

**Arizona Department of Health Services  
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**10.1.1      Introduction**

It is the policy of NARBHA to require providers to perform certain tasks, which are required by the Arizona Department of Health Services (ADHS), The Arizona Health Care Cost Containment System (AHCCCS), and NARBHA in a manner that is both timely and of acceptable quality.

**10.1.2      References**

[PM Attachment 10.1.1-Sanction Schedule](#)

[PM Attachment 10.1.2-Provider Income Statement](#)

[PM Attachment 10.1.3-SAPT Federal Block Grant Revenue and Expense Report](#)

Federal Audit OMB A-87: Cost Principles for State, Local and Indian Tribal Governments; relocated to 2 CFR Part 225: Cost Principles for State, Local and Indian Tribal Governments

[Federal Audit OMB A-110](#): Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations; relocated to 2 CFR, Part 215

[Federal Audit OMB A-122](#): Cost Principles for Non-Profit Organizations; relocated to 2 CFR Part 230: Cost Principles for Non-Profit Organizations

[Federal Audit Circular OMB A-133](#); Audits of States, Local Governments, and Non-Profit Organizations

[ADHS Accounting and Auditing Procedures Manual for ADHS Funded Programs](#)

[Community Mental Health Services Block Grant](#)

[Substance Abuse Prevention and Treatment Block Grant](#)

[ADHS/DBHS/NARBHA Provider Manual](#)

[ADHS/DBHS Covered Behavioral Health Services Guide](#)

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**10.1.3 Scope**

All NARBHA Providers

**10.1.4 Objectives**

The objective of this policy is to ensure that NARBHA providers comply with NARBHA requirements in a timely and qualitative fashion.

**10.1.5 Procedures**

**10.1.5-A: Provider Financial Reporting**

**Requirements of Provider**

- NARBHA providers are required to complete specific reporting requirements on a timely and accurate basis. The NARBHA Financial Analyst coordinates the financial reporting by providers.
- The information obtained by NARBHA from these reports is used for a variety of important purposes, so it is imperative the reports be submitted in a format which provides for comparability with both previous submissions and with other providers. The NARBHA Manager of Financial Review, in conjunction with the NARBHA Chief Financial Officer (CFO), is responsible for format reviews, training providers on report formats and revising policies, if necessary, to indicate format changes. See Section [10.1.5-C](#) for the format for the monthly presentation of the Program Income Statement (MPIS), Adherence to NARBHA Requirements for Preparation of the Program Income Statement. The format for all other reports is determined by the provider, but is to adhere to Generally Accepted Accounting Principles (GAAP).
- Financial documents submitted in response to these requirements are prepared in accordance with GAAP. The NARBHA Manager of Financial Review, in conjunction with the CFO, is responsible for this function. If the provider believes there is any inconsistency between the guidelines of this policy with GAAP, the provider may direct those concerns to the NARBHA Manager of Financial Review and/or CFO.
- Provider responsibility for reporting financial information requires full disclosure of all relevant information, as well as full disclosure of all source materials. The NARBHA Manager of Financial Review enforces this requirement.
- Providers are subject to a NARBHA audit at any reasonable time. NARBHA may conduct surprise audits during the regular business hours of any provider. The NARBHA Manager of Financial Review, in conjunction with the CFO, is responsible for this function.

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**Reporting**

The following constitutes the required reports and time frames for providers:

<b>ITEM</b>	<b>FREQUENCY</b>	<b>DUE DATE</b>	<b>PROVIDER TYPE</b>
Provider Budget	Minimum Annually	Ten (10) Days After Board Approves (Each Time)	Responsible Agencies (RAs), Block Purchase Providers (BPPs) and Other Providers as required by Contract or Letter
Cost Allocation Plan	Annually	July 1 each year	RAs, BPPs and Other Providers as required by Contract or Letter
Cost Center/Procedure Code Budget	As required by NARBHA	As indicated	As indicated
Balance Sheet (Statement of Financial Position)	Monthly	Twenty-five (25) Days After Month End	RAs, BPPs and Other Providers as required by Contract or Letter
Program Income Statement (Includes Cost Allocation)	Monthly	Twenty-five (25) Days After Month End	RAs, BPPs and Other Providers as required by Contract or Letter
Independent Audit	Annually	One hundred fifteen days (115) after fiscal year-end (October 23 <sup>rd</sup> ) or as stated in Contract	RAs, BPPs and Other Providers as required by Contract or Letter.
Updated June 30 <sup>th</sup> Program Income Statement with audit adjustments	Annually	Thirty (30) days after submission of the Independent Audit	RAs, BPPs and Other Providers as required by Contract or Letter.
SAPT Federal Block Grant Revenue and Expense Report	Quarterly	Twenty five (25) days after month end and fiscal year-end	RAs, BPPs and Other Providers as applicable to funding

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The following represents item-specific requirements that NARBHA requires from providers:

- **Provider Budget** - This document is submitted by the provider each time it is approved by its Board and/or each time there is a significant change, whether Board-approved or not. This budget is submitted in the same format as the Board-approved, if applicable, or in the same format as is used internally in cases where the Board has not approved the change.
- **Cost Allocation Plan** - Each year the provider is required to submit a plan which describes its intended methods of charging direct cost, and also allocating items of shared expense to programs for purposes of completing the MPIS and Cost Center/Procedure Code Budgets, as well as ad-hoc reports. Nonprofit providers or state, local or tribal governments use [Federal Audit Circular OMB A-122](#), A-87 or A-110 for guidance. The NARBHA Financial Analyst reviews the plan for appropriate allocation of costs (see Section [10.1.5-B](#), Provider Cost Accounting).
- **Cost Center/Procedure Code Budget** – Is an annual document prepared by the provider that reviews the unit cost of delivering specific services. It is both cost-center and procedure-code specific, and is based on actual cost. Submission of this document is at the request of the NARBHA Chief Executive Officer (CEO) or CFO.
- **Balance Sheet (Statement of Financial Position)** - This report is prepared in accordance with the current GAAP standards. In addition to Generally Accepted Accounting Principles, at a minimum NARBHA requires full disclosure of the following items:
  - NARBHA Receivables and NARBHA Payables separated by prior fiscal year and current fiscal year (may include the vendor accounts payable for immaterial invoices) ;
  - Incurred But Not Reported (IBNR) Liabilities separated by prior fiscal year and current fiscal year;
  - Deferred (or unearned) Revenue.

