and in preparing related reports.

3.27 This standard requires auditors to work with due professional care. Due care imposes a responsibility upon each auditor within the audit organization to observe generally accepted government auditing standards.

3.28 Exercising due professional care means using sound judgment in establishing the scope, selecting the methodology, and choosing tests and procedures for the audit. The same sound judgment should be

applied in conducting the tests and procedures and in evaluating and reporting the audit results.

3.29 Auditors should use sound professional judgment in determining the standards that apply to the work to be conducted. The auditors' determination that certain standards do not apply to the audit should be documented in the working papers. Situations may occur in which government auditors are not able to follow an applicable standard and are not able to withdraw from the audit. In those situations, the auditors should disclose in the scope section of their report, the fact that an applicable standard was not followed, the reasons therefor, and the known effect that not following the standard had on the results of the audit.

3.30 While this standard places responsibility on each auditor and audit organization to exercise due professional care in the performance of an audit assignment, it does not imply unlimited responsibility; neither does it imply infallibility on the part of either the individual auditor or the audit organization.

Quality Control

3.31 The fourth general standard is:

Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

3.32 The internal quality control system established by the audit organization should provide reasonable assurance that it (1) has adopted, and is following, applicable auditing standards and (2) has established, and is following, adequate audit policies and procedures. The nature and extent of an organization's internal quality control system depend

on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its audit offices, the nature of its work, its organizational structure, and appropriate cost-benefit considerations. Thus, the systems established by individual organizations will vary, as will the extent o their documentation.

3.33 Organizations conducting audits in accordance with these standards should have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed.[4] The external quality control review should determine whether the organization's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed.

3.34 An external quality control review [5] under this standard should meet the following requirements.

a. Reviewers should be qualified and have current knowledge of the type of work to be reviewed and the applicable auditing standards. For example, individuals reviewing government audits should have a thorough knowledge of the government environment and government auditing relative to the work being reviewed.

[4]Audit organizations should have an external quality control review completed (that is, report issued) within 3 years from the date they start their first audit in accordance with these standards. Subsequent external quality control reviews should be completed within 3 years after the issuance of the prior review.

[5]External quality control reviews conducted through or by the AICPA, National State Auditors Association, National Association of Local Government Auditors, President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, and Institute of Internal Auditors meet these requirements.

b. Reviewers should be independent (as defined in these standards) of the audit organization being reviewed, its staff, and its auditees whose audits are selected for review. An audit organization is not permitted to review the organization that conducted its most recent external quality control review.

c. Reviewers should use sound professional judgment in conducting and reporting the results of the external quality control review.

d. Reviewers should use one of the following approaches to selecting audits for review: (1) select audits that provide a reasonable cross section of the audits conducted in accordance with these standards or (2) select audits that provide a reasonable cross section of the organization's audits, including one or more audits conducted in accordance with these standards.

e. This review should include a review of the audit reports, working papers, and other necessary documents (for example, correspondence and continuing education documentation) as well as interviews with the reviewed organization's professional staff.

f. A written report should be prepared communicating the results of the external quality control review.

3.35 External quality control review procedures should be tailored to the size and nature of an organization's audit work. For example, an organization that performs only a few audits may be more effectively reviewed by emphasizing a review of the quality of those audits rather than the organization's internal quality control policies and procedures.

3.36 Audit organizations seeking to enter into a contract to perform an audit in accordance with thes standards should provide their most recent external quality control review report[6] to the party contractin for the audit. Information in the external quality control review report often would be relevant to decisions on procuring audit services. Audit organizations also should make their external quality control review reports available to auditors using their work and to appropriate oversight bodies. It is recommended that the report be made available to the public.

[6]The term "report" does not include separate letters of comment.

Purpose

4.1 This chapter prescribes standards of field work for financial audits, which include financial statement audits and financial related audits.

Relation to AICPA Standards

4.2 For financial statement audits, generally accepted government auditing standards (GAGAS) incorporate the American Institute of Certified Public Accountants' (AICPA) three generally accepted standards of field work, which are:

a. The work is to be adequately planned and assistants, if any, are to be properly supervised.

b. A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.

c. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

4.3 The AICPA has issued statements on auditing standards (SAS) that interpret its standards of field work (including a SAS on compliance auditing).[1] This chapter incorporates these SASs and prescribes additional standards on

a. audit follow-up (see paragraphs 4.7, 4.10, and 4.11),

b. noncompliance other than illegal acts (see paragraphs 4.13 and 4.18 through 4.20), and

[1]GAGAS incorporate any new AICPA standards relevant to financial statement audits unless the General Accounting Office (GAO) excludes them by formal announcement.

c. working papers. (See paragraphs 4.35 through 4.38.)

4.4 This chapter also presents guidance on three other key aspects of financial statement audits:

a. materiality (see paragraphs 4.8 and 4.9),

b. irregularities and illegal acts (see paragraphs 4.14 through 4.17), and

c. internal controls. (See paragraphs 4.21 through 4.33.)

4.5 This chapter concludes by explaining which standards auditors should follow in performing financial related audits.

Planning

4.6 AICPA standards and GAGAS require the following:

The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.

4.7 The additional planning standard for financial statement audits is:

Auditors should follow up on known material findings and recommendations from previous audits.

Materiality

4.8 Auditors' consideration of materiality is a matter of professional judgment and is influenced by their perception of the needs of a reasonable person who will rely on the financial statements. Materiality judgments are made in light of surrounding

circumstances and necessarily involve both quantitative and qualitative considerations.

4.9 In an audit of the financial statements of a government entity or an entity that receives government assistance, auditors may set lower materiality levels than in audits in the private sector because of the public accountability of the auditee, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions.

Audit Follow-up

4.10 Auditors should follow up on known material findings and recommendations from previous audits that could affect the financial statement audit. They should do this to determine whether the auditee has taken timely and appropriate corrective actions. Auditors should report the status of uncorrected material findings and recommendations from prior audits that affect the financial statement audit.

4.11 Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. Auditee management is responsible for resolving audit findings and recommendations, and having a process to track their status can help it fulfill this responsibility. If management does not have such a process, auditors may wish to establish their own. Continued attention to material findings and recommendations can help auditors assure that the benefits of their work are realized.

Irregularities, Illegal Acts, and Other Noncompliance

4.12 AICPA standards and GAGAS require the following:

a. Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.[2]

b. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.[3]

c. Auditors should be aware of the possibility that indirect illegal acts may have occurred.[4] **If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.**

4.13 The additional compliance standard for financial statement audits is:

Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If

[2]Irregularities are intentional misstatements or omissions of amounts or disclosures in financial statements.

[3]Direct and material illegal acts are violations of laws and regulations having a direct and material effect on the determination of financial statement amounts.

[4]Indirect illegal acts are violations of laws and regulations having material but indirect effects on the financial statements.

specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

Auditors' Understanding of Possible Irregularities and of Laws and Regulations

4.14 Auditors are responsible for being aware of the characteristics and types of potentially material irregularities that could be associated with the area being audited so that they can plan the audit to provide reasonable assurance of detecting material irregularities.

4.15 Auditors should obtain an understanding of the possible effects on financial statements of laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of amounts in the financial statements. Auditors may find it necessary to use the work of legal counsel in (1) determining which laws and regulations might have a direct and material effect on the financial statements, (2) designing tests of compliance with laws and regulations, and (3) evaluating the results of those tests.[5] Auditors also may find it necessary to use the work of legal counsel when an audit requires testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit officials of government entities that provided assistance to the auditee, and/or the applicable law enforcement authority.

[5]AICPA standards provide guidance for auditors who use the work of a specialist who is not a member of their staff.

Due Care Concerning Possible Irregularities and Illegal Acts

4.16 Auditors should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies may require auditors to report indications of certain types of irregularities or illegal acts to law enforcement or investigatory authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

4.17 An audit made in accordance with GAGAS will not guarantee the discovery of illegal acts or contingent liabilities resulting from them. Nor does the subsequent discovery of illegal acts committed during the audit period necessarily mean that the auditors' performance was inadequate, provided the audit was made in accordance with these standards.

Noncompliance Other Than Illegal Acts

4.18 The term noncompliance has a broader meaning than illegal acts. Noncompliance includes not only illegal acts, but also violations of provisions of contracts or grant agreements. AICPA standards do not discuss auditors' responsibility for detecting noncompliance other than illegal acts. But, under GAGAS, auditors have the same responsibilities for detecting material misstatements arising from other types of noncompliance as they do for detecting those arising from illegal acts.

4.19 Direct and material noncompliance is noncompliance having a direct and material effect on the determination of financial statement amounts. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material

noncompliance with provisions of contracts or grant agreements.

4.20 Indirect noncompliance is noncompliance having material but indirect effects on the financial statements. A financial statement audit provides no assurance that indirect noncompliance with provisions of contracts or grant agreements will be detected. However, if specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

Internal Controls

4.21 AICPA standards and GAGAS require the following:

Auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed.

4.22 GAGAS do not prescribe additional internal control standards for financial statement audits. However, this chapter provides guidance on the following four aspects of internal controls that are important to the judgments auditors make about audit risk and about the evidence needed to support their opinion on the financial statements:

a. control environment,

b. safeguarding controls,

c. controls over compliance with laws and regulations, and

d. control risk assessments.

Control Environment

4.23 Auditors' judgments about the control environment may influence—either positively or negatively—their judgments about specific control procedures. For example, evidence indicating that the control environment is ineffective may lead auditors to question the likely effectiveness of a control procedure for a particular financial statement assertion. Conversely, based on evidence indicating that the control environment is effective, auditors may decide to reduce the number of locations where they will perform auditing procedures.

4.24 Auditors' judgments about the control environment also can be affected by the results of their tests of other internal controls. If auditors obtain evidence that specific control procedures are ineffective, they may find it necessary to reevaluate their earlier conclusion about the control environment and other planning decisions they had made based on that conclusion.

Safeguarding Controls

4.25 Internal controls over safeguarding of assets (safeguarding controls) constitute a process, effected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

4.26 Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets that could result in losses that are material to the financial statements, for example, when unauthorized expenditures or investments are made, unauthorized liabilities are incurred, inventory is stolen, or assets are converted to personal use. Such controls are designed to help ensure that use of and access to assets are in

accordance with management's authorization. Authorization includes approval of transactions in accordance with policies and procedures established by management to safeguard assets, such as establishing and complying with requirements for extending and monitoring credit or making investment decisions, and related documentation. Safeguarding controls are not designed to protect against loss of assets arising from inefficiency or from management's operating decisions, such as incurring expenditures for equipment or material that proves to be unnecessary or unsatisfactory.

4.27 AICPA standards and GAGAS require auditors to obtain a sufficient understanding of internal controls to plan the audit. They also require auditors to plan the audit to provide reasonable assurance of detecting material irregularities, including material misappropriation of assets. Because preventing or detecting material misappropriations is an objective of safeguarding controls, understanding those controls can be essential to planning the audit.

4.28 Safeguarding controls are not limited to preventing or detecting misappropriations, however. They also help prevent or detect other material losses that could result from unauthorized acquisition, use, or disposition of assets. Such controls include, for example, the process of assessing the risk of unauthorized acquisition, use, or disposition of assets and establishing control activities to help ensure that management directives to address the risk are carried out. Such control activities would include controls to permit acquisition, use, or disposition of assets only in accordance with management's general or specific authorization, including compliance with established policies and procedures for such acquisition, use, or disposition. They would also include comparing existing assets with the related records at reasonable intervals and taking appropriate action with respect

to any differences. Finally, controls over the safeguarding of assets against unauthorized acquisition, use, or disposition also relate to making available to management information it needs to carry out its responsibilities related to prevention or timely detection of such unauthorized activities, as well as mechanisms to enable management to monitor the continued effective operation of such controls.

4.29 Understanding these safeguarding controls can help auditors assess the risk that financial statements could be materially misstated. For example, an understanding of an auditee's safeguarding controls can help auditors recognize risk factors such as

a. failure to adequately monitor decentralized operations;

b. lack of controls over activities, such as lack of documentation for major transactions;

c. lack of controls over computer processing, such as a lack of controls over access to applications that initiate or control the movement of assets;

d. failure to develop or communicate adequate policies and procedures for security of data or assets, such as allowing unauthorized personnel to have ready access to data or assets; and

e. failure to investigate significant unreconciled differences between reconciliations of a control account and subsidiary records.

Controls Over Compliance With Laws and Regulations

4.30 Auditors should design the audit to provide reasonable assurance that the financial statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial

statement amounts. To meet that requirement, auditors should have an understanding of internal controls relevant to financial statement assertions affected by those laws and regulations. Auditors should use that understanding to identify types of potential misstatements, consider factors that affect the risk of material misstatement, and design substantive tests. For example, the following control environment factors may influence the auditors' assessment of control risk:

a. management's awareness or lack of awareness of applicable laws and regulations,

b. auditee policy regarding such matters as acceptable operating practices and codes of conduct, and

c. assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objectives, operating functions, and regulatory requirements.

Control Risk Assessments

4.31 When auditors assess control risk below the maximum for a given financial statement assertion, they reduce their need for evidence from substantive tests of that assertion. Auditors are not required to assess control risk below the maximum, but the likelihood that they will find it efficient and effective to do so increases with the size of the entities they audit and the complexity of their operations. Auditors should do the following when assessing control risk below the maximum:

a. identify internal controls that are relevant to a specific financial statement assertion;

b. perform tests that provide sufficient evidence that those controls are effective; and

c. document the tests of controls.

4.32 Auditors should remember the following when planning and performing tests of controls:

a. The lower the auditors' assessment of control risk, the more evidence they need to support that assessment.

b. Auditors may have to use a combination of different kinds of tests of controls to get sufficient evidence of a control's effectiveness.

c. Inquiries alone generally will not support an assessment that control risk is below the maximum.

d. Observations provide evidence about a control's effectiveness only at the time observed; they do not provide evidence about its effectiveness during the rest of the period under audit.

e. Auditors can use evidence from tests of controls done in prior audits (or at an interim date), but they have to obtain evidence about the nature and extent of significant changes in policies, procedures, and personnel since they last performed those tests.

4.33 Auditors may find it necessary to reconsider their assessments of control risk when their substantive tests detect misstatements, especially those that appear to be irregularities or due to illegal acts. As a result, they may find it necessary to modify their planned substantive tests for some or all financial statement assertions. Deficiencies in internal controls that led to those misstatements may be reportable conditions or material weaknesses, which auditors are required to report.

Working Papers

4.34 AICPA standards and GAGAS require the following:

A record of the auditors' work should be retained in the form of working papers.

4.35 The additional working paper standard for financial statement audits is:

Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

4.36 Audits done in accordance with GAGAS are subject to review by other auditors and by oversight officials more frequently than audits done in accordance with AICPA standards. Thus, whereas AICPA standards cite two main purposes of working papers—providing the principal support for the audit report and aiding auditors in the conduct and supervision of the audit—working papers serve an additional purpose in audits performed in accordance with GAGAS. Working papers allow for the review of audit quality by providing the reviewer written documentation of the evidence supporting the auditors' significant conclusions and judgments.

4.37 Working papers should contain

a. the objectives, scope, and methodology, including any sampling criteria used;

b. documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined

that would enable an experienced auditor to examin the same transactions and records;[6] and

c. evidence of supervisory reviews of the work performed.

4.38 One factor underlying GAGAS audits is that federal, state, and local governments and other organizations cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplicate audit efforts. Arrangemen should be made so that working papers will be mad available, upon request, to other auditors. To facilit reviews of audit quality and reliance by other audit on the auditors' work, contractual arrangements for GAGAS audits should provide for access to working papers.

Financial Related Audits

4.39 Certain AICPA standards address specific types financial related audits, and GAGAS incorporate thos standards, as discussed below:[7]

a. SAS no. 35, Special Reports - Applying Agreed-Up Procedures to Specified Elements, Accounts, or Ite of a Financial Statement;

b. SAS no. 62, Special Reports, for auditing specified elements, accounts, or items of a financial statemer

c. SAS no. 68, Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance, for testing

[6]Auditors may meet this requirement by listing voucher numbers check numbers, or other means of identifying specific document they examined. They are not required to include in the working papers copies of documents they examined nor are they require list detailed information from those documents.

[7]GAGAS incorporate any new AICPA standards relevant to finan related audits unless GAO excludes them by formal announceme

compliance with laws and regulations applicable to federal financial assistance programs;

d. SAS no. 70, Reports on the Processing of Transactions by Service Organizations, for examining descriptions of internal controls of service organizations that process transactions for others;

e. Statement on Standards for Attestation Engagements (SSAE) no. 1, Attestation Standards, for (1) applying agreed-upon procedures to an entity's assertions about internal controls over financial reporting and/or safeguarding assets or (2) examining or applying agreed-upon procedures to an entity's assertions about financial related matters not specifically addressed in other AICPA standards;

f. SSAE no. 2, Reporting on an Entity's Internal Control Structure Over Financial Reporting, for examining an entity's assertions about its internal controls over financial reporting and/or safeguarding assets; and

g. SSAE no. 3, Compliance Attestation, for (1) examining or applying agreed-upon procedures to an entity's assertions about compliance with laws and regulations or (2) applying agreed-upon procedures to an entity's assertions about internal controls over compliance with laws and regulations.

