THE ABCs OF THE MEDICARE COST REPORT

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TODAY'S PRESENTER

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Ray brings 9 years of healthcare third-party reimbursement experience to hospitals and multi-specialty health systems. His experience includes Medicare Administrative Contractor audit engagements as well as hospital system Medicare and Medicaid cost report preparation. Ray specializes in finding process improvements and data analysis.

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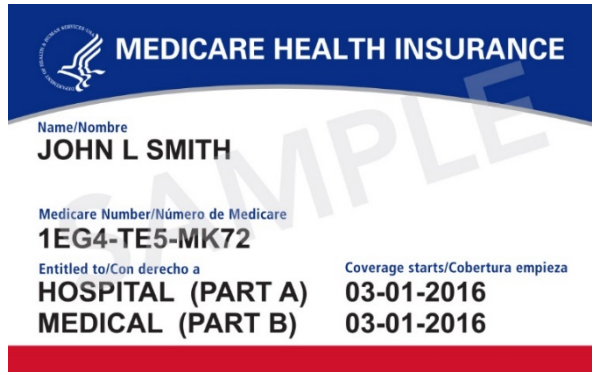
KEY LEARNING OBJECTIVES

1. Brief History of Medicare
2. What is a Cost Report?
3. What are the component parts of the Cost report?
4. Step by Step the flow of the Cost Report by the ABCs

MEDICARE 101

Brief History

- Originally Proposed in 1937 by the US Surgeon General
- Enacted in 1965
  - Original Medicare
    - Part A (Inpatient)
    - Part B (Outpatient)



- Additional Services and Eligibility Have Been Added
  - Managed care option (Part C)
  - Drug coverage (Part D)
  - Coverage for people of all ages with certain disabilities or End Stage Renal Disease

MEDICARE 101

Brief History

- Headquartered in Baltimore
  - Historically was tied to the Social Security Administration (SSA)
- Currently Run by the Centers for Medicare and Medicaid Services (CMS)
  - Part of the Department of Human Services (DHS)
- Various Program payments and requirements have been added

MEDICARE COST REPORT - OVERVIEW

What is the Cost Report?

- The Cost Report is like a Tax Return for Healthcare Facilities
  - Collects Data
    - Descriptive
    - Financial
    - Statistical
    - Non Patient-Specific Data
  - Is used to set rates
    - Wage Index
    - Outlier Payments
    - DSH adjustment and special program payments
    - Calculation for Bad Debt estimated payments

MEDICARE COST REPORT - OVERVIEW

What is the Cost Report?

- Because of all the ways in which the Medicare Cost Report is used, it is a public record and anyone can request any institution's cost report under the Freedom of Information Act
- Calculates Program Payments
  - Totals claim-based charges earned
  - Applies periodic and prospective payments received
  - Combines special program add-ons
    - DSH, Medical Education, Allied Health and more
  - Computes a settlement amount

MEDICARE COST REPORT - OVERVIEW

What is the Cost Report?

- Many parts of the Medicare Cost Report are aggregated and published every year as part of the supporting documentation for some of the Medicare program calculations.
- Some of these published files are called Public Use Files (PUF)
  - PUF files are used for Wage Index data and Medicare Beneficiary statistics
- Management data analytics can use PUF data for use in projecting future Medicare payments.

MEDICARE COST REPORT - OVERVIEW

What Facilities Have Cost Reports?

- Hospitals
- Skilled Nursing Facilities (SNF)
- Home Health Agencies (HHA)
- Renal Facilities (ESRD)
- Hospice care facilities
- Federally Qualified Health Clinic (FQHC)
- Community Mental Health Center (CMHC)

