The Importance of Accurate Medicare Cost Report Data

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Overview

• Why is accurate cost report data crucial?
• What are the implications of incorrect cost report data?
• How can missing information or elections affect your reimbursement?
Correct count is critical to accurate cost-per day calculation
Common Mistakes and Reimbursement Effects

• Incorrect patient day counts. Days should be counted consistently, especially at end and beginning of year

• LDR days (labor and delivery room) – Should be excluded

• Hospice days – Should be excluded
  • Result: Overstatement of patient days will cause cost-per-day to be diluted (D-1, Part II, Line 38). Understatement of patient days will cause cost-per-day to be inflated.
  • Result: State DSH calculation may be affected
SNF vs. NF Days for Swing-Beds

• Swing-Bed SNF day – Swing-bed skilled nursing day (Medicare and Medicare Advantage designation only)
• Swing-Bed NF day – Swing-bed non-skilled day
• Identification of NF days will increase acute care and swing-bed SNF cost-per-day
• HOW?
  – Medicare cost report uses carve-out method of NF days
SNF vs. NF Days for Swing-Beds

Illustration of carve-out method of NF days:

Total acute care costs (including swing-bed) (B, Part I)

Less: Swing-bed – NF costs (NF days*Medicaid daily rate)

= Acute costs for per-diem

÷ Number of acute care days (acute care, swing-bed SNF and observation equivalent days)

= Routine service cost-per-day
SNF vs. NF Days for Swing-Beds

Total acute care and swing-bed costs = $1,000,000
  Acute care days = 1,500
  Swing-bed SNF days = 500
  Total cost-per day = $500

Total acute care and swing-bed costs = $1,000,000
  Acute care days = 1,500
  Swing-bed SNF days = 425
  Swing-bed NF days = 75

Total acute care and swing-bed costs = $1,000,000
  Less NF costs (75 days x $150) $ (11,250)
  Total acute care and SNF costs 988,750
  Divided by total acute and SNF days ÷ 1,925
  Total cost-per-day 513.64
  Gain ($13.64 x 1,925 x 50% Medicare) $ 13,128
Common Mistakes and Reimbursement Effects

• Improperly counting NF and SNF days
• Improperly identifying NF days as SNF days (Non-Medicare as Medicare)
  • Result: Carving out NF days at a lower cost per day will spread higher acute care and swing-bed SNF costs over remaining days
CAH Hours

Used to determine if hospital is in compliance with the 96-hour rule for CAHs
Common Mistakes and Reimbursement Effects

• Not tracking hours
• Including swing-bed and nursing home hours
  - Should only include:
    1. Acute
    2. ICU
    3. CCU
• Not maintaining appropriate documentation for intermediary (software vendor should be able to write program to track hours)
Common Mistakes and Reimbursement Effects (cont.)

• Counting hours incorrectly (counting 24 hours on the day of admit or discharge)
  – Hours should start at time patient is admitted (e.g. 4 p.m.) to time patient is discharged (e.g. 10 a.m. next day)
  – Total hours in this example would be 18 (8 hours 1st day and 10 hours 2nd day)
Common Mistakes and Reimbursement Effects (cont.)

• Result: Medicare audits CAH hours; therefore, documentation is necessary. If Medicare deems the hospital is out of compliance with the 96-hour rule, CAH status may be revoked
Worksheet A
Expenses

Cost-to-charge ratios calculated based on allowable costs; therefore, it is important to capture ALL allowable costs in the correct department.
Common Mistakes and Reimbursement Effects

• Unrecorded liabilities at the end of the year
  • Result: Allowable costs are understated resulting in lower reimbursement

• Additional unknown audit entries made after cost report preparation has been started or even filed (could increase or decrease allowable expenses)
  • Result: Additional receivable or payable may result from entries. If the entries are not incorporated in the filed cost report and there is an additional receivable, Medicare will not pay until the cost report is finalized (up to 1 year later)
Common Mistakes and Reimbursement Effects (cont.)