4.40 Besides following applicable AICPA standards, auditors should follow this chapter's audit follow-up and working paper standards. They should apply or adapt the other standards and guidance in this chapter as appropriate in the circumstances. For financial related audits not described above, auditors should follow the field work standards for performance audits in chapter 6.[8]

[8]Chapter 2 provides examples of other types of financial related audits.

Reporting Standards for Financial Audits

Purpose

5.1 This chapter prescribes standards of reporting financial audits, which include financial statement audits and financial related audits.

Relation to AICPA Standards

5.2 For financial statement audits, generally accep government auditing standards (GAGAS) incorporat the American Institute of Certified Public Accountants' (AICPA) four generally accepted standards of reporting, which are:

a. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.

b. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.

c. Informative disclosures in the financial statemen are to be regarded as reasonably adequate unless otherwise stated in the report.

d. The report shall either contain an expression of opinion regarding the financial statements, taken as whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cann be expressed, the reasons therefor should be stated In all cases where an auditor's name is associated with financial statements, the report should contain clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

5.3 The AICPA has issued statements on auditing standards (SAS) that interpret its standards of

reporting.[1] This chapter incorporates these SASs and prescribes additional standards on

a. communication with audit committees or other responsible individuals (see paragraphs 5.5 through 5.10),

b. reporting compliance with GAGAS (see paragraphs 5.11 through 5.14),

c. reporting on compliance with laws and regulations and on internal controls (see paragraphs 5.15 through 5.28),

d. privileged and confidential information (see paragraphs 5.29 through 5.31), and

e. report distribution. (See paragraphs 5.32 through 5.35.)

5.4 This chapter concludes by explaining which standards auditors should follow in reporting the results of financial related audits.

Communication With Audit Committees or Other Responsible Individuals

5.5 The first additional reporting standard for financial statement audits is:

Auditors should communicate certain information related to the conduct and reporting of the audit to the audit committee or to the individuals with whom they have contracted for the audit.

5.6 This standard applies in all situations where either the auditee has an audit committee or the audit

[1]GAGAS incorporate any new AICPA standards relevant to financial statement audits unless the General Accounting Office (GAO) excludes them by formal announcement.

is performed under contract. In other situations, auditors may still find it useful to communicate with management or other officials of the auditee.

5.7 Auditors should communicate the following information to the audit committee or to individuals with whom they contract to perform the audit:

a. the auditors' responsibilities in a financial statement audit, including their responsibilities for testing and reporting on internal controls and compliance with laws and regulations and

b. the nature of any additional testing of internal controls and compliance required by laws and regulations.

5.8 Auditors should use their professional judgment to determine the form and content of the communication. The communication may be oral or written. If the information is communicated orally, the auditors should document the communication in the working papers. Auditors may use an engagement letter to communicate the information described in paragraph 5.7. To help audit committees and other responsible parties understand the limitations of auditors' responsibilities for testing and reporting on internal controls and compliance, auditors should contrast those responsibilities with other financial related audits of controls and compliance. The discussion in paragraphs 5.9 and 5.10 may be helpful to auditors in preparing to explain those responsibilities.

5.9 Tests of internal controls and compliance with laws and regulations in a financial statement audit contribute to the evidence supporting the auditors' opinion on the financial statements. However, they do not provide a basis for opining on internal controls or compliance. The limited purpose of these tests in a financial statement audit may not meet the needs of

some users of auditors' reports who require additional information on internal controls and on compliance with laws and regulations.

5.10 To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas.[2] Nevertheless, even after auditors perform, and report the results of, additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users still may be unmet. Auditors may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

a. supplemental (or agreed-upon) procedures or

b. examination, resulting in an opinion.

[2]For example, when auditing state and local government entities that receive federal financial assistance, auditors should be familiar with the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128. The act and circular include specific audit requirements, mainly in the areas of internal controls and compliance with laws and regulations, that exceed the minimum audit requirements in the standards in chapters 4 and 5 of this document. Audits of nonprofit organizations under OMB Circular A-133 and audits conducted under the Chief Financial Officers Act of 1990 also have specific audit requirements in the areas of internal controls and compliance. Many state and local governments have similar requirements.

Reporting Compliance With Generally Accepted Government Auditing Standards

5.11 The second additional reporting standard for financial statement audits is:

Audit reports should state that the audit was made in accordance with generally accepted government auditing standards.

5.12 The above statement refers to all the applicabl standards that the auditors should have followed during their audit. The statement should be qualified in situations where the auditors did not follow an applicable standard. In these situations, the auditors should disclose the applicable standard that was not followed, the reasons therefor, and how not followir the standard affected the results of the audit.

5.13 When the report on the financial statements is submitted to comply with a legal, regulatory, or contractual requirement for a GAGAS audit, it should specifically cite GAGAS. The report on the financial statements may cite AICPA standards as well as GAGAS

5.14 The auditee may need a financial statement aud for purposes other than to comply with requirements calling for a GAGAS audit. For example, it may need a financial statement audit to issue bonds. GAGAS do no prohibit auditors from issuing a separate report on the financial statements conforming only to the requirements of AICPA standards. However, it may be advantageous to use a report issued in accordance with GAGAS for these other purposes because it provides information on compliance with laws and regulations and internal controls (as discussed below that is not contained in a report issued in accordance with AICPA standards.

Reporting on Compliance With Laws and Regulations and on Internal Controls

5.15 The third additional reporting standard for financial statement audits is:

The report on the financial statements should either (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls.[3] In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.

5.16 Auditors may report on compliance with laws and regulations and internal controls in the report on the financial statements or in separate reports. When auditors report on compliance and controls in the report on the financial statements, they should include an introduction summarizing key findings in the audit of the financial statements and the related compliance and internal controls work. Auditors should not issue this introduction as a stand-alone report. When auditors report separately on compliance and controls, the report on the financial statements should state that they are issuing those additional reports.

[3]These responsibilities are in addition to and do not modify auditors' responsibilities under AICPA standards to (1) address the effect irregularities or illegal acts may have on the report on the financial statements and (2) determine that the audit committee or others with equivalent authority and responsibility are adequately informed about irregularities, illegal acts, and reportable conditions.

Scope of Compliance and Internal Controls Work

5.17 Auditors should report the scope of their tes of compliance with laws and regulations and of internal controls. If the tests they performed did n exceed those the auditors considered necessary f financial statement audit, then a statement that th auditors tested compliance with certain laws and regulations, obtained an understanding of internal controls, and assessed control risk would be sufficient to satisfy this requirement. Auditors sho also report whether or not the tests they performe provided sufficient evidence to support an opinion compliance or internal controls.

Irregularities, Illegal Acts, and Other Noncompliance

5.18 When auditors conclude, based on evidence obtained, that an irregularity or illegal act either ha occurred or is likely to have occurred,[4] they should report relevant information. Auditors need not rep information about an irregularity or illegal act that clearly inconsequential. Thus, auditors should pres in a report the same irregularities and illegal acts th they report to audit committees under AICPA standards. Auditors should also report other noncompliance (for example, a violation of a contr provision) that is material to the financial statemen

5.19 In reporting material irregularities, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in term

[4]Whether a particular act is, in fact, illegal may have to await final determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely t have occurred, they should take care not to imply that they have made a determination of illegality.

of dollar value, if appropriate.[5] In presenting material irregularities, illegal acts, or other noncompliance, auditors should follow chapter 7's report contents standards for objectives, scope, and methodology; audit results; views of responsible officials; and its report presentation standards, as appropriate. Auditors may provide less extensive disclosure of irregularities and illegal acts that are not material in either a quantitative or qualitative sense.[6]

5.20 When auditors detect irregularities, illegal acts, or other noncompliance that do not meet paragraph 5.18's criteria for reporting, they should communicate those findings to the auditee, preferably in writing. If auditors have communicated those findings in a management letter to top management, they should refer to that management letter when they report on compliance. Auditors should document in their working papers all communications to the auditee about irregularities, illegal acts, and other noncompliance.

[5]Audit findings have often been regarded as containing the elements of criteria, condition, and effect, plus cause when problems are found. However, the elements needed for a finding depend entirely on the objectives of the audit. Reportable conditions and noncompliance found by the auditor may not always have all of these elements fully developed, given the scope and objectives of the specific financial audit. However, auditors should identify at least the condition, criteria, and possible asserted effect to provide sufficient information to federal, state, and local officials to permit them to determine the effect and cause in order to take prompt and proper corrective action.

[6]Chapter 4 provides guidance on factors that may influence auditors' materiality judgments in audits of government entities or entities receiving government assistance. AICPA standards provide guidance on the interaction of quantitative and qualitative considerations in materiality judgments.

Direct Reporting of Irregularities and Illegal Acts

5.21 GAGAS require auditors to report irregularities illegal acts directly to parties outside the auditee in two circumstances, as discussed below. These requirements are in addition to any legal requireme for direct reporting of irregularities or illegal acts. Auditors should meet these requirements even if th have resigned or been dismissed from the audit.[7]

5.22 The auditee may be required by law or regulation to report certain irregularities or illegal acts to specified external parties (for example, to a federal inspector general or a state attorney general If auditors have communicated such irregularities o illegal acts to the auditee, and it fails to report them, then the auditors should communicate their awareness of that failure to the auditee's governing body. If the auditee does not make the required repc as soon as practicable after the auditors' communication with its governing body, then the auditors should report the irregularities or illegal act directly to the external party specified in the law or regulation.

5.23 Management is responsible for taking timely an appropriate steps to remedy irregularities or illegal acts that auditors report to it. When an irregularity or illegal act involves assistance received directly or indirectly from a government agency, auditors may have a duty to report it directly if management fails tc take remedial steps. If auditors conclude that such failure is likely to cause them to depart from the standard report on the financial statements or resign from the audit, then they should communicate that conclusion to the auditee's governing body. Then, if the auditee does not report the irregularity or illegal act as soon as practicable to the entity that provided the government assistance, the auditors should report the irregularity or illegal act directly to that entity.

[7]Internal auditors auditing within the entity that employs them do not have a duty to report outside that entity.

5.24 In both of these situations, auditors should obtain sufficient, competent, and relevant evidence (for example, by confirmation with outside parties) to corroborate assertions by management that it has reported irregularities or illegal acts. If they are unable to do so, then the auditors should report the irregularities or illegal acts directly as discussed above.

5.25 Chapter 4 reminds auditors that under some circumstances, laws, regulations, or policies may require them to report promptly indications of certain types of irregularities or illegal acts to law enforcement or investigatory authorities. When auditors conclude that this type of irregularity or illegal act either has occurred or is likely to have occurred, they should ask those authorities and/or legal counsel if reporting certain information about that irregularity or illegal act would compromise investigative or legal proceedings. Auditors should limit their reporting to matters that would not compromise those proceedings, such as information that is already a part of the public record.

Deficiencies in Internal Controls

5.26 Auditors should report deficiencies in internal controls that they consider to be "reportable conditions" as defined in AICPA standards. The following are examples of matters that may be reportable conditions:

a. absence of appropriate segregation of duties consistent with appropriate control objectives;

b. absence of appropriate reviews and approvals of transactions, accounting entries, or systems output;

c. inadequate provisions for the safeguarding of assets;

d. evidence of failure to safeguard assets from lo damage, or misappropriation;

e. evidence that a system fails to provide comple and accurate output consistent with the auditee's control objectives because of the misapplication control procedures;

f. evidence of intentional override of internal con by those in authority to the detriment of the overa objectives of the system;

g. evidence of failure to perform tasks that are pa internal controls, such as reconciliations not prep or not timely prepared;

h. absence of a sufficient level of control consciousness within the organization;

i. significant deficiencies in the design or operatior internal controls that could result in violations of la and regulations having a direct and material effect the financial statements; and

j. failure to follow up and correct previously identified deficiencies in internal controls.[8]

5.27 In reporting reportable conditions, auditors should identify those that are individually or cumulatively material weaknesses.[9] Auditors should follow chapter 7's report contents standards for objectives, scope, and methodology; audit results; an views of responsible officials; and its report presentation standards, as appropriate.

[8]Chapter 4's audit follow-up standard requires auditors to report the status of uncorrected material findings and recommendations from prior audits that affect the financial statement audit.

[9]See footnote 5.

5.28 When auditors detect deficiencies in internal controls that are not reportable conditions, they should communicate those deficiencies to the auditee, preferably in writing. If the auditors have communicated other deficiencies in internal controls in a management letter to top management, they should refer to that management letter when they report on controls. All communications to the auditee about deficiencies in internal controls should be documented in the working papers.

Privileged and Confidential Information

5.29 The fourth additional reporting standard for financial statement audits is:

If certain information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.

5.30 Certain information may be prohibited from general disclosure by federal, state, or local laws or regulations. Such information may be provided on a need-to-know basis only to persons authorized by law or regulation to receive it.

5.31 If such requirements prohibit auditors from including pertinent data in the report, they should state the nature of the information omitted and the requirement that makes the omission necessary. The auditors should obtain assurance that a valid requirement for the omission exists and, when appropriate, consult with legal counsel.

Report Distribution

5.32 The fifth additional reporting standard for financial statement audits is:

Written audit reports are to be submitted by the audit organization to the appropriate officials of

the auditee and to the appropriate officials o the organizations requiring or arranging for t audits, including external funding organizati unless legal restrictions prevent it. Copies of the reports should also be sent to other offici who have legal oversight authority or who ma be responsible for acting on audit findings an recommendations and to others authorized to receive such reports. Unless restricted by law regulation, copies should be made available fo public inspection.[10]

5.33 Audit reports should be distributed in a timely manner to officials interested in the results. Such officials include those designated by law or regulat to receive such reports, those responsible for actin on the findings and recommendations, those of oth levels of government that have provided assistance the auditee, and legislators. However, if the subject the audit involves material that is classified for security purposes or not releasable to particular parties or the public for other valid reasons, auditor may limit the report distribution.

5.34 When public accountants are engaged, the engaging organization should ensure that the report distributed appropriately. If the public accountants are to make the distribution, the engagement agreement should indicate which officials or organizations should receive the report.

5.35 Internal auditors should follow their entity's ov arrangements and statutory requirements for distribution. Usually, they report to their entity's top managers, who are responsible for distribution of th report.

[10]See the Single Audit Act of 1984 and OMB Circular A-128 for the distribution of reports on single audits of state and local governments.

Financial Related Audits

5.36 Certain AICPA standards address specific types of financial related audits, and GAGAS incorporate those standards, as discussed below:[11]

a. SAS no. 35, Special Reports - Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement;

b. SAS no. 62, Special Reports, for auditing specified elements, accounts, or items of a financial statement;

c. SAS no. 68, Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance, for testing compliance with laws and regulations applicable to federal financial assistance programs;

d. SAS no. 70, Reports on the Processing of Transactions by Service Organizations, for examining descriptions of internal controls of service organizations that process transactions for others;

e. Statement on Standards for Attestation Engagements (SSAE) no. 1, Attestation Standards, for (1) applying agreed-upon procedures to an entity's assertions about internal controls over financial reporting and/or safeguarding assets or (2) examining or applying agreed-upon procedures to an entity's assertions about financial related matters not specifically addressed in other AICPA standards;

f. SSAE no. 2, Reporting on an Entity's Internal Control Structure Over Financial Reporting, for examining an entity's assertions about its internal controls over financial reporting and/or safeguarding assets; and

g. SSAE no. 3, Compliance Attestation, for (1) examining or applying agreed-upon procedures to

[11]GAGAS incorporate any new AICPA standards relevant to financial related audits unless GAO excludes them by formal announcement.

an entity's assertions about compliance with laws and regulations or (2) applying agreed-upon procedures to an entity's assertions about internal controls over compliance with laws and regulations.

5.37 Besides following applicable AICPA standards, auditors should follow this chapter's second (GAGAS reference), fourth (privileged and confidential information), and fifth (report distribution) additional standards of reporting. They should apply or adapt the other standards and guidance in this chapter as appropriate in the circumstances. For financial related audits not described above, auditors should follow the reporting standards for performance audits in chapter 7.[12]

[12]Chapter 2 provides examples of other types of financial related audits.

Field Work Standards for Performance Audits

Purpose

6.1 This chapter prescribes field work standards for performance audits. These standards also apply to some financial related audits, as discussed in chapter 4.

Planning

6.2 The first field work standard for performance audits is:

Work is to be adequately planned.

6.3 In planning, auditors should define the audit's objectives and the scope and methodology to achieve those objectives. The objectives are what the audit is to accomplish. They identify the audit subjects and performance aspects to be included, as well as the potential finding and reporting elements that the auditors expect to develop.[1] Audit objectives can be thought of as questions about the program[2] that auditors seek to answer. Scope is the boundary of the audit. It addresses such things as the period and number of locations to be covered. The methodology comprises the work in data gathering and in analytical methods auditors will do to achieve the objectives.

6.4 Auditors should design the methodology to provide sufficient, competent, and relevant evidence to achieve the objectives of the audit. Methodology includes not only the nature of the auditors' procedures, but also their extent (for example, sample size).

6.5 In planning a performance audit, auditors should:

[1]See discussion of the elements of a finding in paragraphs 6.49 through 6.52.