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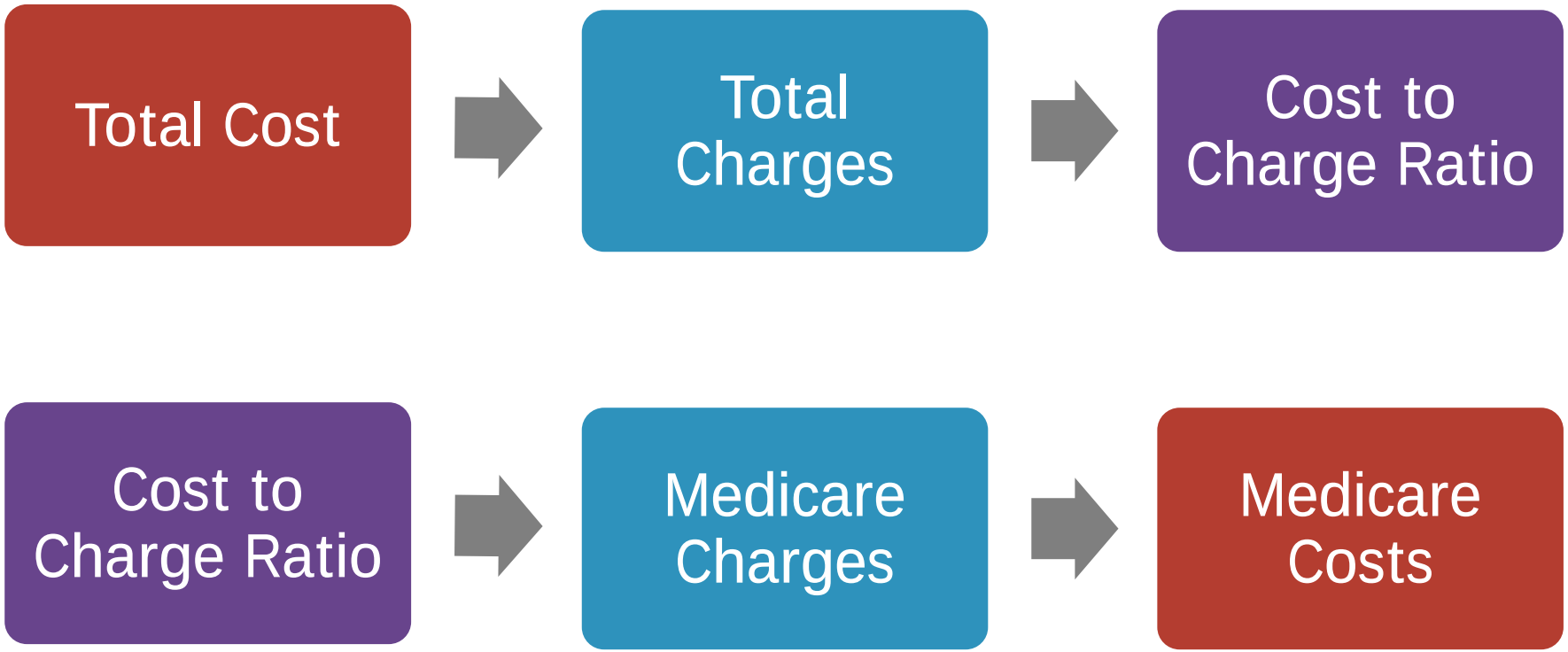
MEDICARE COST REPORT - OVERVIEW

Each Facility Type Has a Different Cost Report Form

- Each cost report form is somewhat different from the others
- The basic structure is similar
- Many hospitals have subunits (like SNFs) that are included in the hospital cost report rather that requiring a separate filing
- Most Medicare payments are now under the Prospective Payment System or a Fee Schedule rather than being cost-based (as they were previously), but the Medicare Cost Report still utilizes the same calculations for cost.
- Today we will be looking at the Hospital cost report Form 2552-10

MEDICARE COST REPORT - OVERVIEW

Basic Formula for Cost Reimbursement



MEDICARE COST REPORT - OVERVIEW

The Next Two Slides are the Most Important!