At their discretion, providers may also footnote optional financial statement disclosures.

- **Program Income Statement** - This report is an interim un-audited Income Statement or Statement of Activities for the provider, segregated into its program components. A standardized format is maintained and provided by NARBHA, although ultimately the provider is responsible for adapting it to reflect the organization and programs it operates.

The report must show all program components separately and therefore the provider is encouraged to establish separate cost and revenue objectives (columns) in its allocation worksheets. All items of revenue and expense are shown for each program where they pertain. Programs in which NARBHA participates financially are expected to show associated revenue from other sources and expenses for non-NARBHA clients as well. Discrete programs of a non-behavioral health nature in which NARBHA does not participate financially and in which there are no NARBHA-enrolled clients are to be shown in the non-NARBHA columns. For more information, see Section [10.1.5-C](#), Adherence to NARBHA Requirements for Preparation of the Program Income Statement.

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Specific Purpose columns have been designed to report other business activities that may service NARBHA members but funds for these activities are not provided by NARBHA. These columns are to be titled with the specific purpose of the activity. The provider should not combine the various activities into one column. Columns can be added as needed.

- **Independent Audit** - Each provider submits an audit report covering its activities for the previous fiscal year. This report must be prepared by an independent Certified Public Accountant and must adhere to current Generally Accepted Auditing Standards (see Section [10.1.5-I](#), Independent Audits). For those providers (either for-profit or non-profit agency) who receive \$500,000 or more in federal funding (excluding Medicare/Medicaid) are required to follow the guidelines of OMB A-133. Providers who do not meet the requirement of a Single Audit will be required to submit a standard audit.
- **Updated June 30<sup>th</sup> Program Income Statement with audit adjustments** – This report is a year to date MPIS which includes audit and other year end adjustments made to the providers financial records subsequent to the submission of the June MPIS to NARBHA. This report is to be submitted in the MPIS format.
- **SAPT Federal Block Grant Revenue and Expense Report** – This report is a year-to-date quarterly report which summarizes the federal revenue received and expenses for the SAPT federal block grant according to the DBHS prescribed format. ([PM Attachment 10.1.3](#)).

#### **Other**

NARBHA may provide limited technical assistance in the preparation of these materials. Materials submitted by providers that do not meet the criteria of this policy or the standards indicated under References may be required to be resubmitted. The NARBHA Sanction Policy covers these requirements (See Section [10.1.5-G](#), Sanctions)

#### **Review**

NARBHA providers are required to submit specific reports in a timely and accurate manner. The reports shall be in accordance with current GAAP standards, on the formats described by this policy. The NARBHA Financial Analyst summarizes and reports findings to the NARBHA Manager of Financial Review who records findings on the Provider Deliverables Report. The report is shared with the NARBHA Leadership Council. The NARBHA CEO or CFO shall be notified of any notable findings regarding the provider financial reports.

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**10.1.5-B: Provider Cost Accounting**

**Requirements**

The Responsible Agencies (RAs) and Block Purchase Providers (BPPs) shall prepare a Provider Cost Allocation Plan consistent with [Federal Audit Circular OMB A-122](#), A-87 or [A-110](#), if appropriate. The plan shall also address NARBHA's requirements.

- Providers submit an annual Cost Allocation plan to NARBHA for an annual fiscal period beginning July 1, whether that is the fiscal year of the provider or not. This plan shall be submitted to NARBHA by July 1. In addition, providers who have fiscal years other than July 1- beginning years may also submit an allocation plan that aligns with the beginning of their fiscal year.
- All provider prepared financial deliverables submitted to NARBHA shall be according to the providers Cost Allocation Plan. Information contained in deliverables submitted to NARBHA is used in NARBHA decisions about credentialing, contracting, funding, and in other areas (See Section [10.1.5-A](#), Provider Financial Reporting).

**Review**

- The NARBHA Financial Analyst reviews Provider Cost Allocation plans for consistency with [Federal Audit Circular OMB A-122](#), A-87 or [A-110](#), if appropriate, and with NARBHA requirements, if any. The Provider Cost Allocation Plans are considered as having gained implied approval unless the NARBHA Manager of Financial Review indicates in writing that the plan is unacceptable within thirty (30) days of its receipt. No action or inaction by NARBHA which is related to Provider Cost Allocation Plans indicates to the provider that the plan meets the requirements of [Federal Audit Circular OMB A-122, A-87 or A-110](#), if appropriate.
- The NARBHA Manager of Financial Review or CFO report instances of a provider failure to submit a Cost Allocation Plan, or to adhere to the plan, to the appropriate internal committee or the NARBHA Leadership Council which may require corrective action or take other action that it deems appropriate.

**10.1.5-C: Adherence to NARBHA Requirements for Preparation of the Program Income Statement**

**Requirements of Providers**

All NARBHA Responsible Agencies (RAs) and Block Purchase Providers (BPPs) are required to complete the Program Income Statement and submit it by the due date established in Section [10.1.5-A](#), Provider Financial Reporting. The MPIS is to be prepared using the accrual method of accounting to recognize both revenue and expense, and show all activities of the organization, whether related to the behavioral health business in which NARBHA funds are utilized or not.