[2]Generally accepted government auditing standards (GAGAS) are standards for audit of government organizations, programs, activities, and functions. This chapter uses only the term "program"; however, the concepts presented also apply to audits of organizations, activities, and functions.

a. Consider significance and the needs of potential users of the audit report. (See paragraphs 6.7 and 6

b. Obtain an understanding of the program to be audited. (See paragraphs 6.9 and 6.10.)

c. Consider legal and regulatory requirements. (See paragraphs 6.26 through 6.38.)

d. Consider management controls. (See paragraphs 6.39 through 6.45.)

e. Identify criteria needed to evaluate matters subje to audit. (See paragraph 6.11.)

f. Identify significant findings and recommendation from previous audits that could affect the current audit objectives. Auditors should determine if management has corrected the conditions causing those findings and implemented those recommendations. (See paragraphs 6.12 and 6.13.)

g. Identify potential sources of data that could be used as audit evidence and consider the validity and reliability of these data, including data collected by the audited entity, data generated by the auditors, o data provided by third parties. (See paragraphs 6.53 through 6.62.)

h. Consider whether the work of other auditors and experts may be used to satisfy some of the auditors' objectives. (See paragraphs 6.14 through 6.16.)

i. Provide sufficient staff and other resources to do the audit. (See paragraphs 6.17 and 6.18.)

j. Prepare a written audit plan. (See paragraphs 6.19 through 6.21.)

6.6 Planning should continue throughout the audit. Audit objectives, scope, and methodologies are not determined in isolation. Auditors determine these three elements of the audit plan together, as the considerations in determining each often overlap.

Significance and User Needs

6.7 Auditors should consider significance in planning, performing, and reporting on performance audits. The significance of a matter is its relative importance to the audit objectives and potential users of the audit report. Qualitative, as well as quantitative, factors are important in determining significance. Qualitative factors can include

a. visibility and sensitivity of the program under audit,

b. newness of the program or changes in its conditions,

c. role of the audit in providing information that can improve public accountability and decision-making, and

d. level and extent of review or other forms of independent oversight.

6.8 One group of users of the auditors' report is government officials who may have authorized or requested the audit. Another important user of the auditors' report is the auditee, which is responsible for acting on the auditors' recommendations. Other potential users of the auditors' report include government officials (other than those who may have authorized or requested the audit), the media, interest groups, and individual citizens. These other potential users may have, in addition to an interest in the program, an ability to influence the conduct of the program. Thus, an awareness of these potential users' interests and influence can help auditors understand

why the program operates the way it does. This awareness can also help auditors judge whether possible findings could be significant to these other users.

Understanding the Program

6.9 Auditors should obtain an understanding of the program to be audited to help assess, among other matters, the significance of possible audit objectives and the feasibility of achieving them. The auditors' understanding may come from knowledge they already have about the program and knowledge they gain from inquiries and observations they make in planning the audit. The extent and breadth of those inquiries and observations will vary among audits, as will the need to understand individual aspects of the program, such as the following.

a. Laws and regulations: Government programs usually are created by law and are subject to more specific laws and regulations than the private sector. For example, laws and regulations usually set forth what is to be done, who is to do it, the purpose to be achieved, the population to be served, and how much can be spent on what. Thus, understanding the laws establishing a program can be essential to understanding the program itself. Obtaining that understanding may also be a necessary step in identifying provisions of laws and regulations significant to audit objectives.

b. Purpose and goals: Purpose is the result or effect that is intended or desired, and can exist without being expressly stated. Goals quantify the level of performance intended or desired. Legislatures set the program purpose when they establish a program; however, management is expected to set goals for program efforts, operations, outputs, and outcomes. Auditors may use the purpose and goals as criteria for assessing program performance.

c. Efforts: Efforts are the amount of resources (in terms of money, material, personnel, and so forth) that are put into a program. These resources may come from within or outside the entity operating the program. Measures of efforts can have a number of dimensions, such as cost, timing, and quality. Examples of measures of efforts are dollars, employee-hours, and square feet of building space.

d. Program operations: Program operations are the strategies, processes, and activities the auditee uses to convert efforts into outputs. Program operations are subject to management controls, which are discussed later in this chapter.

e. Outputs: Outputs are the quantity of goods and services provided. Examples of measures of output are tons of solid waste processed, number of students graduated, and number of students graduated who have met a specified standard of achievement.

f. Outcomes: Outcomes are accomplishments or results that occur (at least partially) because of services provided. Outcomes can be viewed as ranging from immediate outcomes to long-term outcomes. For example, an immediate outcome of a job training program and an indicator of its effectiveness might be the number of program graduates placed in jobs. That program's ultimate outcome and test of its effectiveness depends on whether program graduates are more likely to remain employed than similar persons not in the program. Outcomes may be intended or unintended, and they may be influenced by cultural, economic, physical, or technological factors external to the program. Auditors may use approaches drawn from the field of program evaluation to isolate the effects of the program from those of other influences.

6.10 One approach to setting audit objectives is to relate the elements of a program to the types of performance audits discussed in chapter 2. For example, audits concerned with economy could foc on efforts, that is, were resources obtained at an optimal cost and at an appropriate level of quality? Audits concerned with efficiency could focus on the program operations or the relationship between efforts (resources used) and either outputs or outcomes to determine the cost per unit of output o outcome. Program audits could be concerned with determining whether program outcomes met specified goals or whether outcomes were better tha they would have been without the program. Any typ of performance audit could encompass program operations if auditors are looking for reasons why th program was successful or not.

Criteria

6.11 Criteria are the standards used to determine whether a program meets or exceeds expectations. Criteria provide a context for understanding the results of the audit. The audit plan, where possible, should state the criteria to be used. In selecting criteria, auditors have a responsibility to use criteria that are reasonable, attainable, and relevant to the matters being audited. The following are some examples of possible criteria:

a. purpose or goals prescribed by law or regulation c set by management,

b. technically developed standards or norms,

c. expert opinions,

d. prior years' performance,

e. performance of similar entities, and

f. performance in the private sector.

Audit Follow-up

6.12 Auditors should follow up on significant findings and recommendations from previous audits that could affect the audit objectives. They should do this to determine whether timely and appropriate corrective actions have been taken by auditee officials. The audit report should disclose the status of uncorrected significant findings and recommendations from prior audits that affect the audit objectives.

6.13 Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. Auditee management is responsible for resolving audit findings and recommendations, and having a process to track their status can help it fulfill this responsibility. If management does not have such a process, auditors may wish to establish their own. Continued attention to significant findings and recommendations can help auditors assure that the benefits of their work are realized.

Considering Others' Work

6.14 Auditors should determine if other auditors have previously done, or are doing, audits of the program or the entity that operates it. Whether other auditors have done performance audits or financial audits, they may be useful sources of information for planning and performing the audit. If other auditors have identified areas that warrant further study, their work may influence the auditors' selection of objectives. The availability of other auditors' work may also influence the selection of methodology, as the auditors may be able to rely on that work to limit the extent of their own testing.

6.15 If auditors intend to rely on the work of other auditors, they should perform procedures that provide a sufficient basis for that reliance. Auditors can obtain evidence of other auditors' qualifications[3] and independence through prior experience, inquiry, and/or review of the other auditors' external quality control review report. Auditors can determine the sufficiency, relevance, and competence of other auditors' evidence by reviewing their report, audit program, or working papers, and/or making supplemental tests of their work. The nature and extent of evidence needed will depend on the significance of the other auditors' work and on whether the auditors will refer to that work in their report.

6.16 Auditors face similar considerations when relying on the work of nonauditors (consultants, experts, specialists, and so forth). In addition, auditors should obtain an understanding of the methods and significant assumptions used by the nonauditors.

Staff and Other Resources

6.17 Staff planning should include:

a. Assigning staff with the appropriate skills and knowledge for the job.

b. Assigning an adequate number of experienced staff and supervisors to the audit. Consultants should be used when necessary.

c. Providing for on-the-job training of staff.

[3]Auditors from another country engaged to conduct audits in their country should meet the professional qualifications to practice under that country's laws and regulations or other acceptable standards, such as those issued by the International Organization of Supreme Audit Institutions. Also see the International Federation of Accountants' International Standards on Auditing.

6.18 The availability of staff and other resources is an important consideration in establishing the objectives, scope, and methodology. For example, limitations on travel funds may preclude auditors from visiting certain locations, or lack of expertise in a particular methodology may preclude auditors from undertaking certain objectives. Auditors may be able to overcome such limitations by use of staff from local offices or by engaging consultants with the necessary expertise.

Written Audit Plan

6.19 A written audit plan should be prepared for each audit. The form and content of the written audit plan will vary among audits. The plan should include an audit program or a memorandum or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and of the auditors' basis for those decisions. It should be updated, as necessary, to reflect any significant changes to the plan made during the audit.

6.20 Documenting the audit plan is an opportunity for the auditors to review the work done in planning the audit to determine whether

a. the proposed audit objectives are likely to result in a useful report,

b. the proposed audit scope and methodology are adequate to satisfy the audit objectives, and

c. sufficient staff and other resources have been made available to perform the audit.

6.21 Written audit plans may include:

a. Information about the legal authority for the audited program, its history and current objectives, its

principal locations, and other background that car help auditors understand and carry out the audit p

b. Information about the responsibilities of each a team (such as preparing audit programs, conducti audit work, supervising audit work, drafting repor handling auditee comments, and processing the fi report), which can help auditors when the work is conducted at several different locations. In these audits, use of comparable audit methods and procedures can help make the data obtained from participating locations comparable.

c. Audit programs describing procedures to accomplish the audit objectives and providing a systematic basis for assigning work to staff and fo summarizing the work performed.

d. The general format of the audit report and the types of information to be included, which can hel auditors focus their field work on the information be reported.

Supervision

6.22 The second field work standard for performa audits is:

Staff are to be properly supervised.

6.23 Supervision involves directing the efforts of auditors and others[4] who are involved in the audit t determine whether the audit objectives are being accomplished. Elements of supervision include instructing staff members, keeping informed of significant problems encountered, reviewing the wo performed, and providing effective on-the-job training.

[4]Others involved in accomplishing the objectives of the audit include external consultants and specialists.

6.24 Supervisors should satisfy themselves that staff members clearly understand what work they are to do, why the work is to be conducted, and what it is expected to accomplish. With experienced staff, supervisors may outline the scope of the work and leave details to assistants. With a less experienced staff, supervisors may have to specify not only techniques for analyzing data but also how to gather it.

6.25 The nature of the review of audit work may vary depending on the significance of the work or the experience of the staff. For example, it may be appropriate to have experienced staff auditors review much of the work of other staff with similar experience.

Compliance With Laws and Regulations

6.26 The third field work standard for performance audits is:

When laws, regulations, and other compliance requirements are significant to audit objectives, auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.

6.27 The following paragraphs elaborate on the requirements of this standard. They also discuss ways auditors obtain information about laws, regulations, and other compliance requirements; and the limitations of performance auditing in detecting illegal acts and abuse.

Illegal Acts and Other Noncompliance

6.28 Auditors should design the audit to provide reasonable assurance about compliance with laws and regulations that are significant to audit

objectives. This requires determining if laws and regulations are significant to the audit objectives ar if they are, assessing the risk that significant illegal acts could occur.[5] Based on that risk assessment, tl auditors design and perform procedures to provide reasonable assurance of detecting significant illega acts.

6.29 It is not practical to set precise standards for determining if laws and regulations are significant t audit objectives because government programs are subject to so many laws and regulations, and audit objectives vary widely. However, auditors may find the following approach helpful in making that determination:

a. Reduce each audit objective to questions about specific aspects of the program being audited (that i purpose and goals, efforts, program operations, outputs, and outcomes, as discussed in paragraph 6.9).

b. Identify laws and regulations that directly address specific aspects of the program included in the audit objectives' questions.

c. Determine if violations of those laws and regulations could significantly affect the auditors' answers to the questions encompassed in the audit objectives. If they could, then those laws and regulations are likely to be significant to the audit objectives.

6.30 The following are examples of types of laws anc regulations that can be significant to the objectives o economy and efficiency audits and of program audits

a. Economy and efficiency: Laws and regulations that could significantly affect the acquisition, protection,

[5]Illegal acts are violations of laws or regulations.

and use of the entity's resources, and the quantity, quality, timeliness, and cost of the products and services it produces and delivers.

b. Program: Laws and regulations pertaining to the purpose of the program, the manner in which it is to be delivered, and the population it is to serve.

6.31 In planning tests of compliance with significant laws and regulations, auditors assess the risk that illegal acts could occur. That risk may be affected by such factors as the complexity of the laws and regulations or their newness. The auditors' assessment of risk includes consideration of whether the entity has controls that are effective in preventing or detecting illegal acts. Management is responsible for establishing effective controls to ensure compliance with laws and regulations. If auditors obtain sufficient evidence of the effectiveness of these controls, they can reduce the extent of their tests of compliance.

6.32 Auditors should be alert to situations or transactions that could be indicative of illegal acts. When information comes to the auditors' attention (through audit procedures, tips, or other means) indicating that illegal acts may have occurred, auditors should consider whether the possible illegal acts could significantly affect the audit results. If they could, the auditors should extend the audit steps and procedures, as necessary, (1) to determine if the illegal acts have or are likely to have occurred and (2) if so, to determine their effect on the audit results.

6.33 Auditors should exercise due professional care in pursuing indications of possible illegal acts so as not to interfere with potential investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies require auditors to report indications of certain types of illegal acts to

law enforcement or investigatory authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

6.34 The term noncompliance has a broader meaning than illegal acts. Noncompliance includes not only illegal acts, but also violations of provisions of contracts or grant agreements. Like illegal acts, these other types of noncompliance can be significant to audit objectives. The auditors' considerations in planning and performing tests of compliance with provisions of contracts or grant agreements are similar to those discussed in paragraphs 6.28 through 6.33.

Abuse

6.35 Abuse is distinct from illegal acts and other noncompliance. When abuse occurs, no law, regulation, contract provision, or grant agreement is violated. Rather, the conduct of a government program falls far short of societal expectations for prudent behavior. Auditors should be alert to situations or transactions that could be indicative of abuse. When information comes to the auditors' attention (through audit procedures, tips, or other means) indicating that abuse may have occurred, auditors should consider whether the possible abuse could significantly affect the audit results. If it could, the auditors should extend the audit steps and procedures, as necessary, to determine if the abuse occurred and, if so, to determine its effect on the audit results. However, because the determination of abuse is so subjective, auditors are not expected to provide reasonable assurance of detecting it.

Obtaining Information About Laws, Regulations, and Other Compliance Requirements

6.36 Auditors' training, experience, and understanding of the program being audited may provide a basis for recognition that some acts coming to their attention may be illegal. Whether an act, in fact, is illegal is a determination normally beyond auditors' professional capacity. However, auditors are responsible for being aware of vulnerabilities to fraud[6] associated with the area being audited in order to be able to identify indications that fraud may have occurred. In some circumstances, conditions such as the following might indicate a heightened risk of fraud:

a. Auditees offer unreasonable explanations to the auditors' inquiries.

b. Auditees are annoyed at reasonable questions by auditors.

c. Auditees refuse to provide records.

d. Auditees refuse to take vacations or accept promotions.

6.37 Auditors may find it necessary to rely on the work of legal counsel in (1) determining those laws and regulations that are significant to the audit objectives, (2) designing tests of compliance with laws and regulations, and (3) evaluating the results of those tests.[7] Auditors also may find it necessary to rely on the work of legal counsel when audit objectives require testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit

[6]Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation.

[7]Paragraphs 6.14 through 6.16 discuss relying on the work of others.

officials of other government entities that provided assistance to the auditee, or the applicable law enforcement authority.

Limitations of an Audit

6.38 An audit made in accordance with these standards provides reasonable assurance that its objectives have been achieved; it does not guarantee the discovery of illegal acts or abuse. Nor does the subsequent discovery of illegal acts or abuse committed during the audit period necessarily mean that the auditors' performance was inadequate, provided the audit was made in accordance with these standards.

Management Controls

6.39 The fourth field work standard for performance audits is:

Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about those controls.

6.40 Management is responsible for establishing effective management controls. The lack of administrative continuity in government units because of continuing changes in elected legislative bodies and in administrative organizations increases the need for effective management controls.

6.41 Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring

program performance. The following classification of management controls is intended to help auditors focus on understanding management controls and in determining their significance to the audit objectives.

a. Program operations: Controls over program operations include policies and procedures that management has implemented to reasonably ensure that a program meets its objectives. Understanding these controls can help auditors understand the program operations that convert efforts to outputs.

b. Validity and reliability of data: Controls over the validity and reliability of data include policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports. These controls help assure management that it is getting valid and reliable information about whether programs are operating properly. Understanding these controls can help auditors (1) assess the risk that the data gathered by the entity may not be valid and reliable and (2) design appropriate tests of the data.

c. Compliance with laws and regulations: Controls over compliance with laws and regulations include policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations. Understanding the controls relevant to compliance with those laws and regulations that the auditors have determined are significant can help auditors assess the risk of illegal acts.

d. Safeguarding resources: Controls over the safeguarding of resources include policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse. Understanding these

controls can help auditors plan economy and efficiency audits.