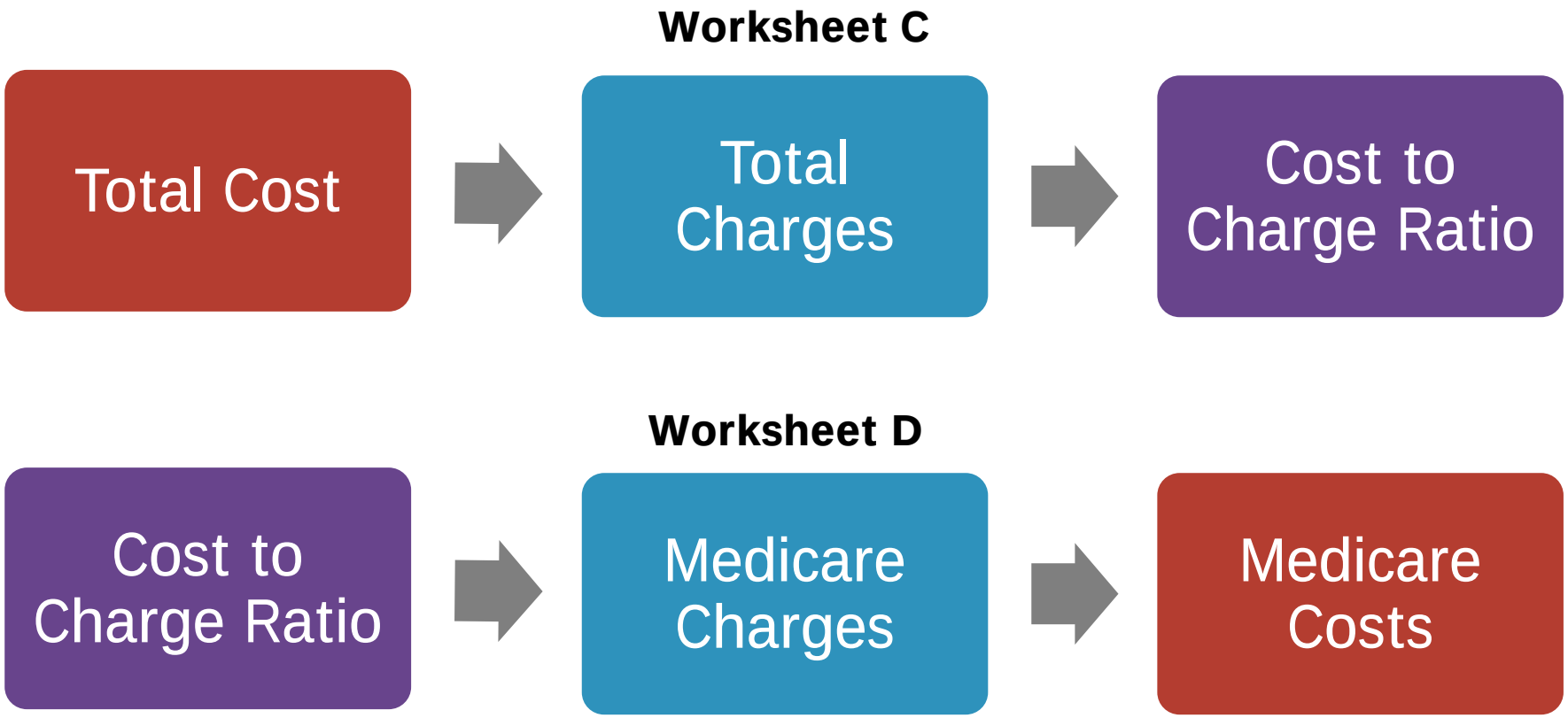
MEDICARE COST REPORT - OVERVIEW

The Most Commonly Used Worksheets (Hospital)

- A series – Costs by department
- B series – Allocation of costs to revenue departments
- C series – Matching of costs with charges by department
- D series – Calculation of Medicare Program charges
- E series – Calculation of settlement payments
- G series – Financial reporting
- S series – Statistical data and facility questionnaire
- Other worksheets are added based on the type of subunits in the hospital as well as any special programs in place

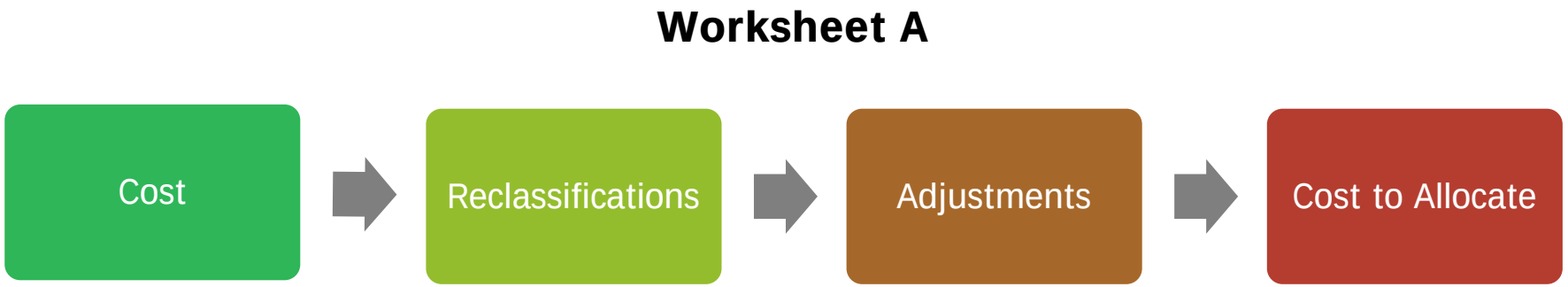
MEDICARE COST REPORT - OVERVIEW

Basic Formula for Cost Reimbursement



MEDICARE COST REPORT - OVERVIEW

Process For Worksheet A Series



MEDICARE COST REPORT – WORKSHEET A

Hospital Cost Report

Worksheet A Series (Costs)

