



EXECUTIVE MEMO

TO: Executive Directors
Finance Directors

FROM: W. Chris Clark, CPA, CGMA
CFO

SUBJECT: Guidance on Proper Accounting for COVID-19 Crisis Federal Funding to Eliminate Risk of a Negative Impact on DDSN Medicaid Cost Reports

DATE: October 19, 2020

The purpose of this memorandum is to provide guidance to Providers receiving DDSN grant funds and also obtained or anticipate obtaining COVID related stimulus funding [e.g., Payroll Protection Program (PPP); Cares Act Provider Relief Fund (PRF); and Federal Emergency Management Agency (FEMA)]. This guidance is needed to ensure Providers using stimulus funding for payroll or other costs do not inadvertently encroach on proper Medicaid cost reporting to DDSN in annual reports. Provider's full accounting of Medicaid costs from DDSN contract payments are critical to maintaining the fiscal soundness of the DDSN's funding model.

DDSN guidance requires setting forth technical accounting guidance to permit Providers to uniformly account for stimulus funding related transactions, which will create transparency to properly separate these costs from DDSN Medicaid cost data used in annual cost reports. Once stimulus funding related costs are properly and transparently accounted for, it will clarify for all at what point a Provider's Medicaid reportable costs to DDSN ends and where the proper use of these supplemental funds begins.

Both DDSN and Providers have a shared responsibility and obligation to ensure accurate Medicaid Cost Reports and other federal COVID-19 crisis stimulus funding documents. We both sign a type of formal attestation on all these documents, often under the penalty of perjury. This DDSN guidance is designed to protect both of our interests of filing in a manner to ensure costs are accurately reported and the same Provider cost(s) are not inadvertently used to justify receiving duplicate funding from multiple federal programs.

The "where is the line" guidance between DDSN Medicaid costs and other federal COVID-19 crisis supplemental funding costs will be set forth first in understandable terms for non-accountants and accountants. The technical accounting will be presented last inasmuch as this will generally be consumed by only accounting/finance personnel. Absent providing this guidance, each Agency will be left to record these activities in a variety of manners causing problems for all parties in the future. These problems can be avoided by clarifying reporting preferences on the front end of this somewhat complex issue.

PPP, PRF, FEMA vs. DDSN Funded Medicaid Expenditures

The programs rolled out by the Federal government in response to COVID-19 have been rolled out with a variety of imbedded concerns caused by lack of clear guidance issued by these Agencies. Our approach to providing guidance related to this area will be to rely on each Provider to make their own decisions related to claiming

costs under these programs. Most federal awards come with an embedded expectation that funds awarded and expended under these programs is to **supplement not to supplant** existing federal funding. The CARES Act contains a reference to this expectation. Generally, this is an expectation of all federal awards to include PRF and FEMA. Additionally, the cornerstone of claiming any costs is that they are not counted more than one time.

Our general guidance in this area will be as follows:

- 1) The following rules will apply to all capitated funds, Case Management funding, Early Intervention funding, and any other program for which you file a Medicaid Cost Report.
- 2) If you received supplemental funds as a result of COVID, then your Agency must first fully expend contract funds provided by DDSN. Without clear guidance from the federal government, it is our opinion that revenues and expenses should be looked at for a full fiscal year when applying this calculation. For example, your Agency would need to have fully expended all of FY 2020's contract funds and any other source of funds as reflected on each cost report.
- 3) The requirement to fully expend DDSN funds must be applied at the contract level. For example, we anticipate that you will fully expend DDSN funds first before claiming cost under another program. This expectation is set at the contract level – all capitated funds, each non-capitated contract, and each special grant. Note that non-allowable Medicaid Costs such as OPEB and GASB 68 accruals must be removed when determining if DDSN funds have been fully expended.
- 4) As in the past, any other funds coded to these programs are considered to be spent before DDSN funds are expended. Room and board charges, OSS, local funds, other state funds, etc. must be spent first, then DDSN funds, and then finally these COVID specific resources.
- 5) If, after filing your cost reports for FY 2020, you determine that you claimed costs that were not properly reported, then you will need to file an amended cost report for each cost report that is impacted. The latest you can file an amended cost report for FY 2020 is November 30, 2021. You will also be required to file an amended audit report if it is impacted by this change.
- 6) If you do not fully expend our funds based on our review and you claim costs under another federal program, then DDSN has the right and obligation to recoup the portion of costs diverted to the other funding source causing the shortage in Medicaid Allowable Certified Public Expenditures.