6.42 Auditors can obtain an understanding of management controls through inquiries, observations, inspection of documents and records, or review of other auditors' reports. The procedures auditors perform to obtain an understanding of management controls will vary among audits. One factor influencing the extent of these procedures is the auditors' knowledge about management controls gained in prior audits. Also, the need to understand management controls will depend on the particular aspects of the program the auditors consider in setting objectives, scope, and methodology. The following are examples of how the auditors' understanding of management controls can influence the audit plan.

a. Objectives: Poorly controlled aspects of a program have higher risk of failure, so they may be more significant than others in terms of where auditors would want to focus their efforts.

b. Scope: Poor controls in a certain location may lead auditors to target their efforts there.

c. Methodology: Effective controls over collecting, summarizing, and reporting data may enable auditors to limit the extent of their direct testing of data validity and reliability. In contrast, poor controls may lead auditors to perform more direct testing of the data, look for data from outside the entity, or develop their own data.

6.43 The need to test management controls depends on their significance to the audit objectives. The following are examples of circumstances where management controls can be significant to audit objectives:

a. In determining the cause of unsatisfactory performance if that unsatisfactory performance could result from weaknesses in specific management controls.

b. When assessing the validity and reliability of performance measures developed by the audited entity. Effective management controls over collecting, summarizing, and reporting data will help ensure valid and reliable performance measures.

6.44 Internal auditing is an important part of management control. When an assessment of management controls is called for, the work of the internal auditors can be used to help provide reasonable assurance that management controls are functioning properly and to prevent duplication of effort.

6.45 Considering the wide variety of government programs, no single pattern for internal audit activities can be specified. Many government entities have these activities identified by other names, such as inspection, appraisal, investigation, organization and methods, or management analysis. These activities assist management by reviewing selected functions.

Evidence

6.46 The fifth field work standard for performance audits is:

Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from

them the evidence that supports the auditors significant conclusions and judgments.[8]

6.47 Evidence may be categorized as physical, documentary, testimonial, and analytical. Physical evidence is obtained by auditors' direct inspection observation of people, property, or events. Such evidence may be documented in memoranda, photographs, drawings, charts, maps, or physical samples. Documentary evidence consists of create information such as letters, contracts, accounting records, invoices, and management information or performance. Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments.

6.48 The guidance in the following paragraphs is intended to help auditors judge the quality and quantity of evidence needed to satisfy audit objectives. Paragraphs 6.49 through 6.52 describe t elements of an audit finding. Paragraphs 6.53 throu 6.62 provide guidance to help auditors determine what constitutes sufficient, competent, and relevar evidence to support their findings and conclusions. Finally, paragraphs 6.63 through 6.65 provide guidance on how to document that evidence.

Audit Findings

6.49 Audit findings often have been regarded as containing the elements of criteria, condition, and

[8]The nature of this documentation will vary with the nature of tl work performed. For example, when this work includes examination of auditee records, the working papers should describe those records so that an experienced auditor would be able to examine those same records. Auditors may meet this requirement by listing file numbers, case numbers, or other mea of identifying specific documents they examined. They are not required to include in the working papers copies of documents t examined, nor are they required to list detailed information from those documents.

effect, plus cause when problems are found. However, the elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements. Criteria are discussed in paragraph 6.11; the other elements of a finding—condition, effect, and cause—are discussed in the following paragraphs.

6.50 Condition is a situation that exists. It has been determined and documented during the audit.

6.51 Effect has two meanings, which depend on the audit objectives. When the auditors' objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, "effect" is a measure of those consequences. Auditors often use effect in this sense to demonstrate the need for corrective action in response to identified problems. When the auditors' objectives include estimating the extent to which a program has caused changes in physical, social, or economic conditions, "effect" is a measure of the impact achieved by the program. Here, effect is the extent to which positive or negative changes in actual physical, social, or economic conditions can be identified and attributed to program operations.

6.52 Like effect, cause also has two meanings, which depend on the audit objectives. When the auditors' objectives include explaining why the poor (or good) performance determined in the audit happened, the reasons for that performance are referred to as "cause." Identifying the cause of problems can assist auditors in making constructive recommendations for correction. Because problems can result from a number of plausible factors, the recommendation can be more persuasive if auditors can clearly

demonstrate and explain with evidence and reasonin the link between the problems and the factor or factors they identified as the cause. When the auditors' objectives include estimating the program's effect on changes in physical, social, or economic conditions, they seek evidence of the extent to whic the program itself is the "cause" of those changes.

Tests of Evidence

6.53 Evidence should be sufficient, competent, and relevant. Evidence is sufficient if there is enough of i to support the auditors' findings. In determining the sufficiency of evidence it may be helpful to ask such questions as: Is there enough evidence to persuade a reasonable person of the validity of the findings? When appropriate, statistical methods may be used t establish sufficiency. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding. Evidence is competent tc the extent that it is consistent with fact (that is, evidence is competent if it is valid).

6.54 The following presumptions are useful in judgin the competence of evidence. However, these presumptions are not to be considered sufficient in themselves to determine competence.

a. Evidence obtained from a credible third party is more competent than that secured from the auditee.

b. Evidence developed under an effective system of management controls is more competent than that obtained where such controls are weak or nonexistent.

c. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is more competent than evidence obtained indirectly.

d. Original documents provide more competent evidence than do copies.

e. Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions (for example, where the persons may be intimidated).

f. Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.

6.55 Auditors may find it useful to obtain from officials of the auditee written representations concerning the competence of the evidence they obtain. Written representations ordinarily confirm oral representations given to auditors, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations.

6.56 The auditors' approach to determining the sufficiency, competence, and relevance of evidence depends on the source of the information that constitutes the evidence. Information sources include original data gathered by auditors and existing data gathered by either the auditee or a third party. Data from any of these sources may be obtained from computer-based systems.

6.57 Data Gathered by Auditors. Data gathered by auditors include the auditors' own observations and measurements. Among the methods for gathering this type of data are questionnaires, structured interviews, direct observations, and computations. The design of these methods and the skill of the auditors applying

them are the keys to ensuring that these data constitute sufficient, competent, and relevant evidence. When these methods are applied to determine cause, auditors are concerned with eliminating rival explanations.

6.58 Data Gathered by the Auditee. Auditors can us data gathered by the auditee as part of their evidenc Auditors may determine the validity and reliability o these data by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of the entity's controls over the validit and reliability of the data, and these tests support th conclusion that the controls are effective. The natur and extent of testing of the data will depend on the significance of the data to support auditors' findings

6.59 When the auditors' tests of data disclose errors in the data, or when they are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, they may find necessary to

a. seek evidence from other sources,

b. redefine the audit's objectives to eliminate the nee to use the data, or

c. use the data, but clearly indicate in their report the data's limitations and refrain from making unwarranted conclusions or recommendations.

6.60 Data Gathered by Third Parties. The auditors' evidence may also include data gathered by third parties. In some cases, these data may have been audited by others, or the auditors may be able to aud the data themselves. In other cases, however, it will not be practical to obtain evidence of the data's validity and reliability.

6.61 How the use of unaudited third-party data affects the auditors' report depends on the data's significance to the auditors' findings.

6.62 Validity and Reliability of Data From Computer-Based Systems. Auditors should obtain sufficient, competent, and relevant evidence that computer-processed data are valid and reliable when those data are significant to the auditors' findings.[9] This work is necessary regardless of whether the data are provided to auditors or auditors independently extract them.[10] Auditors should determine if other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If they have, auditors may be able to use that work. If not, auditors may determine the validity and reliability of computer-processed data by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of general and application controls over computer-processed data, and these tests support the conclusion that the controls are effective.[11]

[9]When the reliability of a computer-based system is the primary objective of the audit, the auditors should conduct a review of the system's general and application controls.

[10]When computer-processed data are used by the auditors, or included in the report, for background or informational purposes and are not significant to the auditors' findings, citing the source of the data and stating that they were not verified will satisfy the reporting standards for accuracy and completeness set forth in this statement.

[11]A GAO guide, Assessing the Reliability of Computer-Based Data (GAO/OP-8.1.3, September 1990), provides guidance on the following key steps: (1) determining how computer-based data will be used and how they will affect the audit objectives, (2) finding out what is known about the data and the system that produced them, (3) obtaining an understanding of relevant system controls, which can reduce risk to an acceptable level, (4) testing the data for reliability, and (5) disclosing the data source and how data reliability was established or qualifying the report if data reliability could not be established.

Working Papers

6.63 Working papers serve three purposes. They provide the principal support for the auditors' rep aid the auditors in conducting and supervising th audit, and allow others to review the audit's quali This third purpose is important because audits d in accordance with GAGAS often are subject to rev by other auditors and by oversight officials. Work papers allow for the review of audit quality by providing the reviewer written documentation of evidence supporting the auditors' significant conclusions and judgments.

6.64 Working papers should contain

a. the objectives, scope, and methodology, includ any sampling criteria used;

b. documentation of the work performed to supp significant conclusions and judgments; and

c. evidence of supervisory review of the work performed.

6.65 One factor underlying GAGAS audits is that federal, state, and local governments and other organizations cooperate in auditing programs of common interest so that auditors may use others work and avoid duplicate audit efforts. Arrangem should be made so that working papers will be m available, upon request, to other auditors. To faci reviews of audit quality and reliance by other aud on the auditors' work, contractual arrangements GAGAS audits should provide for access to workin papers. Audit organizations should also establish reasonable policies and procedures for the safe custody and retention of working papers for a tim sufficient to satisfy legal and administrative requirements.

Reporting Standards for Performance Audits

Purpose

7.1 This chapter prescribes standards of reporting for performance audits. The report "contents" and "presentation" standards also apply to some financial related audits, as discussed in chapter 5.

Form

7.2 The first reporting standard for performance audits is:

Auditors should prepare written audit reports communicating the results of each audit.

7.3 Written reports (1) communicate the results of audits to officials at all levels of government, (2) make the results less susceptible to misunderstanding, (3) make the results available for public inspection, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government programs demands that audit reports be written.[1]

7.4 This standard is not intended to limit or prevent discussion of findings, judgments, conclusions, and recommendations with persons who have responsibilities involving the area being audited. On the contrary, such discussions are encouraged.

7.5 When an audit is terminated prior to completion, auditors should communicate the termination to the auditee and other appropriate officials, preferably in writing. Auditors should also write a memorandum for the record, summarizing the results of the work and explaining why the audit was terminated.

[1]Audit reports may be presented on other media that are retrievable by report users and the audit organization. Retrievable audit reports include those which are in electronic or video formats.

Timeliness

7.6 The second reporting standard for performanc audits is:

Auditors should appropriately issue the repo to make the information available for timely by management, legislative officials, and oth interested parties.

7.7 To be of maximum use, the report must be tim A carefully prepared report may be of little value t decisionmakers if it arrives too late. Therefore, auditors should plan for the appropriate issuance the audit report and conduct the audit with this gc in mind.

7.8 The auditors should consider interim reportin during the audit, of significant matters to appropri officials. Such communication, which may be oral written, is not a substitute for a final report, but it does alert officials to matters needing immediate attention and permits them to correct them before final report is completed.

Report Contents

7.9 The third reporting standard for performance audits covers the report contents.

Objectives, Scope, and Methodology

7.10 Auditors should report the audit objecti and the audit scope and methodology.

7.11 Knowledge of the objectives of the audit, as v as of the audit scope and methodology for achievi the objectives, is needed by readers to understand purpose of the audit, judge the merits of the audit work and what is reported, and understand signifi limitations.

7.12 In reporting the audit's objectives, auditors should explain why the audit was made and state

what the report is to accomplish. Articulating what the report is to accomplish normally involves identifying the audit subject and the aspect of performance examined, and because what is reported depends on the objectives, communicating what finding elements are discussed and whether conclusions and recommendations are given.

7.13 To preclude misunderstanding in cases where the objectives are particularly limited and broader objectives can be inferred, it may be necessary to state objectives that were not pursued.

7.14 In reporting the scope of the audit, auditors should describe the depth and coverage of work conducted to accomplish the audit's objectives. Auditors should, as applicable, explain the relationship between the universe and what was audited; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any quality or other problems with the evidence. Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments.

7.15 To report the methodology used, auditors should clearly explain the evidence gathering and analysis techniques used. This explanation should identify any significant assumptions made in conducting the audit; describe any comparative techniques applied; describe the criteria used; and when sampling significantly supports auditors' findings, describe the sample design and state why it was chosen.

7.16 Auditors should attempt to avoid misunderstanding by the reader concerning the work that was and was not done to achieve the audit objectives, particularly when the work was limited because of constraints on time or resources.

Audit Results

7.17 Auditors should report significant audit findings, and where applicable, auditors' conclusions.

7.18 Auditors should report the significant finding developed in response to each audit objective.[2] In reporting the findings, auditors should include sufficient, competent, and relevant information to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective. Auditors shou also report appropriate background information th readers need to understand the findings.

7.19 Audit findings often have been regarded as containing the elements of criteria, condition, and effect, plus cause when problems are found.[3] However, the elements needed for a finding depen entirely on the objectives of the audit. Thus, a find or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements.

7.20 Auditors should report conclusions when call for by the audit objectives. Conclusions are logical inferences about the program based on the auditor findings. Conclusions should be specified and not l to be inferred by readers. The strength of the audit conclusions depends on the persuasiveness of the evidence supporting the findings and the convincingness of the logic used to formulate the conclusions.

[2]Audit findings not included in the audit report, because of insignificance, should be separately communicated to the audite preferably in writing. Such findings, when communicated in a management letter to top management, should be referred to in audit report. All communications of audit findings should be documented in the working papers.

[3]See description of the elements of a finding in paragraphs 6.49 through 6.52.

Recommendations

7.21 Auditors should report recommendations for actions to correct problem areas and to improve operations.

7.22 Auditors should report recommendations when the potential for significant improvement in operations and performance is substantiated by the reported findings. Recommendations to effect compliance with laws and regulations and improve management controls should also be made when significant instances of noncompliance are noted or significant weaknesses in controls are found. Auditors should also report the status of uncorrected significant findings and recommendations from prior audits that affect the objectives of the current audit.

7.23 Constructive recommendations can encourage improvements in the conduct of government programs. Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, are addressed to parties that have the authority to act, are feasible, and, to the extent practical, are cost-effective.

Statement on Auditing Standards

7.24 Auditors should report that the audit was made in accordance with generally accepted government auditing standards.

7.25 The statement of compliance with generally accepted government auditing standards refers to all the applicable standards that the auditors should have followed during the audit. The statement should be qualified in situations in which the auditors did not follow an applicable standard. In these situations, auditors should report in the scope section the applicable standard that was not followed, the reasons therefor, and how not following the standard affected the results of the audit.

Compliance With Laws and Regulations

7.26 Auditors should report all significant instances of noncompliance and all significa instances of abuse that were found during o connection with the audit. In some circumstances, auditors should report illega acts directly to parties external to the audit entity.

Noncompliance and Abuse

7.27 When auditors conclude, based on evidence obtained, that significant noncompliance or abus either has occurred or is likely to have occurred, should report relevant information. The term "noncompliance" comprises illegal acts (violation laws and regulations)[4] and violations of provision contracts or grant agreements. Abuse occurs whe the conduct of a government organization, progra activity, or function falls far short of societal expectations for prudent behavior.

7.28 In reporting significant instances of noncompliance, auditors should place their findin in perspective. To give the reader a basis for judgi the prevalence and consequences of noncomplian the instances of noncompliance should be related the universe or the number of cases examined an quantified in terms of dollar value, if appropriate.

7.29 When auditors detect nonsignificant instanc noncompliance they should communicate them to auditee, preferably in writing. If the auditors have communicated such instances of noncompliance i management letter to top management, they shoul refer to that management letter in the audit report Auditors should document in their working paper communications to the auditee about noncompliai

[4]Whether a particular act is, in fact, illegal may have to await fi determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is like have occurred, they should take care not to imply that they hav made a determination of illegality.

Direct Reporting of Illegal Acts

7.30 Auditors are responsible for reporting illegal acts directly to parties outside the auditee in certain circumstances, as discussed in the following paragraphs. Auditors should fulfill these responsibilities even if they have resigned or been dismissed from the audit.[5]

7.31 The auditee may be required by law or regulation to report certain illegal acts to specified external parties (for example, to a federal inspector general or a state attorney general). If auditors have communicated such illegal acts to the auditee, and it fails to report them, then the auditors should communicate their awareness of that failure to the auditee's governing body. If the auditee does not make the required report as soon as practical after the auditors' communication with its governing body, then the auditors should report the illegal acts directly to the external party specified in the law or regulation.

7.32 Auditors should obtain sufficient, competent, and relevant evidence (for example, by confirmation with outside parties) to corroborate assertions by management that it has reported illegal acts. If they are unable to do so, then the auditors should report the illegal acts directly as discussed above.

7.33 Chapter 6 reminds auditors that under some circumstances, laws, regulations, or policies may require them to report promptly indications of certain types of illegal acts to law enforcement or investigatory authorities. When auditors conclude that this type of illegal act either has occurred or is likely to have occurred, they should ask those authorities and/or legal counsel if reporting certain information about that illegal act would compromise investigative or legal proceedings. Auditors should

[5]Internal auditors auditing within the entity that employs them do not have a duty to report outside that entity.

limit their reporting to matters that would not compromise those proceedings, such as informa that is already a part of the public record.

Management Controls

7.34 Auditors should report the scope of th work on management controls and any significant weaknesses found during the au

7.35 Reporting on management controls will va depending on the significance of any weaknesse found and the relationship of those weaknesses audit objectives.

7.36 In audits where the sole objective is to aud management controls, weaknesses found of significance to warrant reporting would be considered deficiencies and be so identified in tl audit report. The management controls that wer assessed should be identified to the extent nece to clearly present the objectives, scope, and methodology of the audit.