- The Worksheet A series is the most complex of the Medicare Cost Report Worksheet sets
- In total, the costs on Worksheet A should agree with the total costs in the facility Working Trial Balance with only minor reconciling differences
- It is easy for small errors or changes in Worksheet A costs to have huge downstream impacts

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- Worksheet A is divided into lines for each department
  - Some lines are required
  - Some lines can be added as needed and customized for the individual facility
  - Some example departments:
    - Administrative & General
    - Pharmacy
    - Adults & Peds (inpatient)
    - Radiology diagnostic
    - Clinic
    - Gift Shop

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- These are divided into sections:
  - General Service (Overhead)
  - Inpatient Routine
  - Ancillary
  - Outpatient
  - Other Reimbursable
  - Non-reimbursable

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- Worksheet A is divided into columns
  - Categories of cost – Salary / Other Expenses
  - Changes to costs – reclassifications and adjustments

Cost Centers	Salary	Other	Subtotal	Reclassifications	Reclassified Total	Adjustments	Total
Pharmacy	100,000	500,000	600,000		600,000	(25,000)	575,000
Admin & General	100,000	300,000	400,000	(100,000)	300,000	(100,000)	200,000
Adults & Peds	200,000	400,000	600,000	100,000	700,000		700,000
Radiology	100,000	300,000	400,000		400,000		400,000
Clinic	100,000	100,000	200,000		200,000		200,000

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- The Worksheet A series includes supporting sheets that feed into the main sheet:
  - Worksheet A-6, Reclassifications
  - Worksheet A-7, Reconciliation of Capital Costs
  - Worksheet A-8, Adjustments to Expenses
    - Worksheet A-8-1, Related Party Expenses
    - Worksheet A-8-2, Provider Based Physician Adjustments
    - Worksheet A-8-3, Contract Therapy for Cost Reimbursed Facilities

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- Reclassifications are done on Worksheet A-6
  - Increases by cost center – salary and other
  - Decreases by cost center – salary and other
  - Must net to zero
  - Should not reduce any cost to below zero
  - The purpose is to move any costs that are logically aligned with a different area
  - For example, if there is a nurse that primarily is involved in administration, but has 10% of the paid time is actually in a patient care unit, that 10% would be moved to the patient care unit.

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- Worksheet A-6 Reclassification Examples:
  - Inpatient Salary & Other cost for Labor & Delivery services in a Maternity department are split according to the ratio of procedure codes that are Nursery-specific, Outpatient L&D, and inpatient mother post-partum. These costs are then allocated by lines:
    - 30 Adults & Peds
    - 43 Nursery
    - 52 Labor & Delivery

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- Worksheet A-6 Reclassification Examples:
  - In the above L&D/Maternity example there is a cost report that I personally worked on in which the statistic used was the volume of charges by revenue code for three different accounting departments. While the patient care processes did not change from one year to the next, a change how the charges were assigned to the accounting departments dramatically modified the output of the statistic used in building this A-6 reclassification. Because the facility was not cost-reimbursed (PPS) the impact was not material to Medicare reimbursement and not readily apparent upon initial review. However, the downstream impact would have meant about a $700K single-year reduction in Medicaid payments if the variance had not been found and the statistic changed.

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- Worksheet A-6 Reclassification Examples:
  - Medical Supply costs are calculated from Medical Supply charges using a facility-wide set markup rate of 4 to 1 in order to then move the corresponding costs from several patient care departments such as:
    - Line 30 Adults & Peds
    - Line 50 Operating Room
    - Line 53 Anesthesiology
    - Line 57 CT Scan
    - Line 91 Emergency
  - To go to
    - Line 71 Medical Supplies Charged to Patients

MEDICARE COST REPORT – WORKSHEET A

Worksheet A Series (Costs)

- Adjustments are done on Worksheet A-8
  - The purpose is to add or remove costs as needed to follow regulations
  - Adding allowable costs not already on the trial balance
    - Related party costs incurred by another business entity
  - Removing non-allowable costs
    - Physician salary or contract labor that is related to services that are directly billable as Professional Fees under Medicare Part B
    - Retail Pharmacy costs
    - Cost of a state DSH assessment that is then distributed as payments

