

Reporting on Medicaid/Medicare cost reports

Inquiry – Third-party payors may require health care organizations to prepare and submit “cost reports” as a condition of participation a payor’s program. The most common examples are Medicare and Medicaid. Sometimes, a specific payor (such as a state Medicaid program) will require health care organizations to obtain an audit of their financial statements and further, will require some form of independent auditor association with or “certification” of cost reports submitted by the health care organization. No standards exist that define or specify what is meant by “certification” of a cost report. As stated in the Appendix to SOP 00-1, *Auditing Health Care Third-Party Revenues and Related Receivables*, a financial statement audit conducted in accordance with generally accepted auditing standards does not include rendering an opinion or any form of assurance on the entity’s compliance with laws and regulations, nor does it provide any assurance on an entity’s cost report. Consequently, auditors have expressed concern that providing such certification might erroneously imply that they are providing assurance on the entity’s cost report or on its compliance with cost report rules or regulations. When an auditor has been engaged to perform an audit of a health care organization’s basic financial statements, what form of report should the auditor issue to comply with the certification requirement?

Reply – The auditor could enter into a separate engagement to examine the cost report under AT 601, *Compliance Attestation*. However, typically states do not require such extensive services and therefore, health care organizations may be reluctant to engage the auditor to perform such an examination. If a health care organization includes their cost report as accompanying information with their audited basic financial statements, an auditor may report on the cost report as accompanying information in accordance with AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* or AU 550, *Other Information in Documents Containing Audited Financial Statements*¹. If certain cost report amounts or statistics have been subjected to auditing procedures applied in the audit of the basic financial statements, the auditor may express an opinion on whether this accompanying information is fairly stated, in all material respects, in relation to those basic financial statements taken as a whole. The following is an illustration of such an “in relation to” opinion on certain data within a cost report:

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial and statistical data on pages x through x, designated with the tickmark “#”,² that are excerpted from ABC Health System’s [identify title of cost report, such as “Annual Report of Hospitals and Hospital Health Care Complexes”]³ for the year ended December 31, 200X,

¹ AU 550 applies if the financial statements and information are contained in a client-prepared document, rather than an auditor-submitted document.

² It should be clear from the description in the auditor’s report and/or the specific page as to which data is, and which data is not, covered by the “in relation to” opinion.

³ This wording presumes that the supplementary information is comprised of specific pages or schedules excerpted from the cost report. If the entire cost report is included as supplementary information, this sentence might be reworded to read “Certain supplementary financial and statistical data designated with

identified by Declaration Control Number xxxxxxxx and prepared as of *[insert date that cost report was submitted]*⁴ are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial and statistical data, designated with the tickmark “#”, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to ABC Health System’s basic financial statements taken as a whole. Those auditing procedures applied in the audit of the basic financial statements were not intended to determine compliance with, and therefore would not detect compliance with or deviations from, the applicable instructions furnished by the *[identify related regulators, such as “XYZ State Department of Health”]* relating to the preparation of the cost report or the reporting requirements contained in the *[identify related regulations, such as “XYZ State Medicaid Accounting and Reporting Manual”]*⁵. None of the other information included in the accompanying schedules excerpted from *[identify source]* has been subjected to the auditing procedures applied in our audit of the basic financial statements referred to above and, accordingly, we express no opinion or any other form of assurance thereon⁶.

This report is intended solely for the information and use of Management and the Board of Directors of ABC Health System and the *[identify requesting organization, such as “XYZ State Department of Health”]* and is not intended to be and should not be used by anyone other than these specified parties.⁷

Because this is a restricted-use report, the auditor should consider the guidance in AU 532, *Restricting the Use of the Auditor’s Report* paragraphs 12 and 13 before deciding whether to combine this report with the auditor’s report on the basic financial statements.

the tickmark “#” in ABC Health System’s *[identify title of cost report, such as “Annual Report of Hospitals and Hospital Health Care Complexes”]* for the year ended December 31, 200X...”

⁴ A provider’s as-filed cost report may subsequently be revised; therefore, the auditor’s report should clearly identify the specific version of the cost report to which the “in relation to” report applies, such as by identifying specific control numbers and/or date of preparation/filing. Doing so will eliminate any future misunderstanding as to the version of the cost report/cost report excerpts covered by the “in relation to” opinion.

⁵ As discussed in the Appendix of SOP 00-1, *Auditing Health Care Third-Party Revenues and Related Receivables*, an auditor engaged to perform a financial statement audit in accordance with generally accepted auditing standards would not be in a position to express an opinion, or provide negative assurance, regarding compliance with cost report preparation instructions or rules and regulations covering reimbursement as promulgated by the government program.

⁶ A disclaimer should be included as to any other data included in the supplementary information.

⁷ Restrictive use language should be included in the report. AU 532.04 states that the auditor should restrict the use of a report when (a) the subject matter of the auditor’s report or the presentation being reported on is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with generally accepted accounting principles or an other comprehensive basis of accounting (OCBOA) or (b) the auditor’s report is issued as a by-product of a financial statement audit and is based on the results of procedures designed to enable the auditor to express an opinion on the financial statements taken as a whole, not to provide assurance on the specific subject matter of the report.