7.37 In a performance audit, auditors may identi significant weaknesses in management controls cause of deficient performance. In reporting this of finding, the control weaknesses would be described as the "cause."

Views of Responsible Officials

7.38 Auditors should report the views of responsible officials of the audited program concerning auditors' findings, conclusions, a recommendations, as well as corrections planned.

7.39 One of the most effective ways to ensure th report is fair, complete, and objective is to obtain advance review and comments by responsible au officials and others, as may be appropriate. Inclu

the views of responsible officials produces a report that shows not only what was found and what the auditors think about it but also what the responsible persons think about it and what they plan to do about it.

7.40 Auditors should normally request that the responsible officials' views on significant findings, conclusions, and recommendations be submitted in writing. When, in these cases, written comments are not obtained, oral comments should be requested.

7.41 Advance comments should be objectively evaluated and recognized, as appropriate, in the report. Advance comments, such as a promise or plan for corrective action, should be noted but should not be accepted as justification for dropping a significant finding or a related recommendation.

7.42 When the comments oppose the report's findings, conclusions, or recommendations, and are not, in the auditors' opinion, valid, the auditors may choose to state their reasons for rejecting them. Conversely, the auditors should modify their report if they find the comments valid.

Noteworthy Accomplishments

7.43 Auditors should report noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.

7.44 Noteworthy management accomplishments identified during the audit, which were within the scope of the audit, should be included in the audit report along with deficiencies. Such information provides a more fair presentation of the situation by providing appropriate balance to the report. In addition, inclusion of such accomplishments may lead

to improved performance by other government organizations that read the report.

Issues Needing Further Study

7.45 Auditors should refer significant issues needing further audit work to the auditors responsible for planning future audit work.

7.46 If, during the audit, auditors identify significa issues that warrant further work, but the issues are not directly related to the audit objectives or the auditors do not have the time or resources to expa the audit to pursue them, they should refer the issu to the auditors within the audit organization who a responsible for planning future audit work. When appropriate, auditors should also disclose the issue in the report and the reasons the issues need furthe study.

Privileged and Confidential Information

7.47 If certain information is prohibited from general disclosure, auditors should report the nature of the information omitted and the requirement that makes the omission necessa

7.48 Certain information may be prohibited from general disclosure by federal, state, or local laws o regulations. Such information may be provided on a need-to-know basis only to persons authorized by l or regulation to receive it.

7.49 If such requirements prohibit auditors from including pertinent information in the report, they should state the nature of the information omitted and the requirement that makes the omission necessary. The auditors should obtain assurance th a valid requirement for the omission exists, and, wh appropriate, consult with legal counsel.

Report Presentation

7.50 The fourth reporting standard for performance audits is:

The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.

Complete

7.51 Being complete requires that the report contain all information needed to satisfy the audit objectives, promote an adequate and correct understanding of the matters reported, and meet the report content requirements. It also means including appropriate background information.

7.52 Giving readers an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations.

7.53 In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that a deviation, an error, or a weakness existed. However, except as necessary to make convincing presentations, detailed supporting data need not be included.

Accurate

7.54 Accuracy requires that the evidence presented be true and that findings be correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. Also, inaccurate reports can damage the credibility of the issuing audit

organization and reduce the effectiveness of its reports.

7.55 The report should include only information findings, and conclusions that are supported by competent and relevant evidence in the auditors' working papers. If data are significant to the aud findings and conclusions, but are not audited, th auditors should clearly indicate in their report th data's limitations and not make unwarranted conclusions or recommendations based on those data.

7.56 Reported evidence should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means describing accurately the audit scope and methodology, and presenting findings and conclusions in a manner consistent with the scope of audit work.

Objective

7.57 Objectivity requires that the presentation of entire report be balanced in content and tone. A report's credibility is significantly enhanced whe presents evidence in an unbiased manner so that readers can be persuaded by the facts.

7.58 The audit report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit resu impartially and guarding against the tendency to exaggerate or overemphasize deficient performar In describing shortcomings in performance, audit should present the explanation of responsible officials including the consideration of any unusu difficulties or circumstances they faced.

7.59 The tone of reports should encourage decisionmakers to act on the auditors' findings an recommendations. Although findings should be

presented clearly and forthrightly, the auditors should keep in mind that one of their objectives is to persuade, and that this can best be done by avoiding language that generates defensiveness and opposition. Although criticism of past performance is often necessary, the report should emphasize needed improvements.

Convincing

7.60 Being convincing requires that the audit results be responsive to the audit objectives, the findings be presented persuasively, and the conclusions and recommendations follow logically from the facts presented. The information presented should be sufficient to convince the readers to recognize the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. Reports designed in this way can help focus the attention of responsible officials on the matters that warrant attention and can help stimulate correction.

Clear

7.61 Clarity requires that the report be easy to read and understand. Reports should be written in language as clear and simple as the subject permits.

7.62 Use of straightforward, nontechnical language is essential to simplicity of presentation. If technical terms and unfamiliar abbreviations and acronyms are used, they should be clearly defined. Acronyms should be used sparingly.

7.63 Logical organization of material, and accuracy and precision in stating facts and in drawing conclusions, are essential to clarity and understanding. Effective use of titles and captions and topic sentences make the report easier to read and understand. Visual aids (such as pictures, charts,

graphs, and maps) should be used when appropriat to clarify and summarize complex material.

Concise

7.64 Being concise requires that the report be no longer than necessary to convey and support the message. Too much detail detracts from a report, m even conceal the real message, and may confuse or discourage readers. Also, needless repetition should be avoided.

7.65 Although room exists for considerable judgme in determining the content of reports, those that are complete, but still concise, are likely to achieve greater results.

Report Distribution

7.66 The fifth reporting standard for performance audits is:

Written audit reports are to be submitted by th audit organization to the appropriate officials c the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organization unless legal restrictions prevent it. Copies of the reports should also be sent to other official who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law o regulation, copies should be made available for public inspection.

7.67 Audit reports should be distributed in a timely manner to officials interested in the results. Such officials include those designated by law or regulatio to receive such reports, those responsible for acting on the findings and recommendations, those of other levels of government who have provided assistance tc

the auditee, and legislators. However, if the subject of the audit involves material that is classified for security purposes or is not releasable to particular parties or the public for other valid reasons, auditors may limit the report distribution.

7.68 When nongovernment audit organizations are engaged, the engaging government organization should ensure that the report is distributed appropriately. If the nongovernment audit organization is to make the distribution, the engagement agreement should indicate what officials or organizations should receive the report.

7.69 Internal auditors should follow their entity's own arrangements and statutory requirements for distribution. Usually, they report to their entity's top managers, who are responsible for distribution of the report.

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(October 1999 edition) – dirty

The "Annual Medicaid Home Health/HCB Cost Report Instructions"
(October 1999 edition) – dirty

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT

SCHEDULE S
HOME HEALTH AGENCY COST REPORT INFORMATION AND CERTIFICATION

A. Provider Information

PROVIDER NAME: HHA PROVIDER NO.:

HCB PROVIDER NO.:

Period Covered by Statement: From: To:

Address:

City: State: Zip Code:

Phone Number: Fax Number:

Contact Person: Title:

Phone Number:

B. Type of Control (Check one)

1. Non-Profit:		2. Proprietary:		3. Government:	
Church	_____	Individual	_____	State	_____
Other	_____	Partnership	_____	County	_____
		Corporation	_____	City	_____
				Health Dept.	_____

C. Certification By Officer, Director or Administrator Of The Agency

MISREPRESENTATION OR FALSIFICATION OF ANY INFORMATION CONTAINED IN THIS COST REPORT MAY BE PUNISHABLE BY CRIMINAL, CIVIL, AND ADMINISTRATIVE ACTION, FINE AND/OR IMPRISONMENT UNDER FEDERAL AND/OR STATE LAW. FURTHERMORE, IF SERVICES IDENTIFIED IN THIS REPORT WERE PROVIDED OR PROCURED THROUGH THE PAYMENT DIRECTLY OR INDIRECTLY OF A KICKBACK OR WERE OTHERWISE ILLEGAL, CIVIL AND ADMINISTRATIVE ACTION, FINES AND/OR IMPRISONMENT MAY RESULT.

CERTIFICATION BY OFFICER, DIRECTOR OR ADMINISTRATOR OF THE AGENCY

I HEREBY CERTIFY that I have read the above statement and that I have examined the accompanying Annual Medicaid Home Health / HCB Cost Report and the Balance Sheet and Statement of Revenue prepared by _____ (Provider name) for the cost report beginning _____ and ending _____ and that to the best of my knowledge and belief, it is a true, correct and complete report prepared from the books and records of the provider in accordance with applicable instructions, except as noted. I further certify that I am familiar with the laws and regulations regarding the provision of health care services, and that the services identified in this cost report were provided in compliance with such laws and regulations.

(Signed) _____

Officer, Director or Administrator Title Date

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE A
RECLASSIFICATION AND ADJUSTMENT OF TRIAL BALANCE OF EXPENSES

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PROVIDER NAME:

PERIOD:
From: To:

	SALARIES 1	EMPLOYEE BENEFITS 2	TRANSPOR-TATION 3	CONTRACTED SERVICES 4	OTHER 5	TOTAL 6	RECLASSIFI-CATIONS 7	ADJUSTMENTS 8	NET EXPENSES 9
GENERAL SERVICE COST CENTERS									
1. Capital Related - Bldgs. and Fixtures									
2. Capital Related - Movable Equipment									
3. Plant Operation & Maintenance									
4. Transportation									
5. Administrative and General									
HHA REIMBURSABLE SERVICES									
6. Skilled Nursing Care									
7 Physical Therapy									
8. Occupational Therapy									
9. Speech Therapy									
10. Medical Social Services									
11. Home Health Aide									
12. Medical Supplies									
HCB REIMBURSABLE SERVICES									
13. Client Assessment/Reassessment									
14. Case Management									
15. Homemaker									
16. Personal Care									
17. Respite Care									
18. Home Adaptation									
NONREIMBURSABLE SERVICES									
19. HCB ATTENDANT CARE									
20. HCB MODEL WAIVER #2 (16 HOUR)									
21. Drugs									
22. Durable Medical Equipment									
23. Home Dialysis Aide Services									
24. Respiratory Therapy									
25. Private Duty Nursing									
26. Other:									
27. Other:									
28. **TOTAL**									

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE A - 1
COMPENSATION ANALYSIS - SALARIES AND WAGES

PROVIDER NAME:

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PERIOD:
From: To:

	ADMINISTRATORS 1	DIRECTORS 2	SUPERVISORS 3	NURSES 4	THERAPISTS 5	AIDES 6	ALL OTHER 7	TOTAL 8
GENERAL SERVICE COST CENTERS								
1. Capital Related - Bldgs. and Fixtures								
2. Capital Related - Movable Equipment								
3. Plant Operation & Maintenance								
4. Transportation								
5. Administrative and General								
HHA REIMBURSABLE SERVICES								
6. Skilled Nursing Care								
7 Physical Therapy								
8. Occupational Therapy								
9. Speech Therapy								
10. Medical Social Services								
11. Home Health Aide								
12. Medical Supplies								
HCB REIMBURSABLE SERVICES								
13. Client Assessment/Reassessment								
14. Case Management								
15. Homemaker								
16. Personal Care								
17. Respite Care								
18. Home Adaptation								
NONREIMBURSABLE SERVICES								
19. HCB ATTENDANT CARE								
20. HCB MODEL WAIVER #2 (16 HOUR)								
21. Drugs								
22. Durable Medical Equipment								
23. Home Dialysis Aide Services								
24. Respiratory Therapy								
25. Private Duty Nursing								
26. Other:								
27. Other:								
28. TOTAL								

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE A - 2
EMPLOYEE BENEFITS ANALYSIS - PAYROLL RELATED

PROVIDER NAME:

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PERIOD:
From: To:

	ADMINISTRATORS 1	DIRECTORS 2	SUPERVISORS 3	NURSES 4	THERAPISTS 5	AIDES 6	ALL OTHER 7	TOTAL 8
GENERAL SERVICE COST CENTERS								
1. Capital Related - Bldgs. and Fixtures								
2. Capital Related - Movable Equipment								
3. Plant Operation & Maintenance								
4. Transportation								
5. Administrative and General								
HHA REIMBURSABLE SERVICES								
6. Skilled Nursing Care								
7 Physical Therapy								
8. Occupational Therapy								
9. Speech Therapy								
10. Medical Social Services								
11. Home Health Aide								
12. Medical Supplies								
HCB REIMBURSABLE SERVICES								
13. Client Assessment/Reassessment								
14. Case Management								
15. Homemaker								
16. Personal Care								
17. Respite Care								
18. Home Adaptation								
NONREIMBURSABLE SERVICES								
19. HCB ATTENDANT CARE								
20. HCB MODEL WAIVER #2 (16 HOUR)								
21. Drugs								
22. Durable Medical Equipment								
23. Home Dialysis Aide Services								
24. Respiratory Therapy								
25. Private Duty Nursing								
26. Other:								
27. Other:								
28. **TOTAL**								

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE A - 3
ANALYSIS OF TRANSPORTATION EXPENSE

PROVIDER NAME:

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PERIOD:
From: To:

	ADMINISTRATORS 1	DIRECTORS 2	SUPERVISORS 3	NURSES 4	THERAPISTS 5	AIDES 6	ALL OTHER 7	TOTAL 8
GENERAL SERVICE COST CENTERS								
1. Capital Related - Bldgs. and Fixtures								
2. Capital Related - Movable Equipment								
3. Plant Operation & Maintenance								
4. Transportation								
5. Administrative and General								
HHA REIMBURSABLE SERVICES								
6. Skilled Nursing Care								
7 Physical Therapy								
8. Occupational Therapy								
9. Speech Therapy								
10. Medical Social Services								
11. Home Health Aide								
12. Medical Supplies								
HCB REIMBURSABLE SERVICES								
13. Client Assessment/Reassessment								
14. Case Management								
15. Homemaker								
16. Personal Care								
17. Respite Care								
18. Home Adaptation								
NONREIMBURSABLE SERVICES								
19. HCB ATTENDANT CARE								
20. HCB MODEL WAIVER #2 (16 HOUR)								
21. Drugs								
22. Durable Medical Equipment								
23. Home Dialysis Aide Services								
24. Respiratory Therapy								
25. Private Duty Nursing								
26. Other:								
27. Other:								
28. TOTAL								

ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -4

RECLASSIFICATION TO EXPENSE

Provider Name:
Period:
From:
To:

HHA Provider Number:

HCB Provider Number:

(1) Description	(2) Line #	(3) Increase	(4) <Decrease>
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
21.			
22.			
23.			
24.			
25.			
26.			
27.			
28.			
29.			
30.			
31.			
32.			
33.			
34.			
35.			
36.			
37.			
38.			
39.			
40.			
41.			
42.			
43.			
44.			
45.			
46.			
47.			
48.			
49.			
50.			
51. TOTAL			

ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -5
ADJUSTMENTS TO EXPENSES

Provider Name:

Period:
From:
To:

HHA Provider Number:

HCB Provider Number:

(1) Description	(2) Basis Code	(3) Amount	(4) Line No.
1. Excess funds generated from operations, other than net income	B		
2. Trade, quantity, time and other discounts on purchases	B		
3. Rebates and refunds of expenses.	B		
4. Home Office Costs	A		
5. Adjustments Resulting From Transactions With Related Organizations	From Wks A -6		
6.			
7.			
8			
9.			
10.			
11.			
12.			
13. Sale Of Medical Records And Abstracts	B		5
14. Income From Imposition Of Interest, Finance Or Penalty Charges	B		5
15. Sale Of Medical And Surgical Supplies To Other Than Patients	A		12
16. Sale Of Drugs To Other Than Patients	A		21
17. Physical Therapy Adjustment	From Supp Wks A-8-3		7
18. Occupational Therapy Adjustment	From Supp Wks A-8-3		8
19. Speech Therapy Adjustment	From Supp Wks A-8-3		9
20. Interest Expense on Medicare and Medicaid overpayments and borrowings to repay medicare and medicaid overpayments	A		
21. Lobbying Activities	A		
22. Interest Income	B		
23. Owner Compensation Limit	A		
24. Administrator Compensation Limit	A		
25.			
26.			
27.			
28.			
29.			
30.			
31.			
32			
33.			
34. **Total (Sum of lines 1-33)**			

Basis for adjsutment, Column 2.

A. Cost - if cost, including applicable overhead, can be determined
B. Amount Received - If cost cannot be determined

ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -6

STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS

Provider Name:
Period:
From:
To:

HHA Provider Number:

HCB Provider Number:

A. Are there any costs included on Worksheet A which resulted from transactions with related organizations as defined in HCFA Pub. 15-I, chapter 10?

☐ Yes (If "Yes" complete Parts B and C)
☐ No

B. Costs incurred and adjustments required as result of transactions with related organizations:

Location, item and amount included on Worksheet A, Column 8

Line No.	Cost Center	Expense Items	Amount	Amount Allowable in Cost	Net Adjustments (Col. 4 minus Col. 5)
1	2	3	4	5	6
1					
2.					
3					
4					
5					
6					
7					
8					
9 TOTALS (Sum of lines (1-8) Transfer Col. 6, lines 1-8 to Worksheet A-5, Col 3, lines 5 -12					

C. Interrerelationship of provider to related organization(s):

The Department for Medicaid Services, by virtue of authority granted under KRS XXXXXX, requires the provider to furnish the information requested on Part C of this worksheet.