MEDICARE COST REPORT – WORKSHEET B

Worksheet B Series (Allocations)

- The B Series Worksheets apply a series of direct cost allocations and step-down allocations to move costs from General Service (overhead) cost centers to revenue departments.
  - Capital costs for buildings and fixtures are usually allocated to all cost centers by a square footage statistic.
  - Central Services and Supply expenses are often allocated to other departments based on the number of costed requisitions.
  - Pharmacy costs are often allocated 100% to the Ancillary Cost Center Line 73 Drugs Charged To Patients

MEDICARE COST REPORT – WORKSHEET B

Worksheet B Series (Allocations)

- Worksheet B-1 has columns set up for each General Service cost center in order to zero out the final cost from that line and push it to lines that are further down the list. B-1 has all of the Statistics used to allocate on Worksheet B Part I.
- Worksheet B Part I is where most of the cost allocation actually takes place. The cost report lines are organized such that any costs to be allocated generally go from a lower number to a higher number.
  - Capital costs go from Line 1 to most other lines
  - Employee Benefits Department costs flow from Line 4 to every department with employees in it

MEDICARE COST REPORT – WORKSHEET B

Worksheet B Series (Allocations)

- Worksheet B Part I Examples (continued)
  - Dietary costs go from Line 10 to the Inpatient Routine cost centers like Adults & Peds and the Intensive Care Unit
  - Cafeteria costs go from Line 11 to every department (with a higher cost report line number) with employees in it, often according to hours worked
  - Nursing Administration is often allocated down to Inpatient Routine cost centers according to the nursing hours of each department

MEDICARE COST REPORT – WORKSHEET B

Worksheet B Series (Allocations)

- Worksheet B Part I Rules
  - All allocations are done in the numeric order of the cost report line assignments
  - Any statistical changes in method of allocation require prior approval
  - There is no single “right answer” for an allocation statistic, but all of them have suggested default statistics.
    - As an example, Housekeeping costs might be allocated by Hours of Service at one hospital, but allocated by square footage at another.
  - Changes to a hospital’s organizational structure that change the values of a statistic but not the type of statistic are normal and expected and do not require prior authorization. Changing the square footage number doesn’t require authorization

MEDICARE COST REPORT – WORKSHEET B

Worksheet B Series (Allocations)

- Worksheet B Series Strategies
  - Are all the stats up-to-date?
  - Are some of the stats excessively time consuming?
  - Are the stats allocating costs in a logical and reasonable way?
  - For hospitals with any cost reimbursement, are the stats applying all the appropriate costs to departments that have cost reimbursement?

MEDICARE COST REPORT – WORKSHEET B

Worksheet B Series (Allocations)

- Worksheet B Series Strategies
  - Do you know whether you are using gross or net square footage? Have you compared them to see if the other one would be more favorable?
  - Are services like Housekeeping being assigned only to the departments that actually use them?
  - Are cafeteria costs being assigned to off-site departments that do not have employees who could be utilizing the cafeteria?

MEDICARE COST REPORT – WORKSHEET B

Worksheet B Series (Allocations)

- Worksheet B Series Strategies
  - Laundry and Linen cost that uses pounds of laundry might be simplified by using patient days.
  - Housekeeping cost that is allocated by a time study might be simplified by using square feet.
  - Dietary cost that is allocated by meals served might be simplified by using patient days.
  - Medical Records costs that are allocated by a time study might be simplified by using gross charges
- Simpler doesn’t necessarily mean better.

MEDICARE COST REPORT – WORKSHEET C

Worksheet C Series (Charges)

- The C Series Worksheets take the final costs after all the previous adjustments and allocations and match them to Charges.
  - Charges are shown by Cost Center with any non-reimbursable cost centers removed.
  - Charges for professional fees of the type which would be separately billed under Part B are excluded
  - Charges are split according to Inpatient and Outpatient
  - For each cost center the total costs are divided by the total charges to reach the Cost to Charge Ratio.

MEDICARE COST REPORT – WORKSHEET C

Worksheet C Series (Charges)

- The financial departments that show revenues do not necessarily reflect exactly how the revenues should be applied to the cost report.
  - Some charges will likely show as outpatient when they are in inpatient departments, like Adults & Peds. These will need to be moved or the total charges won't tie to the financials.
  - Some charges will likely show as inpatient when they are in outpatient departments, like Clinic. These *might* need to be moved, but it is possible that moving them could create errors with the Worksheet D series.