• Claiming expenses of liabilities not paid within 90 days of year-end
  • Result: Medicare may disallow these expenses resulting in an additional liability

• Improper grouping of expenses
  – Expenses are not grouped in same department as related revenue
  – Expenses are not grouped as billed to Medicare
  • Result: RCCs are incorrect resulting in incorrect reimbursement
Common Mistakes and Reimbursement Effects (cont.)

• Not identifying allowable costs in a non-allowable department
  – Foundation director spends half of time on foundation duties yet all of his/her salary is charged to foundation

• Result: All of the foundation director’s expense is considered non-allowable on the cost report resulting in decreased reimbursement
Common Mistakes and Reimbursement Effects (cont.)

- Staff not properly tracking time between departments (ER/acute care, swing-bed/nursing home, hospital PT and home health PT)
  
  • Result: RCCs are incorrect resulting in incorrect reimbursement. Some allowable costs may be reflected in a non-allowable or non-reimbursable department
Common Mistakes and Reimbursement Effects (cont.)

- Do not net allowable expenses against donation/grant income/recoveries

Hospital received non-federal grant or donation to pay for allowable cost and expense is recorded net grant or donation

Hospital received $1,000 bad debt recovery net of $300 collection expense and the collection expense is netted with recovery

• Result: In both examples allowable expenses are not reflected on Worksheet A resulting in decreased reimbursement
Common Mistakes and Reimbursement Effects (cont.)

– Do not net allowable capital expenditures against donation/grant income

Hospital received federal, state, or other grant for capital expenditure and records the capital expenditure net of grant revenues

Medicare regulations clearly indicate that capital expenditures paid in total or in part by grant funds (including federal grant funds) should be recorded as if the CAH paid for the expenditure without grant funds, depreciate the asset, claim the depreciation on the cost report as an allowable cost
Worksheet A-6
Expense Reclassifications

• Worksheet A-6 reclassifications convert hospital groupings into Medicare groupings

• Communication and proper identification will help to ensure correct classifications of hospital expense groupings into Medicare-accepted groupings
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Common Mistakes and Reimbursement Effects

• Directly assigned overhead costs are not identified
  – Ex: Administrative costs (billing, business office) in physicians’ clinic.
  • Result: Double allocation of administration costs (allocated hospital billers and clinic’s directly assigned billers)
  – Ex: Utilities, may have same outcome
Common Mistakes and Reimbursement Effects (cont.)

- Unidentified chargeable supply expense recorded in individual departments
  - Ex: Supply costs are located within departments while billed to Medicare as chargeable supplies
  - Result: Hospital revenue and expenses do not match Medicare charges (incorrect reimbursement)
Common Mistakes and Reimbursement Effects (cont.)

• Directly assigning housekeeping or maintenance costs to offsite non-allowable departments (i.e. medical office building) without proper trail to Medicare
  
  • Result: Cost report preparer may allocate these costs through B-1 resulting in double allocation of costs.
  
  • Result: Medicare may require allocation through B-1 if hospital cannot support that the direct assignment is accurate.
Common Mistakes and Reimbursement Effects (cont.)

• Too many A-6 reclassifications. The less reclassifications, the less Medicare has to audit.

  • Result: Certain reclassifications may trigger further questions by Medicare. If reclassifications are made on Hospital’s general ledger, they most likely will not be questioned.
Worksheet A-8
Adjustments to Expense

If appropriate adjustments are not made on Worksheet A-8, allowable expenses could be understated or overstated.
Common Mistakes and Reimbursement Effects

• Unidentified funded depreciation and undesignated funds
  - Any interest income earned on funded depreciation accounts is NOT required to reduce interest expense.

• Result: Allowable costs are reduced resulting in lower reimbursement
Common Mistakes and Reimbursement Effects (cont.)

• Recording uncollected interest on A/R as bad debt expense rather than reducing interest income
  • Result: Interest income is overstated; therefore, allowable interest expense is reduced
Common Mistakes and Reimbursement Effects (cont.)