This information will be used by the Cabinet for Health Services, Department for Medicaid Services, in determining that the costs applicable to services, facilities and supplies furnished by organizations related to the provider by common ownership or control, represent reasonable costs as determined under section 1861 (v)(1) of the Social Security Act and KRS _____. If you do not provide all or any part of the requested information, the cost report will be considered incomplete and not acceptable for purposes of claiming reimbursement under title XIX.

	Symbol (1)	Name	Address	Percent Owned By Provider	Percent Ownership of Provider	Type of Business
1						
2						
3						
4						
5						
6						
7						
8						

(1) Use the following symbols to indicate the interrelationship of the provider to related organizations:

A. Individual has financial interest (stockholder, partner, etc.) in both related organization and provider.
B. Corporation, partnership or other organization has financial interest in provider.
C. Provider has financial interest in corporation, partnership, or other organization.
D. Director, officer, administrator, or key person of provider and related organization.
E. Individual is director, officer, administrator or key person of provider and related organization.
F. Director, officer, administrator, or key person of related organization or relative of such person has financial interest in provider.
G. Other (financial or non financial specify _____

ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -7

STATEMENT OF OWNERS, DIRECTORS, AND ADMINISTRATORS COMPENSATION AND STATMENT OF DISCLAIMED COST

Provider Name:
Period:
From:
To:

HHA Provider Number:

HCB Provider Number:

A. Statement Of Compensation Of Owners

	NAME	TITLE OR FUNCTION	HOURS WEEKLY EMPLOYED AT AGENCY	TOTAL COMPENSA-TION REPORTED	OWNER COMPENSA-TION LIMIT	OWNERS COMPENSA-TION ADJUSTMENT
	1	2	3	4	5	6
1.						
2.						
3.						
4.						
5.						
6. Total (Sum of lines (1 -5) Transfer Col .5, to Schedule A-5, Col 3, line 23.						$ -

B. Statement Of Compensation Paid to Administrators or Directors (Other Than Owners)

	NAME	TITLE	PERCENTAGE YEAR EMPLOYED AT AGENCY	TOTAL COMPEN-SATION REPORTED	ADMINIS-TRATOR COMPEN-SATION LIMIT	COMPENSA-TION ADJUSTMENT
	1	2	3	4	5	6
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9. Total (Sum of lines (1 -5) Transfer Col .5, to Schedule A-5, Col 3, line 24.						$ -

C. Statement of Disclaimed Cost

The following costs have been deemed unallowable in past cost reports. We disagree with the prior adjustments and have included these costs on this report.

	Description of Cost	Amount	Schedule A, Column and Line
	Col 1	Col 2	Col 3
1.			
2.			
3.			
4.			
5.			

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT

SCHEDULE A-8-3 (1)

Reasonable Cost Determination For Therapy Services Furnished By Outside Suppliers

Provider Name:	HHA Provider No:	Period Beginning:	Period Ending:

CHECK APPLICABLE BOX ☐ Physical Therapy ☐ Occupational Therapy ☐ Speech Pathology

Part I - GENERAL INFORMATION

1.	Total number of weeks worked (During which outside suppliers (excluding aides) worked)	
2.	Line 1 multiplied by 15 hours per week	
3.	Number of unduplicated HHA visits - Supervisors or therapists (See Instructions)	
4.	Number of unduplicated HHA visits - Therapy assistants (Include only visits made by therapy assistant and on which supervisor and/or therapist was not present during the visit) (See Instructions)	
5.	Standard travel expense rate	
6.	Optional travel expense rate per mile	

		Supervisors 1	Therapists 2	Assistants 3	Aides 4
7.	Total hours worked				
8.	AHSEA (See Instructions)				
9.	Standard travel allowance (Cols 1 and 2, one-half of col 2, line 8; col 3 one-half of col 3 , line 8)				
10.	Number of travel hours (HHA only)				
11.	Number of miles driven (HHA only)				

Part II - SALARY EQUIVALENCY COMPUTATIONS

12.	Supervisors (Col 1, line 7 times col 1, line 8)	
13.	Therapists (Col 2, line 7 times col 2, line 8)	
14.	Assistants (Col 3, line 7 times col 3, line 8)	
15.	Subtotal Allowance Amount (Sum of lines 12 - 14)	
16.	Aides (Col 4, line 7 times col 4, line 8)	
17.	Total Allowance Amount (Sum of lines 15 and 16)	
	If the sum of cols 1 - 3, line 7, is greater than line 2, make no entries on lines 18 and 19 and enter on line 20 the amount from line 17. Otherwise, complete lines 18 - 20.	
18.	Weighted average rate excluding aides (Line 15 divided by the sum of cols 1 - 3, line 7)	
19.	Weighted allowance excluding aides (Line 2 times line 18)	
20.	Total Salary Equivalency (Line 17 or sum of lines 16 plus 19)	

Part III - TRAVEL ALLOWANCE AND TRAVEL EXPENSE COMPUTATIONS - HHA SERVICES

Standard Travel Allowance and Standard Travel Expense

21.	Therapists (Line 3 times column 2, line 9)	
22.	Assistants (Line 4 times column 3, line 9)	
23.	Subtotal (Sum of lines 21 and 22)	
24.	Standard Travel Expense (Line 5 times sum of lines 3 and 4)	

Optional Travel Allowance and Optional Travel Expense

25.	Therapists (Sum cols 1 and 2, line 10 times col 2, line 8)	
26.	Assistants (Col 3, line 10 times Col 3, line 8)	
27.	Subtotal (Sum of lines 30 and 31)	
28.	Optional Travel Expense (Line 6 times sum of cols 1 - 3, line 11)	

Total Travel Allowance and Travel Expense - HHA Services; Complete one of the following three lines 34, 35 or 36, as appropriate.

29.	Standard Travel Allowance and Standard Travel Expense (Sum of lines 23 and 24 - See Instructions)	
30.	Optional Travel Allowance and Standard Travel Expense (Sum of lines 27 and 24 - See Instructions)	
31	Optional Travel Allowance and Optional Travel Expense (Sum of lines 27 and 28 - See Instructions)	

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE A-8-3 (2)
Reasonable Cost Determination For Therapy Services Furnished By Outside Suppliers

Provider Name:	HHA Provider No:	Period Beginning:	Period Ending:

CHECK APPLICABLE BOX ☐ Physical Therapy ☐ Occupational Therapy ☐ Speech Pathology

Part IV - OVERTIME COMPUTATION

	Description	Therapists	Assistants	Aides	TOTAL
		1	2	3	4
32.	Overtime hours worked during cost reporting period (if col 4, line 32, is zero or equal to or greater than 2,080, do not complete lines 33 - 40 and enter zero in each column of line 41)				
33.	Overtime rate (Multiply the amounts in cols 2 - 4, line 8 (AHSEA) times 1.5)				
34.	Total overtime (Including base and overtime allowance) (Multiply line 32 by line 33)				
	Calculation of Limit				
35.	Percentage of overtime hours by category (Divide the hours in each column on line 37 by the total overtime worked - col. 4, line 37)				
36.	Allocation of provider's standard work year for one full-time employee times the percentages on line 40 (See Instructions)				
	Determination of Overtime Allowance				
37.	Adjusted hourly salary equivalency amount (AHSEA) (From Part I, cols 2 - 4, line 8)				
38.	Overtime cost limitation (Line 41 times line 42)				
39.	Maximum overtime cost (Enter the lesser of line 39 or line 43)				
40.	Portion of overtime already included in hourly computation at the AHSEA (Multiply line 37 by line 42)				
41.	Overtime allowance (Line 44 minus line 45 - if negative enter zero) (Col 4, sum of cols 1 - 3)				

PART V - COMPUTATION OF THERAPY LIMITATION AND EXCESS COST ADJUSTMENT

42.	Salary equivalency amount (from Part II, line 20)	
43.	Travel allowance and expense - HHA services (from Part III, lines 29, 30 or 31)	
44.	Overtime allowance (from Part IV, col. 4, line 41)	
45.	Equipment cost (See instructions)	
46.	Supplies (See instructions)	
47.	Total Allowance (Sum of lines 42 - 46)	
48.	Total cost of outside supplier services (from provider records)	
49.	Excess over limitation (line 48 minus line 47 - transfer amount to line A-5,line 17,18, or 19 as applicable - if negative, enter zero --see instructions)	

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE B
COST ALLOCATION - GENERAL SERVICE COST

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PROVIDER NAME:

PERIOD:
From: To:

	NET EXPENSES FOR COST ALLOCATION 0	CAPITAL RELATED COSTS		PLANT OPERATION & MAINTENANCE 3	TRANS-PORTATION 4	SUBTOTAL (cols. 0 - 4) 4A	ADMINISTRA-TIVE & GENERAL 5	TOTAL 6
		BLDGS & FIXTURES 1	MOVABLE EQUIPMENT 2					
GENERAL SERVICE COST CENTERS								
1. Capital Related - Bldgs. and Fixture								
2. Capital Related - Movable Equipment								
3. Plant Operation & Maintenance								
4. Transportation								
5. Administrative and General								
HHA REIMBURSABLE COST CENTERS								
6. Skilled Nursing Care								
7. Physical Therapy								
8. Occupational Therapy								
9. Speech Therapy								
10. Medical Social Services								
11. Home Health Aide								
12. Medical Supplies								
HCB REIMBURSABLE COST CENTERS								
13. Client Assessment/Reassessment								
14. Case Management								
15. Homemaker								
16. Personal Care								
17. Respite Care								
18. Home Adaptation								
NONREIMBURSABLE SERVICES								
19. HCB ATTENDANT CARE WAIVER								
20. HCB MODEL WAIVER #2 (16 HOUR)								
21. Drugs								
22. Durable Medical Equipment								
23. Home Dialysis Aide Service								
24. Respiratory Therapy								
25. Private Duty Nursing								
26. OTHER: _____								
27. OTHER: _____								
28. TOTAL								

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE B -1
COST ALLOCATION - STATISTICAL BASIS

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PERIOD:
From: To:

PROVIDER NAME:

	CAPITAL RELATED COSTS		PLANT OPERATION MAINTENANCE (SQUARE FEET) 3	TRANSPORTATION (MILEAGE) 4	RECONCILIATION 5A	ADMINISTRATIVE & GENERAL (ACCUMULATED COST) 5
	BLDGS & FIXTURES (SQUARE FEET) 1	MOVABLE EQUIPMENT (SQUARE FEET) 2				
GENERAL SERVICE COST CENTERS						
1. Capital Related - Bldgs. and Fixture						
2. Capital Related - Movable Equipment						
3. Plant Operation & Maintenance						
4. Transportation						
5. Administrative and General						
HHA REIMBURSABLE COST CENTERS						
6. Skilled Nursing Care						
7. Physical Therapy						
8. Occupational Therapy						
9. Speech Therapy						
10. Medical Social Services						
11. Home Health Aide						
12. Medical Supplies						
HCB REIMBURSABLE COST CENTERS						
13. Client Assessment/Reassessment						
14. Case Management						
15. Homemaker						
16. Personal Care						
17. Respite Care						
18. Home Adaptation						
NONREIMBURSABLE SERVICES						
19. HCB ATTENDANT CARE WAIVER						
20. HCB MODEL WAIVER #2 (16 HOUR)						
21. Drugs						
22. Durable Medical Equipment						
23. Home Dialysis Aide Service						
24. Respiratory Therapy						
25. Private Duty Nursing						
26. OTHER: _____						
27. OTHER: _____						
28. TOTAL						
29. Cost To Be Allocated (Schedule B)						
30. Unit Cost Multiplier						

ANNUAL MEDICAID HOME HEALTH /HCB COST REPORT
SCHEDULE C
APPORTIONMENT OF HOME HEALTH PATIENT SERVICES

PROVIDER NAME:

HHA PROVIDER NO.:

PERIOD:
From:
To:

Part I:

COST PER VISIT COMPUTATION Patient Services	From Sch B Col. 6, Line:	Total Cost	Total Visits	Average Cost Per Visit	XVIII Cost Limits	XIX Cost Limits	Title XIX Visits	Computation of the lesser of Medicaid Cost or the aggregate of the Medicare or Medicaid limitation Average	XVIII	XIX
		1	2	3	4	5	6	7	8	9
1. Skilled Nursing	6									
2. Physical Therapy	7									
3. Speech Therapy	8									
4. Occupational Therapy	9									
5. Medical Social Services	10									
6. Home Health Aid Services	11									
7. Total (Sum of Lines 1- 6)										
8. Total Cost (Lesser of Col. 7, 8, 9)										

Part II:

COST PER VISIT COMPUTATION Patient Services	From Sch B Col. 6, Line:	Total Cost	Total Visits	Average Cost Per Visit	XVIII Cost Limits	XIX Cost Limits	Title XIX Visits	Computation of the lesser of Medicaid Cost or the aggregate of the Medicare or Medicaid limitation Average	XVIII	XIX
		1	2	3	4	5	6	7	8	9
1. Skilled Nursing	6									
2. Physical Therapy	7									
3. Speech Therapy	8									
4. Occupational Therapy	9									
5. Medical Social Services	10									
6. Home Health Aid Services	11									
7. Total (Sum of Lines 1- 6)										
8. Total Cost (Lesser of Col. 7, 8, 9)										
9. Total XIX Visits (Line 7, Col 8, Part I + Line 7, Col 8, Part II)										

Part III: MEDICAL SUPPLIES COMPUTATION

	Cost From Sch. B, Col 6, Ln.	Total Charges From HHA Records	Ratio Col.1 / Col. 2	XIX Charge	XIX Cost
	1	2	3	4	5
1. Medical Supplies					
2. Total Cost Of HHA Services (Part 1, Line 8, Col 9, Part II, Line 8, Col 9, Part III, Line 1, Col 5)					

ANNUAL MEDICAID HOME HEALTH /HCB COST REPORT

SCHEDULE D

CALCULATION OF HOME HEALTH REIMBURSEMENT SETTLEMENT

PROVIDER NAME:

HHA PROVIDER NO.:

PERIOD:
From: To:

Part I - Computation Of The Lesser Of Reasonable Cost Or Customary Charges

1. Cost Of Services (From Schedule C, Part III, Line 2) _____
2. Total Charges For Title XIX Services (From PCL's) _____
3. Excess Of Reasonable Cost Over Customary Charges (Complete Only If Line 1 Exceeds Line 2) _____

Part II Computation Of Reimbursement Settlement

4. Total Reasonable Cost (From Line 1) _____
5. Excess Reasonable Cost (From Line 3) _____
6. Subtotal (Line 4 Minus Line 5) _____
7. Amounts Rec'd From TPL/Other Sources (PCL's) _____
8. Amounts Rec'd From The Medicaid Program (PCL's) _____
9. Amount Received As Incentive Payments (PCL's) _____
10. Total Interim Payments (Line 7 plus 8 minus 9) _____
11. Balance Due Provider/Medicaid Program (Line 6 minus 10) (Indicate Overpayments In Parentheses) _____

ANNUAL MEDICAID HOME HEALTH /HCB COST REPORT
SCHEDULE E
APPORTIONMENT OF PATIENT HCB SERVICE COSTS AND CALCULATION OF REIMBURSEMENT SETTLEMENT

PROVIDER NAME: HCB PROVIDER NO.: PERIOD: From: To:

Patient Service	Amounts (Sch B Col 7)	Total Units/Visits	Average Cost Per Unit/Visit	XIX Cost Limits	XIX Unit/Visits	Cost of Service Average	Cost of Service XIX
1	2	3	4	5	6	7	8
Part I Visits before 7/1							
1. Client Assessment							
2. Case Management							
3. Homemaker							
4. Personal Care							
5. TOTAL (Sum of lines 1 - 4)			xxxxxxxxx	xxxxxxxxx			
6. Allowable Costs Of Patient Services (Lesser of Line 5, Column 7 or Column 8)							
Part II Visits after 7/1							
7. Client Assessment							
8. Case Management							
9. Homemaker							
10. Personal Care							
11. TOTAL (Sum of Lines 7 - 10)			xxxxxxxxx	xxxxxxxxx			
12. Allowable Costs Of Patient Services (Lesser of Line 11, Column 7 or Column 8)					xxxxxxxxx		
13. Total Visits (Line 5 plus Line 11, Column 6)							

Part III Respite and Minor Home Adaptation Costs	Costs	Charges	Lesser Of
14. Total Allowable Costs/Charges For Respite Care Services			
15. Total Allowable Costs/Charges For Minor Home Adaptation Services			

Part IV Calculation Of Reimbursement Settlement		
16. Reimbursable Costs (Sum of Column 8, Line 6 and Line 12)		
17. Total Charges For Waiver Program Services From PCL's (Less Respite & Home Adaptation)		
18. Reimbursable Cost (Lesser of Lines 16 or 17)		
19. Respite And Minor Home Adaptation (Line 14 plus Line 15)		
20. Total Medicaid Cost (Line 18 plus Line 19)		
21. Amount Received From Medicaid For Waiver Program Services		xxxxxxxxxx
22. Continuing Income Or TPL		xxxxxxxxxx
23. Balance Due (Program)/Provider (Line 20 minus Lines 21 and 22)		

INTRODUCTION

These instructions are intended to guide providers in preparing the annual cost report. These forms shall be used by all participating home health agencies. Some schedules shall not be required for all providers and these need not be completed. However, the entire cost report shall be submitted to Medicaid Services. Schedules, which do not apply, shall be marked accordingly, and brief explanation as to why these are not needed shall be annotated on appropriate schedules.