MEDICARE COST REPORT – WORKSHEET C

Worksheet C Series (Charges)

- The financial departments that show revenues do not necessarily reflect exactly how the revenues should be applied to the cost report.
  - Some charges will need to be split to multiple cost report lines, even when they are entirely assigned to a single department in the accounting system.
  - Any statistic used to assign these charges on Worksheet C should be noted in order to refer to on the Worksheet D series in case the Medicare Revenue Codes in the Provider Statistical & Reimbursement (PS&R) reports require a similar crosswalk in order to accurately apply these charges to the relevant cost report lines.

MEDICARE COST REPORT – WORKSHEET C

Worksheet C Series (Charges)

- The Medicare Administrative Contractor will look at material changes to Cost to Charge Ratios (CCR) between years for cost report lines that have cost reimbursement.
  - A substantial increase in costs may raise red flags
  - A substantial decrease in charges may raise red flags
  - A substantial increase in CCRs may trigger an expanded audit
  - A CCR greater than 1 or a change of greater that 10% may require an explanation and/or supporting documentation
  - A CCR near zero indicates a possible mismatch of costs and charges

MEDICARE COST REPORT – WORKSHEET C

Worksheet C Series (Charges)

- The key concept is to make sure that expenses are aligned with the revenues that they are responsible for bringing to the facility.
- The total charges must be reconciled to total revenues on the financial statements.
- Cost to charge ratios are not shown for inpatient routine departments but may be relevant to the cost report review process to make sure that material errors have not been made.

MEDICARE COST REPORT – WORKSHEET C

Worksheet C Series (Charges)

- If some professional fees are NOT removed, any cost reimbursement may be negatively impacted. Be sure to look for:
  - Emergency Physicians
  - Anesthetists
  - Hospitalists
  - Radiologists

MEDICARE COST REPORT - OVERVIEW

Basic Formula for Cost Reimbursement

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MEDICARE COST REPORT – WORKSHEET D

Worksheet D Series (Medicare Charges)

- The D series gathers the charge data from PS&R reports and matches it to charge data on the Worksheet C Series
- CCRs are then applied to impute Medicare Cost
- Any charge research and allocations used to apply charges to Worksheet C lines should also be applied to any Medicare charges on the Worksheet D series.
- The Paid-through date of the PS&R report is very important

MEDICARE COST REPORT – WORKSHEET D

Worksheet D Series (Medicare Charges)

- Many facilities require the cost report to be split in order to divide the year by segments that are needed by the Medicare Cost Report.
- Common points of splits include 9/30 and 12/31.
- An un-split PS&R report is also needed for some facilities, such as those with Home Health subunits.
- It is often good to run the PS&R reports multiple times during the cost report preparation and potentially during the year for estimating cost report settlement amounts.

MEDICARE COST REPORT – WORKSHEET D

Worksheet D Series (Medicare Charges)

- The PS&R system will require each person who runs reports for your facility to have a unique login.
- Passwords expire frequently (60 days) and so the users must log in regularly to maintain access.
- In larger systems, reports must be run for each facility individually, but it may be useful to concatenate them for certain reporting processes internally.

MEDICARE COST REPORT – WORKSHEET D

Worksheet D Series (Medicare Charges)

- Why is it important to get the D series right?

Cost Report Line	Charges	CCR	Program Charges	Utilization	Cost Reimbursement (simplified)
Radiology	500,000	0.626034	282,828	0.565656	177,060
CT Scan	500,000	0.054992	115,616	0.231231	6,358
MRI	500,000	0.174395	61,562	0.123123	10,736

- In this example the CT Scan department might have an error in allocating capital costs resulting in a low cost to charge ratio. The MAC might investigate the *Radiology* costs to see if CT costs got put in radiology

MEDICARE COST REPORT – WORKSHEET D

Worksheet D Series (Medicare Charges)

- Why is it important to get the D series right?
  - Overstating or understating costs or charges can have material impacts on cost reimbursement
  - Seemingly small changes on Worksheet A costs can have dramatic results on Worksheet D series calculated Program Costs
  - Even items which have no Medicare impact can have trickle down Medicaid reimbursement impact from Medicare cost report values.