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The activities reported on the MPIS are for a one month period. NARBHA summarizes these activities to determine a year-to-date total. Upon an interim audit, the year-to-date activities shall tie to the provider's general ledger.

The MPIS format used by the providers shall be consistent with the NARBHA-mandated format (see [PM Attachment 10.1.2](#)). The provider may modify the format with the addition of columns as necessary to reflect activities in which the provider engages. Disclosure of the purpose of these modifications is required.

- Provider activities of a like-kind nature, whether funded by a NARBHA fund source, a non-NARBHA fund source, or a combination of fund sources, are reported in the same program column on the appropriate row unless separately identified in a specific purpose column of the MPIS. Information on like-kind services may be analyzed by NARBHA to support decisions (i.e. service expansion, rates and funding, etc.).
- The annual Provider Cost Allocation Plan is used to charge direct and allocate indirect costs. In this effort, the provider should employ the "matching principle" of accounting so that expenses are recorded for each program in a way that reflects the underlying staff activity in that program (see Section [10.1.5-B](#), Provider Cost Accounting). Account balances of zero are shown as "0", not left blank.
- Providers with multiple locations may, with NARBHA's approval, submit individual MPIS for each location. The provider must predetermine on which MPIS the Other NARBHA, Specific Purpose and Non-NARBHA activity will be reported. The combination of the multiple MPIS must equal the providers' Income Statement (Statement of Activity).
- Related Business Entities controlled by provider should be included on the MPIS in columns to the right of the Total column on the MPIS. (See [10.1.2 Attachment Provider Income Statement](#)). Related Business Entities are other entities which will be included in the combined or consolidated financial statements of the annual audit.
- NARBHA issues and keeps current, instructions for provider preparation of the MPIS. These instructions reflect current NARBHA requirements for proper preparation of the MPIS. Detailed reporting requirements of revenue and expense are outlined below.
- To control costs NARBHA provides the providers the ability to participate in the bundled purchase of specific administrative services. As outlined in the NARBHA Internal Policy 2724, "Provider Support" these services include tele-med support, pension program, annual audit services, staff recruitment, computer system support and market salary surveys. The NARBHA System Budget lists the providers participating in the program and the annual cost of the service under the title of "Provider Support." The cost of the service would be reported by the provider on the Program Income Statement (MPIS) at 1/12<sup>th</sup> of the annual cost.

### Reporting

#### **Income Statement Funding/Program Reporting by Column:**

The report must show all program components separately and therefore the provider is recommended to establish separate cost and revenue objectives (columns) in its allocation worksheets. All items of revenue and expense are shown for each program where they pertain. Programs in which NARBHA participates financially are expected to show associated revenue from other sources and expenses for Non-NARBHA clients as well.

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Funding/Program Column Header	Description
<b>BLANK</b>	State Funding for Mental Health Subvention (formerly Tobacco Tax) revenue and expenses has been eliminated as of 6/30/10.
<b>TITLE 19 GMHSA</b>	All applicable Title 19 GMH/SA revenue and expenses. Service provisions as guided by the ADHS Covered Services Guide, including Protocall services and Jail Assessments/Diversions.
<b>BLANK</b>	State Funding for Subvention Substance Abuse revenue and expenses for non-Title 19/21 members has been eliminated as of 6/30/10.
<b>SAPT CD RES</b>	All applicable Subvention Chemical Dependency (CD) Residential revenue and expense as funded by SAPT Federal Block Grant. Service provisions as guided by the ADHS Covered Services Guide
<b>TITLE 19 CD RES</b>	All Title 19 GMH/SA Chemical Dependency (CD) Residential revenue and expenses related to Chemical Dependency residential services. Service provisions as guided by the ADHS Covered Services Guide.
<b>SUBVENTION CRISIS</b>	All applicable Non-Title 19/21 Adult and Children Crisis revenue and expenses including crisis phone services, mobile crisis services, crisis stabilization services at a Level I, etc.; as guided by the ADHS Covered Services Guide.
<b>TITLE 19 SMI</b>	All applicable Title 19 SMI revenue and expense. Services are rendered according to the ADHS Covered Services Guide, including jail assessment/diversion, recovery programs.
<b>CMHS FBG – SMI (non-crisis)</b>	All applicable revenue and expense associated with Federal Block Grants for Community Mental Health Services Federal Block Grant (CMHS) for SMI population, including flex funds. Excludes expenses associated with Title 19/21 covered services. Services rendered are according to the ADHS Covered Services Guide and ADHS CMHS FAQ. As of 1/1/11 CMHS SMI funds cannot be used for room

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	and board services.
<b>SUBVENTION SMI</b>	All applicable Non-Title 19 revenue and expense per Non T-19 SMI Benefit Package; as guided in the ADHS Covered Services Guide. <b><i>All applicable non-Title 19/21 Subvention Subacute/PHF/PAC revenue and expenses associated with Subacute/PHF/PAC services for SMI and GMH adult populations has been eliminated as of 6/30/10.</i></b>
<b>TITLE 19 Subacute (PHF)</b>	All Title 19 revenue and expenses applicable to Subacute/PHF/PAC services for SMI and GMH adult populations, as guided by the ADHS Covered Services Guide.
<b>SMI SUPPORTED HOUSING</b>	All applicable housing revenue and expenses including staffing and facility expenses. Housing may include, but is not limited to, rent subsidy, purchases of properties, move-in kits, assistance with deposits, utility payments, and eviction-prevention efforts.
<b>COMMUNITY REINVESTMENT – SMI TRANSITION ONLY</b>	All applicable revenues and expenses for transitioning Non-Title 19 SMI to the new State Benefit package. This includes the medication expense prescribed outside the Non-Title 19/21 SMI benefit package. <b><i>All applicable Non-Title 19/21 State child revenue and expense has been eliminated as of 6/30/10.</i></b>
<b>TITLE 19 CHILD</b>	All applicable Title 19 Child revenue and expense. Sub-Acute/PHF/PAC and Respite revenues and expenses as applicable. For guidance on appropriate services see the ADHS Covered Services Guide.
<b>CMHS FBG – Child (SED) (non-crisis)</b>	All applicable revenue and expense associated with Federal Block Grants for Community Mental Health Services Federal Block Grant (CMHS) for SED Children, including flex funds. As of 10/1/10 CMHS SED funds are for Non AHCCCS services for Title 19 SED children. Excludes expenses associated with Title 19/21 covered services. For