In completing the schedules, the period beginning and period ending, the provider name, Medicaid identification number and address shall be indicated on the cover page. In addition, the provider name and inclusive dates covered by this cost report shall be indicated on each page. Facilities shall submit a cost report prepared on the accrual basis of accounting principles. Also, in completing the schedules, reductions to expenses shall always be shown in brackets.

The Trial Balance of the agency shall be included with the submission of the Annual HHA/ HCB Medicaid Annual Cost Report.

SCHEDULE S - HOME HEALTH AGENCY COST REPORT INFORMATION STATISTICAL AND CERTIFICATION

A. Provider Information.

Home Health Agency Information -- Enter the requested information in the space provided. Include the name of the agency, the Medicaid identification numbers, phone and fax numbers, contact person and title. Enter the beginning and ending dates of the period covered by this cost report.

B. Type of Control- Check the appropriate line for items 1 through 3.

1. Non-Profit Indicate by checking appropriate line - Church or Other.

2. Proprietary Organization - Check if the Home Health Agency is owned and operated by an individual or a business corporation. The organization may be a sole proprietorship, partnership (including limited partnership and joint stock company) or corporation.

3. Official (Governmental Agency) - Check if the Home Health Agency is administered by a state, county, city, or health department. Indicate the type of official agency by checking the appropriate line.

C. Certification by Officer, Director or Administrator of the Agency.

This form shall be read and signed by an officer or director of the Home Health Agency. Sections 1877(a) (1) of the Social Security Act state that, "Whoever knowingly and willfully makes or causes to be made any false statement or representation of material fact in any application for any benefit or payment under this title--shall (1) in the case of such a statement, representation, concealment, failure or conversion by any person in connection with the furnishing (by that person) of items or services for which payment is or may be made under this title, be guilty of a felony and upon conviction thereof fined not more than $25,000 or imprisoned for not more than five (5) years, or both, or in the case of such statement, representation, concealment, failure or conversion by any other person, be guilty of a misdemeanor and upon conviction thereof fined not more than $10,000 or imprisoned for not more than one (1) year or both."

SCHEDULE A - RECLASSIFICATION AND ADJUSTMENT OF TRIAL BALANCE OF EXPENSES

This schedule provides for recording of direct costs such as salaries, fringe benefits, transportation and contracted services, as well as other costs to arrive to identifiable agency costs in Column 9. Also, it provides for the reclassification and adjustments to certain accounts. The total direct expenses before grouping, reclassifications and adjustments are obtained form the provider' s records.

The cost centers on this schedule are listed in a manner which facilitates the sequential listing of accounts and array of expense accounts for transfer of the various cost center data from Schedules A-1, A-2, A-3.

The costs to be entered in Columns 1 through 5 are only those actual costs incurred by or for the Home Health Agency for which the cost report is prepared. If true reporting entity is a certified "sub unit" of a State Health Department, the amounts to be entered shall be only those amounts that are directly applicable to the "sub unit." The aggregation and reallocation of costs at the state level shall not be acceptable.

Column 1 SALARIES.-- The expenses listed in this column obtained from Worksheet A-1. The sum of column 1 must equal Worksheet A-1, column 9 line 29.

Column 2: EMPLOYEE BENEFITS.-- The expenses listed in this column are obtained from Worksheet A-2. The sum of column 2 must equal Worksheet A-2, column 9, line 29.

Column 3: TRANSPORTATION.-- Enter on each line other than line 4 the cost of public transportation or the amount paid to employees for the use of private vehicles only when these costs can be identified and directly assigned to a particular cost center.

Where the agency owns (or rents its vehicles, this cost should be entered on line 4 in the transportation cost center and allocated during the cost finding process.

The transportation cost is reported in this manner so that the identifiable costs can be recorded where applicable and the

unidentifiable costs will be allocated during cost finding.

Column 4: CONTRACTED/PURCHASED SERVICES.-- The expenses listed in this column are obtained from Schedule A-3. The sum of column 4 must equal Schedule A-3 , column 9, line 29.

Column 5: OTHER COSTS.-- Enter on the applicable lines in column 5 all agency costs which have not been reported in columns 1 through 4 from the agency's books and records.

Column 6: Total Agency Cost.--Add the amounts in columns 1 through 5 for each cost center and enter the totals in column 6.

Column 7: RECLASSIFICATIONS OF EXPENSE.--Enter in this column any reclassifications among the cost center expenses in column 6, which are needed to amend expenses appropriate in the particular agency's circumstances. Reductions to expense should be shown in parentheses ( ). The reclassification of expenses in this column is the net total of the entries obtained from Schedule A-4. The total of this column shall equal zero.

Column 8: ADJUSTMENTS TO EXPENSE.--Enter in this column any adjustments to the expenses in column 6, which are needed to amend expenses appropriate to a particular agency's circumstances to comply with applicable state and federal law and regulations. These expenses shall be obtained from Schedule A-5. The total of this column shall be equal to of Schedule A-5 column 3, line 36.

Column 9: Enter the Sum of Columns 6, 7, and 8.

CHEDULE A-1 - COMPENSATION ANALYSIS - SALARIES AND WAGES

The expenses on this schedule shall be those amount paid or accrued on the records of the provider. These amounts shall be those expenses for which a Federal Form W-2 was issued to the employee.

Column 1:	Enter amounts for administrators. If a single administrator this amount shall be entered on line 5.
Column 2:	Enter amounts for directors.
Column 3:	Enter amounts for supervisors.
Column 4:	Enter amounts for Licensed Registered Nurses.
Column 5:	Enter amounts for Licensed Therapists and Licensed Therapy Assistants.
Column 6:	Enter amounts for Aides.
Column 7:	Enter amounts for all others not included in columns 1 through 6.
Column 8:	Enter the total of each line for columns 1 through 7. Enter these amounts on the corresponding lines on Schedule A, Column 1.

SCHEDULE A-2 - EMPLOYEE BENEFITS ANALYSIS - PAYROLL RELATED

The employee benefits expense on this schedule shall be those amount paid or accrued on the records of the provider. These amounts shall be those expenses, which directly correspond to the employees as listed on Schedule A-1.

Column 1:	Enter amounts for administrators. If a single administrator this amount shall be entered on line 5.
Column 2:	Enter amounts for directors.
Column 3:	Enter amounts for supervisors.
Column 4:	Enter amounts for Licensed Registered Nurses.
Column 5:	Enter amounts for Licensed Therapists and Licensed Therapy Assistants.
Column 6:	Enter amounts for Aides.
Column 7:	Enter amounts for all others not included in columns 1 through 6.
Column 8:	Enter the total of each line for columns 1 through 7. Enter these amounts on the corresponding lines on Schedule A, Column 2.

SCHEDULE A-3 - TRANSPORTATION

The transportation expense on this schedule shall be those amount paid or accrued on the records of the provider. These amounts shall be those expenses, which directly correspond to the employees as listed on Schedule A-1

Column 1: Enter amounts for administrators. If a single administrator this amount shall be entered on line 5.

Column 2: Enter amounts for directors.

Column 3: Enter amounts for supervisors.

Column 4: Enter amounts for Licensed Registered Nurses.

Column 5: Enter amounts for Licensed Therapists and Licensed Therapy Assistants.

Column 6: Enter amounts for Aides.

Column 7: Enter amounts for all others not included in columns 1 through 6.

Column 8: Enter the total of each line for columns 1 through 7. Enter these amounts on the corresponding lines on Schedule A, Column 2.

SCHEDULE A-4 – RECLASSIFICATIONS TO EXPENSE

This schedule provides for the reclassification of expense accounts to effect proper cost allocation under cost finding. The following are examples of costs, which shall be reclassified:

A. Licenses and Taxes (Other Than Income Taxes) – This expense consists of the business license expense and tax expense incidental to the operation of the agency. These expenses shall be included in the Administrative and General (A & G) cost centers, Schedule A, line 5.

B. Interest - Short-term interest expense relates to borrowings for agency operations. The full amount of this cost shall be reclassified to Administrative and General, Schedule A, line 5.

C. Insurance - Malpractice, Insurance and Other -Reclassify these insurance expenses to Administrative and General, Schedule A, line 5. Malpractice insurance may be reclassified directly to the applicable cost centers (other than A & G) only if the insurance policy specifically and separately identifies the premium for each cost center involved.

D. If a provider purchases services (e.g., physical therapy) under arrangements for Medicaid patients, but does not purchase the services under arrangements for non-Medicaid patients, the providers' books shall reflect only the cost of the Medicaid services. However, if the provider does not use the "grossing up" technique for purposes of allocating overhead, and incurs related direct costs applicable to all patients, Medicaid and non-Medicaid (e.g., paramedics or aides who assist a physical therapist in performing physical therapy services), the related costs shall be reclassified from the Home Health Agency reimbursable service cost center and allocated as part of administrative and general expense.

E. Leases - This expense consists of all rental costs of buildings and equipment incidental to the operation of the Home Health Agency. Any lease which cannot be identified to a special cost center and is incidental to the general overall operation of the agency shall be included in Administrative and General, Schedule A, line 5.

F. The cost of medical supplies purchased during the applicable cost reporting years and remaining in inventory should be reclassified from Schedule A. Line 12 to Line 5.

Column 1:	Indicate the description of item to be reclassified on lines 1 through 33.
Column 2:	Indicate line number from Schedule B where reclassification is entered.
Column 3 and 4:	Enter the amounts of the increase or decrease. totals on line 34 column 3 and column 4 shall be equal.

SCHEDULE A-5 - ADJUSTMENTS TO EXPENSE

This schedule provides for the adjustments to the expense listed on Schedule A, Column 8. These adjustments shall be made on the basis of "cost" or revenue received" as indicated by the symbols entered in Column 2 "A" for cost or "B" for revenue received. Line descriptions indicate the more common activities, which affect allowable cost, or result in costs incurred for reasons other than patient care and, thus, requires adjustments. Use this schedule to enter any adjustments to expenses that are the result of differences between regulations and the records of the provider.

If an adjustment to an expense affects more than one (1) cost center, the adjustments to expense shall reflect the adjustment to each cost center on a separate line on Schedule A-5.

Types of items to be entered on Schedule A-5 shall be: (1) those needed to adjust expenses to reflect actual expenses incurred; (2) those items which constitute recovery of expenses through sales, charges, fees, grants, gifts, etc.; (3) those items needed to adjust expenses in accordance with Medicaid principles of reimbursement; and (4) those items which are provided for separately in the cost apportionment process. Hospital-based facilities shall adjust their cost on this schedule to agree with cost on HCFA Form 2552, Worksheet H-5,Column 6.

Column 1	Line Descriptions:
Line 1	Excess funds generated from operations, other than net income.
Line 2	Trade, Quantity, Time and Other Discounts on Purchases
Line 3	Rebates and Refunds of Expenses
Line 4	Home Office Costs - Enter on this line allowable home office cost which have been allocated to the provider. If home office costs are submitted, provider shall submit a copy of the home office cost report.
Line 5 - 12	Adjustments Resulting from Transactions with Related Organizations - The amount to be entered on this line shall be obtained from Schedule A-6, Part B, Column 6.
Line 13	Sale of Medical Records and Abstracts - Enter the amount received from the sale of medical

records and abstracts and offset the amount against the Administrative and General costs.

Line 14 Income from Imposition of Interest, Finance or Penalty Charges - Enter on this line the cash received imposition of interest, finance or penalty charges on overdue receivables. This income shall be used to offset the allowable Administrative and General costs.

Line 15 Sale of Medical and Surgical Supplies to Other than Patients. This income shall be used to offset the allowable Medical Supply cost.

Line 16 Sale of Drugs to Other than Patients this income shall be used to offset the allowable cost of drugs.

Line 17 Physical Therapy Adjustment - If Home Health Agency purchases physical therapy services furnished by an outside supplier; schedules A-8-3(1) and A-8-3(2) shall be completed to compute the reasonable cost determination. Enter on this line any adjustment (Excess cost over Limitations) from Schedule A-8-3(2), Part V, line 49. Enter this amount as a negative number.

Line 18 Occupational Therapy Adjustment - If Home Health Agency purchases occupational therapy services furnished by an outside supplier; Schedules A-8-3(1) and A-8-3(2) shall be completed to compute the reasonable cost determination. Enter on this line any adjustment (Excess cost over Limitations) from Schedule A-8-3(2), Part V, line 49. Enter this amount as a negative number.

Line 19 Speech Therapy Adjustment - If Home Health Agency purchases speech therapy services furnished by an outside supplier; Schedules A-8-3(1) and A-8-3(2) shall be completed to compute the reasonable cost determination. Enter on this line any adjustment (Excess cost over Limitations) from Schedule A-8-3(2), Part V, line 49. Enter this amount as a negative number.

Line 20 Interest Expense on Borrowing to Repay Medicaid Overpayments

Line 21 Lobbying Activities. These shall include costs incurred directly and/or the proportionate share

incurred by an organization of which the provider is a member reflected in dues assessments.

Line 22 — Offset of Investment Income

Line 23 — Owner Compensation Limit. Adjustments Resulting from limits imposed by regulation on the compensation allowable as cost borne by the program. Owner's Compensation Adjustment - The amount to be entered on this line shall be obtained from Schedule A-7, Part A, Column 5.

Line 24 — Administrator Compensation Limit. Adjustments Resulting from limits imposed by regulation on the compensation allowable as cost borne by the program. Administrator Compensation Adjustment - The amount to be entered on this line shall be obtained from Schedule A-7, Part B, Column 5.

Line 25-33 — Enter on these lines any additional adjustments, which are required which affect proper cost allocation of expenses. The lines shall be appropriately labeled to indicate the nature of the required adjustments.

Column 2: — On each line enter an "A" if the amount in Column 3 is actual cost or a "B" if the amount in Column 3 is the revenue received for the item in Column 1.

Column 3: — On each line indicate the amount to be adjusted.

Column 4: — Indicate the line number on Schedule A that is to be adjusted.

SCHEDULE A-6 - STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS

A. Section A is provided to show whether the amount of costs to be reimbursed by the Medicaid Program includes costs resulting from services, facilities, and supplies furnished to the facility by organizations related to the facility by common ownership or control. Section A shall be completed by all facilities.

B. Section B is provided to show the total compensation paid for the period for sole proprietors, partners, and corporation officers, as owner(s) of the Home Health Agency. Compensation shall be defined as the total benefit received (or receivable) by the owner for the services he provides to the institution. It shall include salary amount paid for managerial, administrative, professional and other services; amounts paid by the agency for the personal benefit of the owner; and the cost of the assets and services, which the owner receives, form the agency and deferred compensation.

C. Section C is provided to show total compensation paid to each employed person(s) to perform duties as administrators or assistant administrators. List: each administrator or assistant administrator who has been employed during the fiscal period. List the name, title, percent of customary workweek devoted to business, percent of the fiscal period employed, and total compensation for the period.

SCHEDULE A-7 - STATEMENT OF OWNERS, DIRECTORS, AND ADMINISTRATORS COMPENSATION AND STATEMENT OF DISCLAIMED COST

This schedule provides for the determination of allowable compensation of owners as limited by regulation.

Section A:

Column 1: List Name of owner as defined by KAR _____.

Column 2: List Title and Function of owner.

Column 3: List the number of hours weekly employed at the Agency.

Column 4: Enter the amount of compensation reported on Schedule A. This should include all amounts received or accrued, and amounts employee benefits in excess of those provided to all employees.

Column 5: Enter the amount of reported compensation that exceeds the limit as published by Kentucky Administrative Regulation. Transfer these amounts to Schedule A-5, Col. 1, line 23.

Section B: Statement of Compensation Paid to Administrators or Directors (Other Than Owners)

This schedule provides for the determination of allowable compensation of administrators and directors (other than Owners) as limited by regulation.

Column 1: List Name of the administrator or director.

Column 2: List Title and Function of Administrator or Director

Column 3: List the percentage of year employed at the Agency.

Column 4: Enter the amount of compensation reported on Schedule A. This should include all amounts received or accrued, and amounts

employee benefits in excess of those provided to all employees.

Column 5: Enter the amount of reported compensation that exceeds the limit as published by Kentucky Administrative Regulation. Transfer these amounts to Schedule A-5, Col. 3, line 24.

Section C: Statement of Disclaimed Cost

This schedule provides for the disclosure of cost deemed unallowable in a past cost report included in allowable cost on this report regulation.

Column 1: Enter a description of the cost deemed unallowable in a prior report included on this report.

Column 2: Enter the amount of the included cost.

Column 3: Enter the Schedule A, Column and Line where the cost was included.

Schedule A-8-3 (1) - REASONABLE COST DETERMINATION FOR THERAPY SERVICES FURNISHED BY OUTSIDE SUPPLIERS

Information required on this schedule provides, in the aggregate, all data for therapy services either physical therapy, occupational therapy and/or speech pathology services furnished by all outside suppliers in determining the reasonableness of therapy costs. (See HCFA Pub.15-I, chapter 14.) (See 42 CFR §413.106.)

Complete this schedule once for each type of therapy service furnished by an outside supplier.