Example of the Ordering of Expending Funds:

Funding Received: \$300,000 PRF Grant
Contract: Case Management
DDSN Revenue for FY 2020: \$100,000
Other Revenue for FY 2020: \$5,000
Total Revenue for FY 2020: \$105,000
Total Medicaid Allowable Expenses for FY 2020: \$130,000
Excess Expenses for FY 2020: \$25,000

In this example, DDSN's position is, for this contract, \$25,000 of expenses incurred in FY 2020 are eligible to be claimed under the stimulus funding. The key aspects of this computation requires that the Provider determine Medicaid allowable costs for each contract with DDSN. Since we do not establish the rules for each of the stimulus funds you may have received, it is incumbent upon each Provider to determine if the \$25,000 in excess expenses can be claimed or not after considering each program's requirements.

Supplementary Schedules in Audited Financial Statements

- 1) We are providing an additional schedule that we are requesting be completed and included in your audit report's supplementary schedules. This additional schedule is only required if you intend to, or anticipate, claiming any expenditures under another funding source (such as PPP, PRF, FEMA, or other sources). We are asking that you identify any supplemental funding/loans that you have obtained along with details of how and where these funds were expended. The additional schedule and instructions are provided along with this memo.
- 2) If you have received funding from the PPP, we ask you account for the activity in the appropriate department and expense category as you would have otherwise done. As far as reporting PPP loan forgiveness/revenues (once you have fulfilled the recognition requirements under FASB or GASB), we ask you report forgiveness as a non-program revenue or other source of funds in the supplementary schedules. We request any amount be reported as follows:

Non-Program Revenues (Expenses)
Discharge of PPP Loan/Gain on Extinguishment

- 3) If you have received funding from the PRF, we ask you account for the activity in the appropriate department and expense category as you would have otherwise done. As far as reporting PRF revenues (once you have fulfilled the recognition requirements under FASB or GASB), we ask that you report any amount recognized as revenue as a non-program revenue or other source of funds in the supplementary schedules. We request any amount be reported as follows:

Non-Program Revenues (Expenses)
CARES Act Provider Relief Fund Grant

- 4) Note that costs paid for by alternate funding sources should still receive their representative share of indirect cost allocations. In other words, any expenses funded by other sources should not be subtracted out of expenses when arriving at Modified Total Direct Costs (MTDC). For guidance related to cost allocations and Medicaid Cost Reports, please visit our Finance and Audit Resources web page.

Statement of Net Position (or Financial Position) and Note Disclosures

Any cash balances held at year end from PPP, PRF, or other restricted purposes should be reported as restricted cash. These funds must be clearly identified in your note disclosures if not readily identifiable on the Statement of Net Position (or Financial Position).

Capital Assets

If you have any capital assets funded by PPP, PRF, or federal other sources, you must clearly identify the assets in your depreciation schedule. Any depreciation on these assets will not be allowable for Medicaid Cost Report purposes.

Medicaid Cost Reports

When reporting your Medicaid allowable costs for FY 2020, you will start with the amounts reported in your supplementary schedules. If you have identified expenses you plan to claim under PPP, PRF, FEMA, or other sources, and you have not recognized revenues under the accounting standards, we have a potential timing problem if this is not handled consistently by each Provider. The following is guidance related to how we would like these activities reported in your Medicaid Cost Reports.