• Not providing a schedule of miscellaneous other operating and non-operating revenues
  – Examples of revenues not required to reduce allowable expenses: State grant revenue or federal capital grants/contributions, tax revenue, interest income on funded depreciation
  • Result: Allowable expenses are reduced incorrectly resulting in lower reimbursement
Common Mistakes and Reimbursement Effects (cont.)

- Reducing allowable expenses with non-offsettable revenues rather than recording revenues (i.e. grant revenue)
  - Result: Allowable expenses are reduced incorrectly resulting in lower reimbursement

- Not identifying or misclassifying allowable vs. non-allowable advertising
  - Result: Advertising expense is removed or claimed in error resulting in incorrect reimbursement. Medicare may disallow ALL advertising expense if not identified appropriately on general ledger.
Common Mistakes and Reimbursement Effects (cont.)

• Not identifying actual costs of non-patient services if less than revenue generated from the service
  – Medicare assumes that non-patient service revenue is equal to the cost of the service provided
  • Result: Expenses may be less than revenue; therefore, allowable expenses may be reduced more than required
Worksheet A-8-1
Related Party Activity

• If appropriate adjustments are not included on worksheet A-8-1, allowable costs could be understated or overstated
  – Certain costs not incurred by hospital but by related parties may be includable in the hospital’s allowable costs at the cost to the related organization
  – Related party costs incurred by hospital must be eliminated, and actual costs incurred by related party added back
Common Mistakes and Reimbursement Effects

• Not identifying costs paid on behalf of hospital by County (i.e. County owns hospital building; therefore, depreciation expense could be claimed, warrant processing costs, property insurance costs)

  • Result: Allowable related party expenses are omitted from cost report
Common Mistakes and Reimbursement Effects (cont.)

• Grouping other expenses with home office costs on the general ledger
  • Result: The non-related party expenses are included with the related party expenses in error (i.e. allowable costs may be reduced too much)

• Not identifying other related party costs
  • Result: Allowable related costs are omitted from cost report
If appropriate adjustments are not made and certain provisions of the regulations are not exercised, allowable costs could be understated or overstated.
Common Mistakes and Reimbursement Effects

• Not claiming ER availability costs
  • Result: Allowable costs are omitted from cost report

• Providing inaccurate ER log summary
  – Ex. Double-counting patient hours
    • Result: Too many hours are allocated as patient (professional) hours resulting in lower allowable availability costs
  – Ex. Not excluding time physician is working in another department (clinic)
    • Result: Too many hours are allocated as non-patient or provider hours resulting in overstated allowable availability costs
Common Mistakes and Reimbursement Effects (cont.)

- Not identifying professional costs and revenues (i.e. ER physician salary recorded in physicians’ clinic)
  - Result: Part of physician’s costs related to ER may be partially reimbursable as on-call; therefore, availability costs are understated.

- Not identifying physician malpractice costs paid by hospital
  - Result: Medicare may disallow ALL malpractice costs

- Not identifying provider-based physician employment-related taxes (i.e. FICA, Worker’s Compensation and Unemployment)
  - These costs are includable in their entirety on the cost report
Common Mistakes and Reimbursement Effects (cont.)

• Not identifying or designating in the physician contract medical director, supervisory, admin., or non-patient time
  • Result: These are allowable physician expenses; therefore, if they are not reported as such, allowable costs are reduced

• Not identifying all physician expenses or grouping non-physician expenses with physician expenses on general ledger
  • Result: Physician costs are not removed from cost report overstating allowable expenses
Contracted PT, ST, OT and RT services are paid cost up to an hourly limit; therefore, providing the correct data in these areas is critical to maximizing reimbursement.
Common Mistakes and Reimbursement Effects

- Therapist hours counted incorrectly
- Overtime hours not included
- Home health therapy contracted therapy cost included when hours are not
- Include non-contract therapy expenses with contract therapy expenses on general ledger
- Not identifying hours related to supervisor therapists
Common Mistakes and Reimbursement Effects (cont.)

