NEWS 'N VIEWS

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New York State Nursing Home Reimbursement Reform

At Last! When the final 2006-2007 New York State budget was passed, it incorporated reimbursement changes that will have a positive impact for most facilities in the state. The nursing home industry will experience a new base year for the first time since the 1986 rates were issued utilizing 1983 base year costs. Many facilities have been rebased since then, due to facility sale, transfer and new construction. However, for the facilities that have been dealing with 20 + year old costs with a system of corrections, adjustments and offsets, all we can say is it is about time!

The final budget includes several positive reimbursement changes. It also outlines several issues that will be addressed going forward by a workgroup including associations representing facilities and nursing home residents. As a result, while we will have to wait for final clarification on certain items, there is definitely enough information for facility management to start planning.

There is a 4-year phase in for the new methodology, so the full impact of the change will not be incorporated until 2010. Starting January 1, 2007 there will be an add-on to the rate. The add-on will reflect approximately 30% of the estimated increase to a facility's rate based on the new methodology and will be based on the Joint Association Task Force calculation of estimated rates for facilities. These estimates will be calculated utilizing the base year cost reports and it is thought that an appeal process will be in place to address issues and corrections to original data.

One area that management can begin to address is a review of base year costs to determine whether any corrections should be made and whether appeals to that data need to be filed. 2002 will be the new base year, unless the facility has rebased after 2002. The direct, indirect and noncomparable classifications have not changed significantly. Therefore, we are advising clients to start analyzing their submitted 2002 Medicaid cost reports to ensure that costs are complete and accurately classified in accordance with the cost report instructions. While the methodology calls for the deletion of the administrative and general cap, it will still incorporate an indirect and direct base and ceiling into the calculation of those components of the rate. Therefore, if costs are classified incorrectly between the direct and indirect classification it could impact the rate if the facility is over the ceiling in one area and not in another.

The methodology also continues to include a wage equalization factor. Therefore, a review of nursing salaries between nursing administration and skilled nursing should be performed. Reported hours worked and paid for each salary classification in these cost centers should be examined to ensure that they are accurate based on the expenses reported.

Another area to look at is any costs that were allocated using statistics. Crosswalks of expenses between the trial balance and cost report schedules should be reviewed to make sure allocations make sense. Reported square footage and other statistics should be reviewed for accuracy.

The methodology includes the phase out of the Patient Review Instruments (PRIs) and the phase in of the Rug-III classifications. Facilities will no longer be dealing

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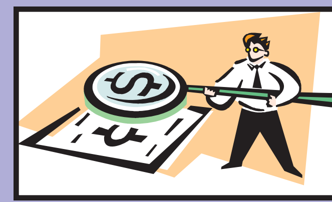
INVESTMENTS: THE UNTAPPED RESOURCE

Investments for most organizations are usually the largest liquid asset, and in some cases, have become the most underutilized resource.

Over the past year, I have seen a surprising number of clients (not-for-profit and for-profit) who in addition to adopting a hands-off approach to investing, have neglected to update the accounting records (general ledger) to reflect the ongoing unrealized and realized investment activity. Having an experienced investment advisor to perform your purchases and sales may be beneficial to maximize your potential return. Relying on the monthly investment statements to understand the impact to your organization may not be enough. It is also not cost-beneficial to wait for the auditor or tax preparer on an annual basis to complete the necessary summarizations since the costs incurred could be dramatically reduced if completed internally by a staff member.

On a monthly or quarterly basis, I recommend reflecting all of the purchases, sales, realized and unrealized gains or losses, investment income and investment fees in the general ledger. The process can be simplified if your investment advisor prepares a comprehensive monthly report, which tracks your cost basis for each investment and is able to provide accurate realized gains and or losses. The activity (for a month or quarter) can then be easily summarized on a spreadsheet and converted to a general journal entry.



Interest income and net of expenses could be immediately available to supplement current operations, especially when experiencing temporary dips in positive cash flow. This is increasingly more valuable for those organizations negatively impacted by the reduction in available grants. Knowing your historical rate of return also helps when forecasting your future cash needs and calculating operational budgets.

Another untapped resource is the net investment return earned on some permanently restricted endowment funds. Many endowment funds are initially structured to allow the grantee organization access to the investment income to fund operations perpetually, as long as the originally endowed “principal” is not invaded. Therefore, if the investment return is properly tracked the organization can have immediate access to income when in need and can be included in the forecasting and/or budgeting.