If you contract with an outside supplier for therapy services, the potential for limitation and the amount of payment you receive depends on several factors:

- An initial test to determine whether these services are categorized as intermittent part time or full time services;
- The location where the services are rendered, i.e., HHA home visit;
- For HHA services, whether detailed time and mileage records are maintained by the contractor and HHA;
- Add-ons for supervisory functions, aides, overtime, equipment, and supplies; and
- Intermediary determinations of reasonableness of rates charged by the supplier compared with the going rates in the area.

Part I - GENERAL INFORMATION

This part provides for furnishing certain information concerning therapy services furnished by outside suppliers.

Line 1--For services performed at the patient's residence, count only those weeks during which services were rendered by supervisors, therapists, or assistants to patients of the HHA. (See HCFA Pub. 15-I, chapter 14.)

Line 2--Multiply the amount on line 1 by 15 hours per week. This calculation is used to determine whether services are full time or intermittent part time.

Line 3--Enter the number of unduplicated HHA visits made by the supervisor or therapist. Only count one visit when both the supervisor and therapist were present during the same visit.

Line 4--Enter the number of unduplicated HHA visits made by the therapy assistant. Do not include in the count the visits when either the supervisor or therapist were present during the same visit.

Line 5--Enter the standard travel expense rate applicable. (See HCFA Pub. 15-I, chapter 14.)

Line 6--Enter the optional travel expense rate applicable. (See HCFA Pub. 15-I, chapter 14.) Use this rate only for home health patient services for which time records are available.

Line 7--Enter in the appropriate columns the total number of hours worked for therapy supervisors, therapists, therapy assistants, and aides furnished by outside suppliers.

Line 8--Enter in each column the appropriate adjusted hourly salary equivalency amount (AHSEA). This amount is the prevailing hourly salary rate plus the fringe benefit and expense factor described in HCFA Pub. 15-I, chapter 14. This amount is determined on a periodic basis for appropriate geographical areas and is published as an exhibit at the end of HCFA Pub. 15-I, chapter 14. Use the appropriate exhibit for the period of this cost report.

Enter in column 1 the supervisory AHSEA, adjusted for administrative and supervisory responsibilities. Determine this amount in accordance with the provisions of HCFA Pub. 15-I, §1412.5. Enter in columns 2, 3, and 4 (for therapists, assistants, and aides respectively) the AHSEA from either the appropriate exhibit found in HCFA Pub. 15-I, chapter 14 or from the latest publication of rates. If the going hourly rate for assistants in the area is unobtainable, use no more than 75 percent of the therapist AHSEA. The cost of services of a therapy aide or trainee is evaluated at the hourly rate, not to exceed the hourly rate paid to your employees of comparable classification and/or qualification, e.g., nurses' aides. (See HCFA Pub. 15-I, §1412.2.)

Line 9--Enter the standard travel allowance equal to one half of the AHSEA. Enter in columns 1 and 2 one half of the amount in column 2, line 8. Enter in column 3 one half of the amount in column 3, line 8. (See HCFA Pub. 15-I, §1402.4.)

Lines 10 and 11--Enter the number of travel hours and number of miles driven, respectively, if time records of visits are kept. (See HCFA Pub. 15-I, §§1402.5 and 1412.6.)

NOTE: There is no travel allowance for aides employed by outside suppliers.

Part II - SALARY EQUIVALENCY COMPUTATIONS

This part provides for the computation of the full time or intermittent part time salary equivalency.

When you furnish therapy services from outside suppliers to Medicaid patients but simply arrange for such services for non health care program patients and do not pay the other Medicaid portion of such services, your books reflect only the cost of the health care program portion. Where you can gross up costs and charges in accordance with provisions of HCFA Pub. 15-I, §2314, complete Part II, lines 12 through 17 and 20 in all cases and lines 18 and 19, where appropriate. However, where you cannot gross up costs and charges, complete lines 12 through 17 and 20.

Lines 12 through 17--To compute the total salary equivalency allowance amounts, multiply the total hours worked (line 7) by the adjusted hourly salary equivalency amount for supervisors, therapists, assistants, and aides.

Lines 18 and 19--If the sum of hours in columns 1 through 3, line 7, is less than or equal to the product found on line 2, complete these lines. (See the exception above where you cannot gross up costs and charges, and services are provided to program patients only.)

Line 20--If there are no entries on lines 18 and 19, enter the amount on line 17. Otherwise, enter the sum of the amounts on lines 16 and 19.

Part III - TRAVEL ALLOWANCE AND TRAVEL EXPENSE COMPUTATION - HHA SERVICES

This part provides for the computation of the standard travel allowance, the standard travel expense, the optional travel allowance, and the optional travel expense. (See HCFA Pub. 15-I, §§1402ff, 1403.1 and 1412.6.)

Lines 21 through 24--Complete these lines for the computation of the standard travel allowance and standard travel expense for therapy services performed in conjunction with HHA visits. Use these lines only if you do not use the optional method of computing travel. A standard travel allowance is recognized for each visit to a patient's residence. If services are furnished to more than one patient at the same location, only one standard travel allowance is permitted, regardless of the number of patients treated.

Lines 25 through 28--Complete the optional travel allowance and optional travel expense computations for therapy services in conjunction with home health services only. Compute the optional travel allowance on lines 25 through 27. Compute the optional travel expense on line 28.

Lines 29 through 31--Choose and complete only one of the options on lines 29 through 31. However, use lines 30 and 31 only if you maintain time records of visits. (See HCFA Pub. 15-I, §1402.5.)

Schedule A-8-3 (2)--REASONABLE COST DETERMINATION FOR THERAPY SERVICES FURNISHED BY OUTSIDE SUPPLIERS

Part IV: OVERTIME COMPUTATION

This part provides for the computation of an overtime allowance when an individual employee of the outside supplier performs services for you in excess of your standard work week. No overtime allowance is given to a therapist who receives an additional allowance for supervisory or administrative duties. (See HCFA Pub. 15-I, §1412.4.)

Line 32--Enter in the appropriate columns the total overtime hours worked. Where the total hours in column 4 are either zero or equal to or greater than 2080, the overtime computation is not applicable. Make no further entries on lines 33 through 40. Enter zero in each column of line 41. Enter the sum of the hours recorded in columns 1 through 3 in column 4.

Line 33--Enter in the appropriate column the overtime rate (the AHSEA from line 8, column as appropriate, multiplied by 1.5).

Line 35--Enter the percentage of overtime hours by class of employee. Determine this amount by dividing each column on line 32 by the total overtime hours in column 4, line 32.

Line 36--Use this line to allocate your standard work year for one full time employee. Enter the numbers of hours in your standard work year for one full time employee in column 4. Multiply the standard work year in column 4 by the percentage on line 35 and enter the result in the corresponding columns.

Line 37--Enter in columns 1 through 3 the AHSEA from Part I, line 10, columns 2 through 4, as appropriate.

Part V - COMPUTATION OF THERAPY LIMITATION AND EXCESS COST ADJUSTMENT

This part provides for the calculation of the adjustment to therapy service costs in determining the reasonableness of therapy cost.

Lines 45 and 46--When the outside supplier provides the equipment and supplies used in furnishing direct services to your patients, the actual cost of the equipment and supplies incurred by the outside supplier (as specified in HCFA Pub. 15-I, §1412.1) is considered an additional allowance in computing the limitation.

Line 48--Enter the amounts paid and/or payable to the outside suppliers for therapy services rendered during the period as reported in the cost report. This includes any payments for supplies, equipment use, overtime, or any other expenses related to supplying therapy services for you.

Line 49--Enter the excess cost over the limitation, i.e., line 48 minus line 47. Transfer this amount to Worksheet A-5, line 17 for physical therapy services, line 18 for occupational therapy services and line 19 for speech pathology services. If the amount is negative, enter a zero.

SCHEDULE B - COST ALLOCATION - GENERAL SERVICE COST

Schedule B in conjunction with Schedule B-1 provide for simplified cost finding. The simplified cost-finding methodology provides for allocating general service (overhead) costs directly to revenue producing and non-reimbursable cost centers.

Column 1: Enter the direct costs associated with the services listed on lines 17 through 33, Column 7, Schedule B.

Column 2, 3, and 4: Multiply the unit cost multiplier on Schedule C by the detail on Schedule C. The products shall be entered on the corresponding lines on C-1.

Column 5: The sum of Columns 1, 2, 3, and 4.

Column 6: Multiply the unit cost multiplier on Schedule C, Column 4, by the detail on Schedule C, Column 4.

Column 7: Enter sum of lines 5 and 6 for each service area and transfer amounts in Column 7, lines 17 through 23, before and after, to Schedule D, Column 2, and Column 7, Lines 24 through 27, before and after, to Schedule E, Column 2.

Column 7: Line 28 and 29 to Schedule E, Part III, column 6, line 14 and 15.

SCHEDULE B-1 - COST ALLOCATION - STATISTICAL BASIS

Schedule B-1: This schedule shall be used to provide the statistics necessary for the allocation of general services costs among the service areas on Schedule B.

Column 1: Enter in Column 1, the total square feet of the building and fixtures applicable to the cost center to which depreciation shall be allocated on Lines 17 through 33.

Line 34 shall be the total of lines 17 through 33.

Line 35 shall be the total of Line 1, 3, 4, 10, 11, and 14, Column 6, Schedule B.

Line 36, divide line 35 by line 34 and enter the amount oil line 36.

Column 2: Enter in column 2, the mileage for each service area on Lines 17 through 33.

Line 34 shall be the total lines 17 through 33.

Line 35 shall be the total of lines 2, 5, and 13, Column 6, Schedule B.

Line 36, divide line 35 by line 34 and enter the amount on line 36.

Column 3: Enter in Column 3 the gross salaries paid to employees in each service area on Lines 18 through 33.

Line 34 is the total of lines 17 though 33.

Line 35 is the total of line 7, Column 6, Schedule B.

Line 36, divide line 35 by line 34 and enter the amount on line 36.

Column 4: Enter in Column 4, accumulated costs on lines 17 through 33, Column 5, Schedule C-i.

Line 34 is the total of lines 17 through 33, Column 4. Line 35 is the total of lines 6, 8, 9, 12, 15, and 16, Schedule B.

Line 36, divide line 35 by line 34; enter the resulting unit cost multiplier on line 36.

SCHEDULE C - APPORTIONMENT OF HOME HEALTH PATIENT SERVICES

This schedule provides for the apportionment of Home Health patient service costs to Medicaid Services only. In addition, this schedule provides for the application of Medicare and Medicaid cost limitations, if applicable, to each Home Health Agency's total allowable cost in determining the Medicaid reimbursable cost.

The computation of Medicaid reimbursable cost shall be determined by utilizing the lower of the average cost per visit, Medicare cost limits, or Medicaid cost limits compared on an aggregate basis.

Column 2 - Amounts - Enter in column 2 the amount for each discipline from Schedule C-1, column. , lines as indicated in Column 1.

Column 3 - Enter the total agency visits from statistical data Schedule A, Column 1, for each type of discipline on lines 1 through 6.

Column 4 - This is the average cost per visit for each type of discipline. Divide the cost (column 2) by number of visits (column 3) for each discipline.

Column 5 - Enter Medicare cost limits from the Medicare notification letter for each discipline, lines 1 through 6.

Column 6 - Enter Medicaid cost limits as specified in the appropriate reimbursement letter for each discipline, lines 1 through 6, if applicable.

Column 8 - Enter Medicaid Program Visits for each discipline, lines 1 through 6.

Column 9 - Multiply the average cost per visit (column 4) by the Medicaid visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 9.

Column 10 - Multiply the Medicare cost limits (column 5) by the Medicaid visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 10.

Column 11 - Multiply the Medicaid cost limits (column 6) by the Medicaid visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 11.

Line 7 Sum of lines 1 through 6 for appropriate column.

Line 8 Enter the lesser of column 9, column 10, or column 11, line 7.

Part II - Cost Per Visit Computation (for visits with service dates on or after 7/1)

See instructions for Part 1, columns 2 through 1.

Line 8 Enter the lesser of column 9, column 10, or column 11, line 7.

Line 9 Enter the total visits from Part I, line 7, Column 8 and Part II, line 7, Column 8.

PART III - Medical Supplies Computation

Column 1 Enter cost from line 17, column 7, Schedule C-1.

Column 2 Enter total charges from facility records.

Column 3 Divide amount in column 1 by amount in column 2.

Column 4 Enter Medicaid charges, column 5, Line 1, Multiply ratio in column 3 b amount in column 4.

Column 5 Multiply ratio in column 3 by amount in column 4.

Column 5, Line 2 Add amount in column 11, line 8, Part 1, column 11, line 8, Part II, and column 5, line 1, Part III.

Schedule D - Calculation of Reimbursement Settlement

Part I, Computation of the Lesser of Reasonable Cost or Customary Charges

Line 1 Cost of services from Schedule D, Part III, line 2, column 5.

Line 2 Amount of Medicaid charges.

Line 3. If line 1 is greater than line 2, enter the excess cost on line 3, if applicable.

Part II, Computation of Reimbursement Settlement

Line 4 Enter total reasonable cost from line 1.

Line 5 Enter excess reasonable cost from line 3, if applicable.

Line 6 Subtract lines 5 from line 4.

Line 7 Enter amounts received from third party payors.

Line 8 Enter amounts received from the Medicaid Program.

Line 9 Enter incentive payment (determined by utilizing data from the applicable Medicaid Paid Claims Listings and rate notices issued to provider on July 1.)

Line 10 Enter total interim payments (lines 7+8-9)

Line 11 Enter balance due Provider or Medicaid Program (line 6-10) . Indicate overpayments in parentheses ( ).

Schedule E - Apportionment of HCB Patient Service Costs and Calculation of Reimbursement Settlement

Part I, Cost Per Visit Computation (for Visits with service dates prior to July 1)

Column 2 - Enter amount in Column 2 from Schedule C-1, Column 7, for each discipline in Column 1.

Column 3 - Enter in Column 3, lines 1 through 4 total units\visits from Schedule A, Column 1, lines 7-10, for each discipline.

Column 4 - Compute the average cost per visit for each type of discipline. Divide the number of visits (Column 3) into the cost (Column 2 for each discipline of service on lines 1 through 4.

Column 5 - Enter the Medicaid Cost Limits per discipline. (The Department for Medicaid Services shall furnish the limits to the HHA effective July 1 of each year.)

Column 6 - Enter the Title XIX units\visits from the Medicaid Paid Claims Listings on lines 1 through 4.

Column 7 - Multiple the average cost per visit (column 4) by the Title XIX Visits (Column 6) for each discipline, lines 1 through 4 and enter the product in Column 7.

Column 8 - Multiple the Title XIX Cost Limits (column 5) by the Title XIX Visits (Column 6) for each discipline, lines 1 through 4 and enter the product in Column 8.

Part II - Cost Per Visit Computation (for visits with service dates after July 1)

Column 2 - Enter amount in Column 2 from Schedule C-1, Column 7, for each discipline as indicated in Column 1.

Column 3 - Enter in Column 3, lines 7 through 10 total units\visits from Schedule A, Column 1, lines 7-10 for each discipline.

Column 4 - Compute the average cost per visit for each type of discipline. Divide the number of visits (Column 3) into the cost (Column 2) for each discipline of service on lines 7 through 10.

Column 5 - Medicaid Cost Limits - Enter the Medicaid Cost Limits per discipline as indicated or average cost.

Column 6 - Enter the Title XIX units\visits from the Medicaid Paid Claims Listings on lines 7 through 10.

Column 7 - Multiple the average cost per visit (column 4) by the Title XIX Visits (Column 6) for each discipline, lines 7 through 10 and enter the product in Column 7.

Column 8 - Multiple the Title XIX Cost Limits (Column 5) by the Title XIX Visits (Column 6) lines 7 through 10 and enter the produce in Column 8.

Part III - Respite Care and Minor Home Adaptation Calculation

Line 14, Column 6 - Enter allowable cost for Respite Care from Schedule C-1, Line 28, Column 7.

Line 14, Column 7 - Enter Respite Care Charges from Medicaid Paid Claim Listings.

Line 14, Column 8 - Enter lesser of Line 14, Column 6 or Column 7.

Line 15, Column 6 - Enter allowable cost for Minor Home Adaptation from Schedule C-1, Line 29, Column 7.

Line 15, Column 7 - Enter Minor Home Adaptation Charges from Medicaid Paid Claims Listings. Line 15, Column 8 - Enter lesser of Line 15, Column 6 or

Column 7.

Part IV - Calculation of Reimbursement Settlement

Line 16 = Enter sum of Lines 6 and 12. Column 8.

Line 17 - Enter total charges for Waiver Program (excluding Respite and Home Adaptation) from Paid Claims Listing.

Line 18 - Reimbursable Cost. Enter the lesser of Line 16 or Line 17.

Line 19 - Reimbursable Respite and Home Adaptation Cost. Enter the sum of Lines 14 and 15. Column 8.

Line 20 - Total Medicaid Cost. Sum of Lines 18 and 19.

Line 21 - Enter amount received from the Program for Waiver Program services from the Medicaid Paid Claim Listings.

Line 22 - Enter Continuing Income or TPL from the Medicaid Paid Claim Listings.

Line 23 - Enter Balance Due Program\Vendor (line 20 minus lines 21 and 22) . Indicate overpayments in parentheses ().