• Result: If hours are understated, hospital’s costs may exceed the limit and costs will be disallowed.
• Result: If expenses are overstated, hospital’s expenses may exceed the limit and costs will be disallowed.
• Results: The limits for supervisor are higher; If supervisor hours are not identified the limits are understated.
Worksheet B-1
Allocation Statistics

• Overhead costs are allocated to revenue-producing departments based on statistics maintained and provided by the hospital
  – Statistics used and departments to which overhead is allocated can greatly affect department’s total costs
Common Mistakes and Reimbursement Effects

- **Time Studies**
  - Not kept in accordance with Medicare regs.
    - One week per month; weeks must be alternated
  - Incomplete and inaccurate
  - Not updated regularly or updated at all
  - Result: Overhead costs are allocated to departments incorrectly causing incorrect reimbursement. Medicare may disallow time study and revert to another method (usually not-favorable)
Common Mistakes and Reimbursement Effects (cont.)

• Square Footage
  – Not updating
  – Not identifying date of change if during the cost reporting period
  – Inconsistent measuring of square ft. (net vs. gross)
  – Not reporting off-site buildings
    • Result: Overhead costs are allocated to departments incorrectly.
    • Result: Overhead costs may be allocated to departments who do not utilize service (housekeeping, maintenance)
    • Result: Depreciation expense may be allocated to off-site buildings that are leased
Common Mistakes and Reimbursement Effects (cont.)

• Depreciation
  – Misidentification of asset classification (fixed equipment vs. moveable equipment)
    • Result: Depending on department’s Medicare utilization, depreciation expense may have higher reimbursement as MME than fixed (i.e. MME depreciation allocated based on depreciation expense and fixed equipment depreciation expense allocated based on square footage).
  – Depreciation schedule not balanced to general ledger
Common Mistakes and Reimbursement Effects (cont.)

• Meals
  - Including snacks in patient meal count
  - Meal counts between acute care and nursing home are not consistent
    • Result: Acute care or nursing home department’s allocated dietary costs are incorrect
    • Result: Nursing home may receive more than its share of allocated dietary costs
Common Mistakes and Reimbursement Effects (cont.)

- **FTEs**
  - Not identifying off-site staff (who would not use the cafeteria)
    - Result: Cafeteria costs may be allocated to off-site departments in error
  - Including on-call hours in FTE report
Common Mistakes and Reimbursement Effects (cont.)

• Medical Records
  – Does the medical records department really provide support services to
    • Home health
    • Hospice
    • Clinics
    • DME
    • Nursing home
Common Mistakes and Reimbursement Effects (cont.)

• Nursing Administration
  – Not providing an updated organizational chart which may have changes from the previous year as to which departments the DNS supervises
    • Results: Nursing administration costs are allocated to incorrect departments

• Central Supply (CS)
  – Not identifying what departments utilize CS
    • Results: Purchasing/central supply overhead allocated incorrectly to departments
Worksheet C
Revenues and RCCs

Cost-to-charge ratios calculated based on revenues; therefore, it is important to properly classify and report revenue amounts.
Common Mistakes and Reimbursement Effects

• Revenues recorded on general ledger are not consistent with Medicare revenue code
  – Providing the cost-report preparer with a departmental revenue use report (revenues by revenue code by department) is crucial for correct reporting
  • Result: Mismatch exists between revenues on general ledger and Medicare charges. Revenues, expenses and Medicare charges should be grouped consistently.
Common Mistakes and Reimbursement Effects (cont.)

- **Professional revenue not identified**
  - Result: Professional revenue not removed on Worksheet C resulting in reimbursement that is understated

- **Not identifying revenue related to non-billable services**
  - Admission kits
  - Lab and x-ray call back
  - Result: Related revenue is not removed on Worksheet C resulting in reimbursement that is understated
Common Mistakes and Reimbursement Effects (cont.)

- Billing for routine supplies
  - Result: Costs are allowable. Revenue dilutes RCC.

- Not identifying outpatient (treatment room) revenues recorded as acute care revenue on the general ledger
  - Result: Medicare may disallow related Medicare charges
  - Result: Medicaid settlement may be affected (Washington Medicaid pays RCC vs per diem)
Common Mistakes and Reimbursement Effects (cont.)