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	covered services refer to the ADHS Community Mental Health Services Block Grant FAQ dated 10/21/10.
<b>TITLE 19 CMDP CHILD</b>	All applicable Title 19 CMDP Child revenue and expense. Sub-Acute/PHF/ PAC and Respite revenues and expenses as applicable. For appropriate services refer to the ADHS Covered Services Guide.
<b>TITLE 21 KIDS CARE</b>	All applicable Title 21 Kids Care revenue and expenses (Child and Adult SMI) including Respite. For appropriate services refer to the ADHS Covered Services Guide.
<b>BLANK</b>	All applicable Title 19 Adult and Child Navajo DDD revenue and expense will be combined with the Adult DD or Child DD programs, as applicable.
<b>TITLE 19 ADULT DD</b>	All applicable Title 19 Adult DD revenue and expenses as applicable Title 19 DD members, including Navajo DD members. For appropriate services refer to the ADHS Covered Services Guide.
<b>TITLE 19 CHILD DD</b>	All applicable Title 19 Child DD revenue and expense for Title 19 DD members, including Navajo DD members. For appropriate services refer to the ADHS Covered Services Guide.
<b>SAPT PREVENTION</b>	All applicable non-Title 19/21 SAPT Prevention revenue and expenses, including intervention. As guided by DBHS there are no agency profits for this program
<b>SAPT RURAL DETOX/STABILIZATION</b>	All applicable non-Title 19/21 SAPT Rural Detox/Stabilization revenue and expenses. For appropriate services refer to the ADHS Covered Services Guide.
<b>SAPT (non-crisis)</b>	All applicable revenue and expense associated with Federal Block Grants for Substance Abuse including general services, flex funds, services for women with children (pregnant and parenting), adolescents and HIV. Excludes expenses associated with Title 19/21 covered services and the Prevention, CD Residential and Rural Detox/Stabilization Programs. For appropriate services refer

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	to the ADHS Covered Services Guide.
<b>TITLE 19 RURAL DETOX/STABILIZATION</b>	All applicable revenue and expense associated with Title 19 rural detox/stabilization services. For appropriate services refer to the ADHS Covered Services Guide.
<b>OTHER NARBHA</b>	Any NARBHA revenue and associated expense which is not identified in the NARBHA System Budget at the direction of the NARBHA CFO. For example the PASRR & Community Reinvestment (excluding NT-19 SMI transition funds) programs. Also any revenue or expense for prior year activity.
<b>NON-NARBHA</b>	Discrete programs of a non-behavioral health nature in which NARBHA does not participate financially and in which there are no NARBHA-enrolled clients.
<b>Specific Purpose (enter name of program in the column header on the MPIS)</b>	Other programs for behavioral health related services funded by pay sources other than NARBHA. For Example: Pharmacies, PACs, etc. (See 10.1-4 for additional information).
<b>***UNALLOWABLE COSTS</b>	All revenue and expense that is for items deemed unallowable by the Provider Cost Allocation Plan and <a href="#">Federal Circular OMB A-122</a> & A-87 or its successors. **Example of these expenses following tables.
<b>TOTAL</b>	Total of each line item (revenue and expense) as listed within the MPIS.
<b>RELATED BUSINESS ENTITIES</b>	Revenue and expense activity for related entities controlled by the provider that will be included in the annual audit report. Additional columns can be inserted for additional entities.
<b>Category by Line Item</b>	<b>Description</b>
<b>Revenue</b>	Revenue amounts are attributed to program/funding based on the nature of client treatment, client diagnosis, client eligibility for a particular fund source, and provider/service eligibility for a particular fund source. Amounts shown as revenue must be recognized in the current period.
<b>REVENUE FROM NARBHA, INC.</b>	Reported as “gross” realizable amount, including sums paid by NARBHA for out-

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	of-home treatment, and medications plus the amount retained by NARBHA in anticipation of out-of-area costs. NARBHA revenue also includes amounts reserved for payment back to NARBHA for provider support activities. NARBHA revenue also includes amounts from distributions by NARBHA of residual funds not booked by the provider as revenue in previous periods. The NARBHA System Budget indicates the maximum annual amount of funding available for specific fund sources. For most NARBHA fund sources, the annual amount of available funding is fixed and should be reported as 1/12 <sup>th</sup> of that annual amount for each month elapsed in the fiscal year. For types of NARBHA revenue that are variable, providers report the amount as earned.
<b>SPECIALTY GRANTS AND OTHER CONTRACT FUNDS</b>	Other revenue earned from specialty grants or other contract funds not passed through NARBHA, allocated to program/fund columns. This includes funding for T-36 clients.
<b>CLIENT FEES (CO-PAY)</b>	Co-payments billed for client services as described in the ADHS NARBHA Provider Manual reported to the program/fund column. This includes co-payments for Non-NARBHA members.
<b>THIRD PARTY RECOVERIES</b>	Third-party liability insurance recovered from third party insurances as described in the ADHS NARBHA Provider Manual.
<b>A. MEDICARE</b>	Medicare eligible client amounts due from Medicare reported to the program/fund column. This includes for Non-NARBHA members.
<b>B. OTHER INSURANCE</b>	Any other third party insurer liable for claim payment reported to the program/fund column. This includes for Non-NARBHA members.
<b>INTEREST INCOME</b>	Reported by specific program/fund column at the discretion of the provider preparing the report.
<b>*OTHER</b>	Fund raising, donations and revenues from other business activities conducted by the provider