MEDICARE COST REPORT – WORKSHEET E

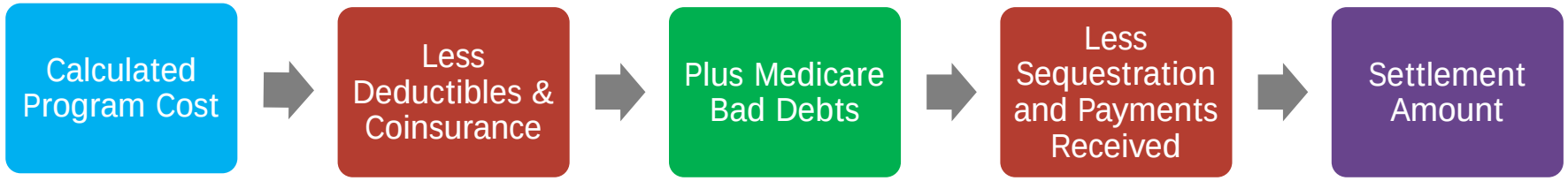
Worksheet E Series (Medicare Payments)

- The D Series amounts flow through to the Worksheet E Series to calculate a settlement amount.
- The settlement amount has added calculations for each special program in the hospital, such as:
  - DSH and Capital DSH
  - Allied Health
  - Medical Education
  - Organ Transplant
  - Low Volume Adjustment
  - Value Based Purchasing

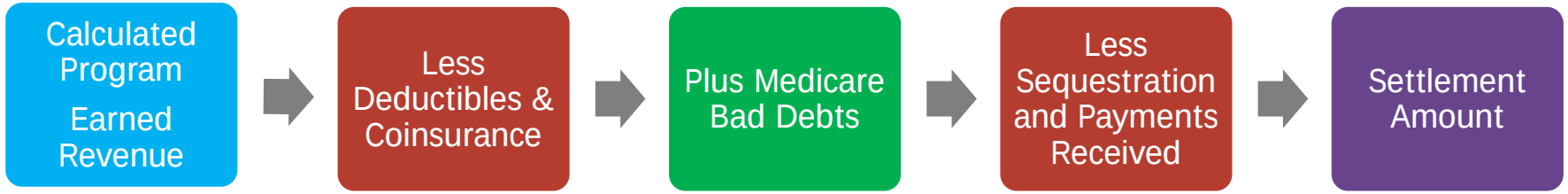
MEDICARE COST REPORT - OVERVIEW

Basic Formula for Cost Reimbursement

Cost Reimbursement



PPS Reimbursement



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MEDICARE COST REPORT – WORKSHEET E

Worksheet E Series (Medicare Payments)

- A cost report that is filed late can have additional penalties, years later:
  - Example: A hospital in Ohio filed a cost report about a week late due to an error in the form that caused the on time filing to be automatically rejected.
  - At the time of filing there was no penalty because there was a net settlement payable to the hospital.
  - At the time of the desk review there was no penalty because there was a net settlement payable to the hospital.
  - Shortly after it was reviewed an error was found that caused the cost report to be reopened with a settlement payable to the program, resulting in a late fee added.

MEDICARE COST REPORT – WORKSHEET E

Worksheet E Series (Medicare Payments)

- Potential Opportunity – Bad Debts
  - Many facilities under report Bad Debt expenses.
  - Bad Debt expenses reported but not adequately supported risk being reversed at audit resulting in unplanned payables.
  - Having good revenue cycle processes in place is critical to having a quality bad debt listing.

MEDICARE COST REPORT – WORKSHEET G

Worksheet G Series (Financial Statements)

- The G series includes data from the facility financial statements including:
  - Balance Sheet
  - Income Statement
  - Statement of Cash Flows
- It was looked at more closely in previous years than it is now
- It has no impact on reimbursement
- It is still used by CMS for data gathering about hospital performance

MEDICARE COST REPORT – WORKSHEET S

Worksheet S Series (Survey and Statistics)

- The S series Worksheets are probably the most confusing section of the cost report with little direct guidance from CMS.

- These include questionnaire items, patient volume statistics, labor distribution, and is generally a catch-all for every new point of data that doesn’t have another logical home.

MEDICARE COST REPORT – WORKSHEET S

Worksheet S Series (Survey and Statistics)

- Includes:
  - S – Settlement Summary and attestation signature
  - S-2 – Facility identification information and survey questionnaire items
  - S-3, Part I – Bed Count, Patient Days, FTE count, Discharges
  - S-3, Part II – Wage Index

    This is the source of data used in adjusting for regional variances in labor cost

    The Wage Index has no direct settlement impact but for many hospitals it has a huge impact on future reimbursement
  - S-10 – Uncompensated Care

MEDICARE COST REPORT – WORKSHEET S

Worksheet S-3, Parts II-V – Wage Index

- This is a four part section of the cost report that goes through dozens of calculation steps to reach a single modifier for all institutional claims for a future Federal Fiscal Year.
- The process of gathering Wage Index data is often complex and time consuming and for some facilities it has very little reimbursement impact.
- For other facilities it can have a profound impact on reimbursement.
- Some facilities can greatly benefit from using a special rule that allows for geographic reclassification to align with a different area.