Sharon L. Jurs, CPA
Manager

NYS Nursing Home Reimbursement Reform ... *cont’d from page one*

with two systems once the transition is complete. The case-mix will be frozen in the 2007 and 2008 rates based on the last 2006 PRI submission, while the State and the workgroup to incorporate the federal mix into the rate methodology. There is a provision for facilities to update their case-mix if it increases by .05 or more. If a facility requests an update based on an increase in the case-mix, they will be required to continue to submit updated PRIs resulting in updated case-mixes both positive and negative for the remainder of the transition period. Management should make sure PRI submissions for the remainder of 2006 are reviewed for accuracy, as they will impact the facility going forward for two years. In addition, if management has any indication that the case mix will be increasing by .05 or more, then the added time and effort should be expended to track the PRI scores going forward.

The methodology also requires the base year to be updated again by 2012, and then at least every 6 years after that. In addition the wage equalization factors will be required to be updated every three years. This should be kept in mind when cost reports are prepared in the future.

The change in methodology should be viewed as an exciting time for facilities. Management should make sure that they understand how the methodology works and what impacts it to ensure that they are receiving all the reimbursement they are entitled to. As always, your Marvin representative is available to assist you with this process and we are just a phone call away.

Carol A. Hausamann, CPA
Director

Interviews as Part of Your Audit

As an audit client, you may have wondered why we ask to speak to different individuals within your organization. With increased emphasis on fraud prevention, deterrence and detection, the AICPA issued Statement on Auditing Standards (SAS) 99, *Consideration of Fraud in a Financial Statement Audit*. This standard requires that we consider fraud in audits of financial statements. Interviewing an organization's employees is one facet used to implement this standard.

Interviews are a useful tool to help us gather information about internal controls and fraud risks for several reasons. Employees involved in the day-to-day operations of a functional area have the best knowledge of that area, and they can assist in identifying weak internal controls and fraud risks. Employees may have knowledge of suspected, or actual frauds that interviews can bring to light. Employees may be reluctant to tell management about internal control weaknesses, and suspected or actual fraud even when the organization has a fraud reporting mechanism in place. When interviewed by the auditor, employees are often more willing to discuss these issues.

In obtaining information necessary to identify the risk of fraud in financial statement audits, SAS 99 requires that we make inquires regarding:

- -Management's communication to employees appropriate of business behavior.
- -Programs and internal controls designed to prevent, deter and detect fraud.
- -Understanding of the fraud risks associated with the organization.
- -Monitoring fraud risks.
- -Knowledge or suspicion of fraud.
- -Awareness of any allegations of fraud

In addition to our management inquiries, we are required to make inquiries of other individuals within the organization about the risk of fraud. These interviews of operating personnel at various levels of authority help us to identify risks of material misstatement due to fraud.

The purpose of our interviews is to learn new facts or to confirm previously-obtained information. The interviews are conducted privately, in a friendly, non-threatening manner, designed to allow the interviewee to speak freely. Questions are structured in an open-ended fashion to encourage the individual to volunteer information, rather than limiting their responses to "yes" or "no."

SAS 99 identifies two types of fraud that auditors should be aware of: "misstatements arising from fraudulent financial reporting" and "misstatements from misappropriation of assets." To address these types of fraud, we generally make inquiries of individuals involved with financial reporting as well as those with direct or indirect access to the organization's assets. To obtain information about misstatements arising from fraudulent financial reporting, we interview employees involved in initiating, recording, or processing complex or unusual transactions. To obtain information about the possibility of financial statement fraud due to misappropriation of assets, we interview employees that typically handle cash. In addition, inquiries may be made of individuals responsible for purchasing or receiving goods or services.

Although your auditor will take notes during the interviews, this is not meant as a distraction to disrupt the flow of the interview. In fact, the auditor's notes are part of satisfying the SAS 99 requirement that the auditor document the "procedures performed to obtain information necessary to identify and assess the risks of material misstatement due to fraud."

If the interview responses indicate a lack of internal control, overrides of internal control, potential fraudulent activities or other specific risks, our audit procedures may need to be expanded in the identified areas. Identifying and addressing these risks in your organization is an important part of keeping your organization on the right track.

If you would like more information about an auditor's role in assessing your organization's risk, please contact your Marvin and Company representative.

Karl F. Newton, CPA
Manager

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