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<b>TOTAL REVENUE</b>	<b>Summation of all revenues reported.</b>
<b>Expenses</b>	
<b>Salary</b>	
<b>CASE MANAGEMENT</b>	Case Management Service Expense as identified in the ADHS/DBHS Covered Behavioral Health Services Guide.
<b>PSYCHIATRY</b>	Only those expenses of licensed psychiatrists and psychiatric nurse practitioners.
<b>OTHER BH PROFESSIONAL</b>	All other medical professional, including nurses and non-psychiatric physicians.
<b>CLINICAL SUPERVISION</b>	Expenses include clinical activities such as: Program planning, clinical monitoring, non-billable clinical consultation, clinical research, supervision of quality management/utilization review, enrollment, member assessment, eligibility determination, and other activities conducted by clinical staff.
<b>SUPPORT</b>	Staff activities that are directly related and attributable to billable services (claiming). Examples: housekeeping & maintenance work, cooking, charting, clinical training, preparation for providing billable services, client staffing, staff meeting. Medical records clerking, collateral contracts, talking on the phone regarding clients, serving as a receptionist and making client appt.
<b>ADMINISTRATION</b>	Activities devoted to the overall operation of the provider and not directly related to billable services. Examples: monitoring and evaluating the delivery of services, research and general program evaluation, data collection and reporting, information processing work, attending administrative meetings, accounting and fiscal management, management information systems services (MIS), attending association meetings, meetings with funding sources, non-clinical training, personnel work, writing procedure manuals, program planning and development, non-billable technical assistance.

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<b>**TOTAL SALARY</b>	<b>Summation of all Salary Expense reported.</b>
<b>**TOTAL ERE (Employee Related Expenses)</b>	All total ERE calculated according to salaries reported. (i.e. payroll taxes, employee benefits, etc)
<b>Professional &amp; Outside</b>	
<b>PSYCHIATRY</b>	Only those expenses of licensed psychiatrists and psychiatric nurse practitioners contract by the provider and not a member of provider's staff.
<b>OTHER IN-HOUSE</b>	Contracted services for other professionals who are not members of provider's staff and do not provide direct billable services.
<b>SVCS-LOCAL PROVIDERS</b>	The actual expense associated with using local providers for treatment of clients for amounts which a Provider pays.
<b>Svcs- Labs</b>	The actual expense associated with using laboratory services for treatment of clients for amounts which a Provider pays.
<b>SVCS-OTHER TX PROVIDERS (BY NARBHA)</b>	Expense by which NARBHA on the behalf of the provider, has paid, will pay, or for increases/decreases to the IBNR used in the independent audit of the previous fiscal year. The actual expenses associated with using an outside treatment provider for treatment of local clients are direct-charged to the program fund source that is most appropriate. The allocation of these costs across multiple program fund sources through an allocable expense pool is inappropriate because the dollar amounts involved are large, the number of clients generating the expense is small, and information about the client placement, treatment, age, intake status, etc. is available. In certain circumstances expenses associated with client treatment must be direct-charged to multiple fund sources and/or because of client eligibility changes. (Example: residential treatment is allowable for Title XIX, but the associated flex fund expenses are unallowable for Title XIX and therefore must be charged to Federal Block Grant

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	programs.)
<b>SVCS-MED</b>	All medication expenses are to be reported. Medication through the Pharmacy Benefit Manager contracted with NARBHA. Medication expenses as contracted between providers and pharmacies. Any medication expense experienced through provider controlled pharmacies as some providers may have independent (LLC) pharmacies. Pharmacy rebates are reported as a reduction of service expense as guided by OMB A-122 Section A(5)(a).
<b>PROVIDER SUPPORT TO NARBHA</b>	Amounts paid by providers to NARBHA for provider support activities. This expense is reported according to program/fund source columns.
<b>TOTAL P&amp;O</b>	<b>Summation of all expenses reported for Professional and Outside Services.</b>
<b>TOTAL TRAVEL</b>	Staff non-billable travel expense.
<b>TOTAL OCCUPANCY</b>	Interest but not mortgage payments. Recovery amounts relating to provider owned facilities, such as periodic expenses such as utilities, maintenance, small items, etc.
<b>TOTAL OPERATING</b>	NARBHA Sanction Expense and Medications – Bulk according to program. General office supplies. Unallowable expenses including bad debt expense are reported in the Unallowable Costs column.
<b>TOTAL DEPRECIATION</b>	These expenses are kept current, even if estimates are used all interim periods and are shown in a separate expense category. Depreciation expense should be reported at least quarterly, if not monthly.
<b>TOTAL EXPENSES</b>	<b>Summation of all expenses reported.</b>
<b>NET INCOME FROM OPERATIONS</b>	<b>Total Revenue minus Total Expenses.</b>
<b>PROGRAM SPECIFIC CAPTIAL EXPENDITURES</b>	Capital expenditures allowable per the contract with NARBHA for a specific program/fund source are charged to that program/fund source directly in accordance with the Provider's Cost Allocation Plan. Other capital expenditures not allowable for a specific program/fund source are reported in the Unallowable Cost Column the MPIS.