• Not identifying clinics with provider-based designations
  – Professional component charges must be identified to remove on Worksheet C
  – We recommend an 80% / 20% split (80% professional / 20% technical)
  • Result: Incorrect revenue amount may be removed on Worksheet C, causing reimbursement to be incorrect. If professional/technical revenue cannot be supported, Medicare may consider all revenue technical portion
Common Mistakes and Reimbursement Effects (cont.)

• Incorrectly billing Revenue Code 510 for non-provider based clinics
  • Result: Hospital may have a large liability back to Medicare if appropriate steps are not taken to become provider-based before billing as a provider-based clinic
  • Result: Other off-site departments should be made provider-based (PT, radiology)
Common Mistakes and Reimbursement Effects (cont.)

• Incorrectly billing observation revenue
  – Observation should be billed under revenue code 762 only
  – Other outpatient revenues (treatment room) should be billed under revenue code 760 and 761
  • Result: Medicare may disallow charges billed under revenue code 762 in error
M Worksheets
RHC Section

M section of the cost report calculates a cost per-visit for each Rural Health Clinic
Common Mistakes and Reimbursement Effects

• FTEs not calculated correctly
  - Should only include RHC related time
  - Should be based on a 40 hour work week
  - Each provider cannot be more than 1 FTE
  - Preceptor hours and administrative hours should not be included

• Results: Productivity standards may not be met if FTEs are not calculated correctly
Common Mistakes and Reimbursement Effects (cont.)

• Incorrect visit count
  – Visits should only include face-to-face encounters with RHC providers that are medically necessary
  – Visits should include all payor types (not just Medicare)
    • Result: Cost-per-visit will be diluted if visit count is overstated
    • Result: Productivity standards may not be met if all RHC encounters are not included
Common Mistakes and Reimbursement Effects (cont.)

• Incorrect or incomplete flu and pneumonia logs
  – Log should include:
    • Date of service
    • Patient name
    • Medicare number
    – Result: Medicare requires all of these elements. Flu and pneumonia costs may be disallowed by Medicare if logs are not complete.
Common Mistakes and Reimbursement Effects (cont.)

• Invoices not provided for cost of flu and pneumonia vaccine
  • Result: Medicare may not allow an estimate; therefore, actual cost may be required at the time of desk review or costs may be disallowed.

• Billing Part B for MCR flu and pneumonia
  • Result: Hospital will receive fee scale reimbursement rather than cost-based reimbursement
  • Result: This is against Medicare regulations
Medicare Bad Debts

Medicare bad debt reimbursement (Part A deductibles and coinsurance only) paid at 100% of unpaid amount (CAH)
Common Mistakes and Reimbursement Effects

• Bad debts claimed prior to 120 days passing between bill being sent to patient and write-off date
• Not claiming Medicaid crossover bad debts
• Not submitting bad debts in correct format for Medicare (CMS Exhibit 5)
• Claiming Part B bad debts
• Not having appropriate documentation for Medicare
Common Mistakes and Reimbursement Effects (cont.)

• Result: Medicare automatically will disallow bad debts not meeting 120 day rule resulting in pay-back

• Result: Medicare performs audits of bad debt listing through a sample; if a high percentage of mistakes are noted Medicare may disallow the same percentage of the whole population

• Result: This area has recently been looked at closely by Medicare. Claiming bad debts appropriately and obtaining all appropriate documentation is critical.
Overlooked Cost Report Elections

- Method II billing (CAHs) for O/P physician services
  - Receive cost for hospital portion and fee scale + 12% for physician portion

- Provider-based status for owned-clinics
  - Provider-based clinics receive cost for technical component and fee scale for physician component

- RHC status for owned-clinics
  - RHCs receive cost-per-visit for each RHC visit

- CRNA pass-through
  - Hospitals performing less than 800 surgeries requiring anesthesia can make this election
    - Receive cost-based reimbursement rather than fee scale
QUESTIONS?

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