- 1) If revenue is recognized, the expenses associated with the revenue must be offset with an adjustment in the Medicaid Cost Reports. Any associated administrative costs, even if not includable in your forgiveness or claim, must be also removed. These costs are not allowable under Medicaid and instead are attributable under the other program that they are being claimed.
- 2) If revenue is not recognized, any expenses that you have or intend to claim under PPP, PRF, FEMA, or other sources, we ask you to adjust the costs out of your Medicaid Cost Reports. Any associated administrative costs, even if not includable in your forgiveness or claim, must be also removed. These costs are not allowable under Medicaid and instead are attributable to the other program that they are being claimed.

3) Indirect Cost Allocations:

Any expenses of intermediate (indirect) cost centers (Administration, Transportation, Residential Management, Maintenance, etc.) to be claimed under PPP, PRF, FEMA, or other sources cannot be claimed in your Medicaid Cost Reports. Your Medicaid Cost Report allocation of indirect costs will have to be completed ensuring that proper offsets have been made. An adjustment will need to be made for the allocated costs to adjust the amounts per the Audited Financial Statements to the amount allowable for Medicaid.

4) Capital Assets:

Depreciation on any capital assets paid for by PPP, PRF, FEMA, or other federal sources cannot be claimed on your Medicaid Cost Reports. Any depreciation on these items must be backed out of your expenses in your direct and indirect cost centers. Any allocated costs should not contain depreciation for these items.

5) Reporting of Day Program Costs:

We have conveyed to Providers since the inception of COVID that costs related to day program activities, regardless of the location of these services, must be reported as Adult Day Program costs. Most of you have provided Day Program services in your residences. Any costs associated with day program activities in the residences is a day program cost, not a residential program cost. All costs must be properly captured in the Adult Day Program cost center. If you did not capture these costs in your books accordingly, a cost report adjustment should be made to capture these costs in the Adult Day Program schedule.

6) USDA Food Program Revenues and Associated Expenses:

Many Providers have applied for and received a waiver to provide meals to consumers in the residences. Traditionally, these meals were provided in a congregate day facility setting. We ask Providers to ensure any costs paid for by the USDA food program are properly matched with the revenues for this program. In other words, the costs incurred should be recorded in the same cost center as the revenues. If this is not the case, it is imperative when reporting your Medicaid allowable costs that any costs paid for by USDA be removed as a Medicaid allowable cost.

Extension of Time to File Medicaid Cost Reports

Due to the timing of the issuance of the guidance contained in this memo and our desire to ensure the accuracy of cost reports submitted to us, we will consider provider requests for an additional extension of time to file

their Medicaid Cost Reports. The maximum extension to be granted will be until November 30, 2020. To request an additional extension of time submit a request to chris.clark@ddsn.sc.gov.

Reissuance of Audit Reports

We have informed our Provider network for at least the last five months that we would be issuing further guidance on how we want these activities reported in our audit reports and cost reports. We issued a memo on August 26, 2020 indicating that we are providing an additional 30 day extension to file reports. In this memo, we expressed that additional time would be given, in part, to allow us additional time to get this guidance issued. Despite our efforts to convey the need to hold off on filing any reports, it appears that some Providers have already completed and filed their audit reports with DDSN. Each Provider that has finalized their audit reports at this time must consider the need to file a corrected/revised audit report to incorporate the requested reporting. If the additional schedule we are requesting to be completed by you is the only thing missing from your audit report, you are permitted to complete this document and submit it outside your audited financial statements in lieu of filing a corrected/revised audit report.

This memorandum serves as a supplement to audit directive 275-04-DD "Procedures for Implementation of DDSN Audit Policy for DSN Boards" issued and effective March 19, 2020. This memorandum does not affect audit directive 275-06-DD "Procedures for Implementation of DDSN Audit Policy for Contracted Service Providers".

Should you have questions regarding this guidance, then please email financial.techsupport@ddsn.sc.gov. If the matter requires a phone contact, then someone will contact you to discuss your question/comment.