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<b>TOTAL PROPERTY OR INVESTMENT GAINS(LOSSES)</b>	Report realized gains and losses from holding property and from investments. Unrealized losses are not reported in the MPIS. Unrealized losses would be reported in the Balance Sheet (Statement of Financial Position).
<b>NET INCREASE/(DECREASE)</b>	<b>Total Revenue minus Total Expense adjusted for Allowable Program Specific Capital Expenditures and Total Property or Investment Gains/(Losses).</b>

**\*Footnote disclosure required:**

**\*Other Revenue** – Revenue earned from fund raising and donations is shown in specific program/fund columns in a way that reflects the wishes of the donor(s). If a donor does not specify the uses of the donation, then this revenue is reported in specific program/fund column at the discretion of the provider preparing the report.

**\*\*Salaries and ERE** – If rates or rate increase are included in the financial information disclosure about positions, amount of raises or rate of increase is to be included at a minimum. This would include staff that provides both Direct Client Service and Support Functions

**Examples of Unallowable Costs (full listing identified in [OMB A-122 & A-87](#)):**

- Bad Debts - Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable.
- Contingency Provisions - Contributions to a contingency reserve or any similar provisions for unforeseen events are unallowable.
- Donations and Contributions - Made by the provider are unallowable.
- Entertainment Costs - Costs to providers for their own amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.
- Fines and penalties - Costs resulting from violation of, or failure to comply with Federal, state, and local laws and regulations are unallowable.
- Matching Funds - Funds used to match other grants and contracts are unallowable.
- Government Expenses including Indian Tribal government- The salaries and expenses of the Office of the Governor of a state, or the chief executive of a political subdivision, are considered a cost of general state or local government and are unallowable. However, for a federally-recognized Indian Tribal Government, only that portion of the salaries and expenses of the office of the Chief Executive that is a cost of general government is unallowable. The portion of salaries and expenses directly attributable to managing and operating Federal programs by the Chief Executive and his staff is allowable. The allowable portion shall be determined by the cognizant Federal Agency and the Indian Government.
- Losses on other sponsored agreements or contracts - Any excess of costs over income on any award is unallowable as a cost of any other award.
- Lobbying - The cost associated with most kinds of lobbying and advocacy activities performed by nonprofit grantees and contractors with Federally-appropriated funds is unallowable.

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- [Federal Block Grants](#) - For Clarification of Federal Block Grant Restrictions, see Section [10.1.5-F](#), NARBHA Compliance with Federal Block Grand Requirements. Providers are responsible for adhering to rules of various government and regulatory agencies' rules on unallowable costs.

**Review**

- Providers adhere to the instructions issued by NARBHA for the preparation of the MPIS.
- NARBHA may audit provider methods used in preparation of the MPIS from time to time.
- Instances of provider non-compliance with the instructions for the MPIS are reported to the appropriate internal committee by the NARBHA Manager of Financial Review on an “as needed” basis. Non-compliance with instructions for the MPIS may result in corrective action, referral of the matter to the NARBHA Leadership Council, or other action as deemed necessary.

**10.1.5-D: Provider Financial Analysis**

**Requirements of RAs and BPPs**

- It is expected that all financial information submitted is prepared in a method consistent with Generally Accepted Accounting Principles, ADHS Accounting and Auditing Procedures Manual for ADHS-Funded Programs, and [Federal Audit Circular OMB A-122: Cost Principles for Nonprofit Organizations](#), OMB A-110; Uniform Administrative requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations and OMB-87: Cost Principles for State, Local and Indian Tribal Governments, as applicable. The NARBHA Manager of Financial Review and CFO review the information received for appropriate method and format.
- All financial analyses state the basis of, or method of derivation for, the data submitted. For example, if the information submitted uses current period “actual” data as its basis, that basis must be stated. Similarly, if a financial analysis for a new project is based in “historical experience in a similar program”, that basis is stated. The NARBHA Manager of Financial Review ensures that this criterion is followed.
- NARBHA makes available to providers who are preparing financial analyses technical assistance as to the method for preparation. The NARBHA Manager of Financial Review coordinates this function.

**Review**

The NARBHA Manager of Financial Review and CFO may obtain clarification or disclosure from a provider for any activity that is not in compliance with this policy. Unresolved problems are reported to the NARBHA Leadership Council and/or the appropriate internal committee.

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**10.1.5-E: RA Financial Viability Standards**

**Requirements of RAs and BPPs**

NARBHA utilizes certain viability standards to assist in the monitoring of Responsible Agencies (RAs) and Block Purchase Providers (BPPs). The following standards will be used to evaluate provider financial viability, however, these may not be the only standards utilized.

RAs and BPPs remain financially viable at all times by meeting the following standards:

- Assets must exceed liabilities. (Ratio of Assets to Liabilities)
- There must be adequate cash and cash flow to meet near-term cash obligations. (Current Ratio)
- There must be two (2) months worth of operating expenditures in reserve. Operating reserves are defined as the net of Current Assets less Current Liabilities divided by the average monthly net of Total Expenses less Depreciation and Amortization.
- There should be 30 Days Cash on Hand. Days Cash on Hand is defined as Cash and Cash equivalents plus Current Investments divided by the average daily expenses. Average daily expenses are year to date expenses less depreciation and amortization divided by the number of days included in the year to date expenses.
- There must be sufficient equity financing to maintain operations. Net Assets (fund balance) divided by Total Assets should be equal to or greater than .50.
- Providers should strive to have total revenues equal or exceed total expenses under a full accrual method of accounting.
- Administrative expenses must not exceed 15% of total costs in NARBHA-funded programs. NARBHA uses this formula for calculation:

$$\frac{\text{Administrative Salaries Plus Other In-House P\&O}}{\text{Total Salary Plus Total P\&O}}$$

A budget must exist which:

- Enables achievement of organizational goals.
- Has been passed by the Board of the organization, or other responsible parties in the absence of a Board.
- Is monitored by the RA and BPP through internal financial reporting, which goes to the Board and Executive Management.
- Total provider revenue must equal or exceed total provider expenses under a full accrual method of accounting.
- Service funds must be expended in an effort to provide service and make service value for each funding category.