MEDICARE COST REPORT – WORKSHEET S

Worksheet S-3, Parts II-V – Wage Index

- Real World Examples:
  - Hospital A is in an economically depressed metro area that has a historical Wage Index rate of below the statewide rural rate. If it stayed in its home area it would get a small boost up to the ***rural floor*** for the state. However, it is able to reclassify to be treated as part of a much larger city nearby, dramatically improving its Wage Index value. Because it makes up a small fraction of one percent of the larger city, it is not beneficial to spend extra time on gathering every piece of high-paying labor to include in the wage index for its cost report.

MEDICARE COST REPORT – WORKSHEET S

Worksheet S-3, Parts II-V – Wage Index

- Real World Examples:
  - Hospital B is in a metro area with only two other hospitals. Because hospital B is the largest of these, it accounts for 65% of the labor volume in the pool. Therefore it is very valuable for this facility to do the research necessary to find every possible improvement to the Wage Index reported labor. Sometimes the contract labor reported takes a lot of extra effort to find, to match cost with hours, and to obtain verifiable support from the vendor. For these tasks it can be valuable to prioritize the highest hourly rate contract labor vendors for services such as legal, accounting, and perfusionists.

MEDICARE COST REPORT – WORKSHEET S

Worksheet S-3, Parts II-V – Wage Index

- Real World Examples:
  - Hospital C is in a metro area with four other hospitals. Each one makes up about 20% of the total. While no single hospital makes a huge impact on the wage index rate on its own, the group can pool together to ensure they are using the same cost finding strategies for their Wage Index work. By acting in cooperation they are able to engage outside help to put forth the minimum effort needed to obtain maximum results in their reimbursement rates.

MEDICARE COST REPORT – WORKSHEET S

Worksheet S-3, Parts II-V – Wage Index

- Real World Examples:
  - Hospital D is in the process of considering a minimum wage increase to $15 per hour for every hourly employee currently earning less than that. Management wants to know what the ROI for this action will be and when it will yield results. Unfortunately, this is a question that has no comprehensive and concrete answer. The Wage Index calculation involves each other hospital in the same Core-Based Statistical Area (CBSA) as well as a comparison to the national average of all the hospitals across the country. It is likely that other hospitals are rolling out the same kinds of wage increases, and so the most likely answer is that increasing the minimum wage will have only a stop-loss effect, preventing this hospital's Wage Index from decreasing in comparison to the average.

MEDICARE COST REPORT – OTHER SHEETS

Worksheets Used By Some Hospitals

- H – Home Health
- I – Renal Dialysis (ESRD)
- L – Extraordinary Circumstances (Capital DSH)
- M – Rural Health Clinics
- N – Hospital Based FQHC
- O – Hospital Based Hospice

MEDICARE COST REPORT – MORE TO KNOW

The Medicare Cost Report is

- Not required for:
  - VA Hospitals
  - Indian Health Service (IHS) Hospitals
  - Some Children's Hospitals
- A primary source of data for setting policy for Medicare and Medicaid
- Filed for approximately 6,700 Hospitals each year
- Not a good source of data regarding payer mix
- A public record

MEDICARE COST REPORT – PULSE CHECK

Can Your Facility Medicare Cost Report be Improved?

- How recently have you reviewed the B-1 statistics for accuracy and to determine if they could be improved?
- Does your facility have a Wage Index reclassification opportunity?
- Are you capturing and documenting all Medicare Allowable Bad Debts?
- Is your facility a Sole Community or Medicare Dependent Hospital with decreased inpatient volume in 2020 and an opportunity for a Volume Decrease Adjustment lump sum payment?
- Are you considering participating in the 340b Drug Program?

MEDICARE COST REPORT – SUMMARY

What Did We Cover Today?

- Brief History of Medicare
- What is a Cost Report?
- What are the component parts of the Hospital Cost report?
- Step by Step the flow of the Cost Report by the ABCs
- Possible opportunities for improvement

MEDICARE COST REPORT

More Information:

https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Paper-Based-Manuals

https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files-Items/FY2020-Wage-Index-Home-Page

https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Medicare-Geographic-Variation/GV_PUF

QUESTIONS?

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