RAs and BPPs not meeting NARBHA financial standards may be declared “non-compliant” by the NARBHA Chief Executive Officer, the NARBHA Chief Financial Officer, the NARBHA Leadership Council, or the NARBHA Board. RAs and BPPs declared “non-compliant” by NARBHA may be required to submit a corrective action plan for achievement of NARBHA financial viability standards. RAs and BPPs declared “non-compliant” by NARBHA may be required to submit extra financial information, be audited at their own expense as a special

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audit, or required to undergo special financial scrutiny of any type determined by NARBHA. RAs and BPPs declared “non-compliant” by NARBHA may be removed from the sub-capitation/risk share funding mechanism and placed on a fee-for-service/prior-authorization-required funding status or other funding status as determined by NARBHA.

#### **Review**

The NARBHA CFO or Manager of Financial Review assesses RAs’ and BPPs’ compliance with standards described above by analyzing RA and BPP financial reports, including:

- The Monthly Balance Sheet
- The Monthly Program Income Statement
- The Annual Independent Audit

Other reports and audit information about the RA and BPP.

#### **10.1.5-F: Compliance with Federal Block Grant Requirements**

NARBHA ensures that Federal Block Grant (FBG) funds received from the Arizona Department of Health Services (ADHS) are accounted for, reported, and used by providers in a manner consistent with the requirements of those funds.

NARBHA requires providers to comply with all other FBG requirements, including those established in the contract between ADHS and NARBHA, and reports information thereon timely when such information is requested.

NARBHA allocates FBG funds to providers consistent with NARBHA Internal Policy. In the system budget document, NARBHA separately identifies FBG funds.

NARBHA requires providers to separately account for FBG funds and to report same to NARBHA in a fashion which meets NARBHA’s or ADHS current reporting needs (i.e. SMI separated from substance abuse, etc.).

NARBHA’s contract with providers identifies discrete funding from FBG and requires providers to submit information about services provided with those funds, as well as the clients to whom those services were provided (i.e., if the clients are registered clients) and the facilities in which those services were provided.

In most cases the information that substantiates the FBG is based on member characteristics, NARBHA requires providers to capture relevant data as a regular part of enrollment procedures (834 Intake and Demographic +), treatment planning and treatment. In situations in which use of the data system to capture information relevant to the substantiation of appropriate use of FBG funds is not feasible, NARBHA requires providers to maintain manual records that substantiate appropriate use of those funds.

Because in many cases the services allowable for use of FBG funds are described at the procedure code level by ADHS, NARBHA enables the reporting of those services by recognizing those procedure codes in provider contracts.

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NARBHA also requires providers to ensure that the notifications of capacity requirements of the FBG are fulfilled.

NARBHA requires providers to adhere to the restrictions on the use of FBG funds. In addition, NARBHA and providers shall not spend FBG funds:

- To provide inpatient hospital services;
- To make cash payments to intended recipients of health services;
- To purchase or improve land, purchase, construct or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment;
- To satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal Funds (Maintenance of Effort);
- To provide financial assistance to any entity other than a public or nonprofit private entity;
- To provide individuals with hypodermic needles or syringes so that such individuals may use illegal drugs, unless the Surgeon General of the Public Health Service determines that a demonstration needle exchange program would be effective in reducing drug abuse and the risk that the public will become infected with the etiologic agent for AIDS.(SAPT funds only);
- To pay the salary of an individual through a grant or other extramural mechanism at a rate in excess of Level I of the Executive Salary Schedule for the award year; see [http://grants.nih.gov/grants/policy/salcap\\_summary.htm](http://grants.nih.gov/grants/policy/salcap_summary.htm)
- To purchase treatment services in penal or correctional institutions of the State of Arizona; and
- Other restrictions on provider expenditures of FBG funds may be included in other policies.

#### 10.1.5-G: Sanctions

- NARBHA develops a list of provider requirements and provider contract deliverables and submission due dates on an annual basis. This list is updated from time to time as circumstances and the requirements of the ADHS and NARBHA change.
- As the due date for a specific deliverable arrives, the applicable NARBHA department staff notes whether specific providers have complied. In addition, NARBHA monitors whether other providers requirements are being met. That department staff may contact non-compliant providers to obtain the deliverable. For each instance of non-compliance by a provider, the department staff may also, take information of the non-compliance to the NARBHA CEO for placement on the agenda of the next NARBHA Leadership Council meeting.
- Providers who fail to submit the required item(s) or otherwise fail to meet its requirements with acceptable quality are subject to sanction as determined by the NARBHA Leadership Council. Sanctions are levied in the discretion of the NARBHA Leadership Council. The Sanctions Schedule as amended from time to time may serve as a guide to the sanctions determined and levied by the NARBHA Leadership Council. (See [PM Attachment 10.1.1.](#))
- If the NARBHA Leadership Council determines that a sanction is appropriate, the NARBHA CEO or designee sends a letter to the provider stating the instance of non-compliance and the sanction levied by the NARBHA Leadership Council. This letter is either faxed, sent via registered mail, or regular mail. Providers who have been sanctioned are expected to provide the deliverable item within five (5) working days after the notice is received if the

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sanction is about a deliverable. Failure of a provider to perform within the allowed five (5) working days after notice is received can result in the process described above being repeated by NARBHA until the provider performs the required task.

- In addition, when the NARBHA Leadership Council determines that a sanction is appropriate, the NARBHA Senior Accounting Clerk or designee sends an invoice to the provider. The provider has twenty (20) days to make payment after the date of the invoice. If payment is not made by the provider within the twenty (20) days, NARBHA may withhold the amount from its next payment to the provider.
- Any sanction(s) instituted by the ADHS against NARBHA for failure to comply with contract requirements are passed on to providers in proportion to their contribution to the region-wide non-compliance. Providers are given notice of their share of the ADHS sanction via a billing sent by the NARBHA Senior Accounting Clerk or designee. The provider has twenty (20) days to make payment after the date of the invoice. If the provider does not make payment within the twenty (20) days, NARBHA may withhold the amount from its next payment to the provider.

**10.1.5-H: Bills Disputed by Providers**

- The Accounting Manager or designee gives the provider twenty (20) days to respond to and/or pay an invoice/billing statement. Any correspondence from the provider is kept with the invoice/billing statement information (Accounts Payable files).
- A second invoice/billing statement is sent if no payment is received within twenty-five (25) days, at which time NARBHA may assess interest on any unpaid balance. Also, the provider's CFO, Director of Finance or Business Manager is contacted by the NARBHA Accounting Clerk or the Business Manager and reminded of the invoice/billing statement.
- After thirty (30) days, if no payment is received, NARBHA retains the right to recoup the invoice/billing statement amount from the provider's payment.
- After recouping the invoice/billing statement amount, any negotiation of a lesser amount or refund/ rebate is solely up to the NARBHA CEO and CFO.

**10.1.5-I: Independent Audits**

It is the policy of NARBHA that providers obtain appropriate annual independent audit coverage. It is the expectation of NARBHA that providers comply with audit requirements of NARBHA, the federal and state governments, and other funding sources. The audit shall include the preparation of certain schedules and other information which NARBHA and others require. The providers will allow NARBHA staff to obtain information readily from their independent auditors. NARBHA uses information obtained from independent audit reports and auditors for decisions about credentialing, contracting, compensation and other matters.

Providers obtain appropriate audit coverage by:

- Complying with the audit requirements of [Federal Audit Circular OMB A-133](#).
- Complying with the audit requirements of the contract between the ADHS and NARBHA.
- Complying with the audit requirements of NARBHA, including certain schedules and information as NARBHA requires.

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- Obtaining a “financial” audit of itself as a whole, NARBHA and other funding sources do not have audit requirements for specific audit coverage. Providers in this category can appeal to the NARBHA CFO for substitution of a review or compilation report. The decision for acceptance of a review or compilation report will be at ADHS’ discretion. NARBHA shall advise providers of this determination.
- Ensuring that all independent audits, or substitute compilations and reviews, are performed by an independent Certified Public Accountant licensed in Arizona, and who meets the Continuing Education standards for performing such an audit, as established by the Arizona State Board of Accountancy, or the similar agency in another state if services were provided to NARBHA members in another state or if the provider is based in another state. Providers are responsible for the costs of obtaining all required audits.
- Providers submit all their independent audit reports, including management letters, to NARBHA no later than 115 days after the end of the fiscal year or by a date stated in the contract, if different. If submitting a Single Audit as guided by OMB A-133 the following items must be submitted as part of the report:
  - Financial Statement and Single Audit including Schedule of Expenditures of Federal Awards (include identifiers and contract numbers for pass-through funds)
  - Copy of the “Data Collection Forms” (SF-SCA)
  - Schedule of Findings and Questioned Costs (if any)
  - Any Financial Statement Findings (if any)
  - Federal Awards findings and Questioned costs
  - Prior Audit Findings (if any)
  - Prior Audit Findings (if any)
  - Corrective Action Plan (CAP)
  - Management Letter (if applicable)
- Thirty (30) days following the submission of the audit reports the provider shall submit an updated June 30 MPIS report to NARBHA, reflecting the audit adjustments made. The next current year balance sheet submission shall reflect the previous year’s audit adjustments. Previously submitted current year’s balance sheets shall not require resubmission.

**Review**

The Financial Analyst and Manager of Financial Review will assess providers’ compliance with auditing standards with the inclusion of the OMB A-133, as applicable. The CFO will be advised of any provider found to have a qualified opinion, significant deficiencies or material findings.

**10.1.5-J: ADHS Encounter Withhold Payback**

Refer to the NARBHA policy for the Reconciliation of Funds Paid by NARBHA and Amounts Earned by Providers. For fiscal year 2009/2010 the ADHS Encounter Withhold Payback will be completed with the final evaluation approximately March 2011. Beginning July 1, 2010 for fiscal year 2010/2011 this process will be eliminated.

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**10.1.5-K: Uncompensated Care**

There are two types of Uncompensated Care: Bad Debts and Charitable Care. An example of bad debts is the result of a patient with the financial capacity to pay but is unwilling to settle the claim. Charitable Care is provided to patients who have demonstrated an inability to pay.

Charitable care may include community benefits such as education, research and essential or unprofitable services.

Charitable care should fulfill the mission of the agency. Charitable care can support the reason the non-profit agency qualifies for tax exempt status.

The criteria for charitable care include:

- Establishment of policies and practices that align with the mission statement and the agency's financial ability. The policy should identify the compliance to state laws.
- The policy must be approved by the agency's governing board.
- The agency should communicate to the members and the community the existence of the charitable care; identifying the eligibility criteria.
- Charitable care is not to be reported in revenue or receivables on the financial statements.

Charitable Care is to be disclosed in the footnotes of the audited financials statements including the valuation method used to determine the cost of services. The footnote should also include the charitable care policy and the amount of charitable care provided.

In addition to hospitals, other health organizations such as outpatient clinic may be affected by charitable care regulations and accounting policies. These regulations apply to both taxable and tax exempt organizations.

Bad debt expense should be classified as an operating expense. Per OMB-A122 provisions for bad debt expense is an Unallowable Cost.