

Health Financial Systems
 The Medicare HHA Cost Report
 "What You Don't Know is Dangerous"
 October 22, 2009

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 CPA & ADVISORY FIRM




Forward Thinking

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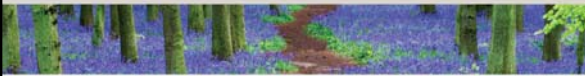
Course Objectives

- Describe the purpose and importance of the Medicare cost report
- Cite Medicare cost calculation methodologies in reimbursable and non reimbursable cost centers
- Identify sources of information to complete the cost report worksheets
- Identify the financial outcomes reflected in the cost report that will have an effect on operations
- PS&R Redesign

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Preparation of the HHA Medicare Cost Report



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Preparation of the HHA Medicare Cost Report



- Why is Cost Reporting still important?
 - Compliance – False Claims Act
 - Federal Agencies uses (accuracy of data)
 - PPS “Rebasing”
 - CMS
 - MedPAC
 - Cost reporting has gotten sloppy
 - NAHC Press Release, July 2, 2009
 - Reimbursement rules have not changed – only payment methodology

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False Claims Act



- § 3729. False claims
- (a) **Liability for Certain Acts.**— Any person who— (1) knowingly presents, or causes to be presented, to an officer or employee of the United States Government or a member of the Armed Forces of the United States a false or fraudulent claim for payment or approval;
- (2) knowingly makes, uses, or causes to be made or used, a false record or statement to get a false or fraudulent claim paid or approved by the Government;
- (3) conspires to defraud the Government by getting a false or fraudulent claim allowed or paid;
- (4) has possession, custody, or control of property or money used, or to be used, by the Government and, intending to defraud the Government or willfully to conceal the property, delivers, or causes to be delivered, less property than the amount for which the person receives a certificate or receipt;
- (5) authorized to make or deliver a document certifying receipt of property used, or to be used, by the Government and, intending to defraud the Government, makes or delivers the receipt without completely knowing that the information on the receipt is true;
- (6) knowingly buys, or receives as a pledge of an obligation or debt, public property from an officer or employee of the Government, or a member of the Armed Forces, who lawfully may not sell or pledge the property; or
- (7) knowingly makes, uses, or causes to be made or used, a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the Government.

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False Claims Act



False Claims Act (continued):

- is liable to the United States Government for a civil penalty of not less than \$5,000 and not more than \$10,000, plus 3 times the amount of damages which the Government sustains because of the act of that person, except that if the court finds that—
- (A) the person committing the violation of this subsection furnished officials of the United States responsible for investigating false claims violations with all information known to such person about the violation within 30 days after the date on which the defendant first obtained the information;
- (B) such person fully cooperated with any Government investigation of such violation; and
- (C) at the time such person furnished the United States with the information about the violation, no criminal prosecution, civil action, or administrative action had commenced under this title with respect to such violation, and the person did not have actual knowledge of the existence of an investigation into such violation;
- the court may assess not less than 2 times the amount of damages which the Government sustains because of the act of the person. A person violating this subsection shall also be liable to the United States Government for the costs of a civil action brought to recover any such penalty or damages.
- (b) **Knowing and Knowingly Defined.**— For purposes of this section, the terms “knowing” and “knowingly” mean that a person, with respect to information— (1) has actual knowledge of the information;
- (2) acts in deliberate ignorance of the truth or falsity of the information; or
- (3) acts in reckless disregard of the truth or falsity of the information,
- (4) and no proof of specific intent to defraud is required.

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Cost Report Certification

CERTIFICATION BY OFFICER OR ADMINISTRATOR OF PROVIDER(S)

I HEREBY CERTIFY that I have read the above statement and that I have examined the accompanying electronically filed or manually submitted cost report and the Balance Sheet and Statement of Revenue and Expenses prepared by _____ (Provider Name(s) and Number(s)) for the cost reporting period beginning _____ and ending _____ and that to the best of my knowledge and belief, it is a true, correct and complete statement prepared from the books and records of the provider in accordance with applicable instructions, except as noted. I further certify that I am familiar with the laws and regulations regarding the provision of health care services and that the services identified in this cost report were provided in compliance with such laws and regulations.

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Preparation of the HHA Medicare Cost Report

- A program designed to explain common guidelines and procedures in the filing of the annual Medicare cost report to the Medicare certified Home Health Agency
- Who has to file the cost report?
 - Medicare certified:
 - ♦ Provider-based
 - ♦ Free-standing

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Preparation of the HHA Medicare Cost Report

- IMPORTANT
 - Deadlines
 - Acceptance or rejection
 - Edit Errors
 - ECR Disks
 - Software
 - Signature Page
 - Medicaid

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Cost Report Requirements

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Cost Report Requirements

- General Requirements
 - Cost reports are filed annually
 - Cost report period is 12 months – may not match fiscal year
 - Cost report period can be from 1 to 13 months
 - Less than full cost report
 - ♦ No Medicare Utilization
 - ♦ Low Medicare Utilization

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Cost Report Requirements

- Changing cost report periods – FI request 120 days prior to end of new period
- Cessation of participation in Program
- Payment for services after termination
- Final cost report
- Change of ownership – partial cost report
 - Stock purchase – no
 - Asset purchase – yes

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Cost Report Requirements

- Cost Reports must be filed electronically
 - (FI's prefer CD's)
- Cost Report due dates – 5 months after FYE (postmark date – Post Office or overnight, no postal meter date)
- Cost Report settlement
 - Notice of Program Reimbursement (NPR)
 - ♦ Coming very fast now
- Cost Report appeals – 180 days to file
- Cost Report reopenings – 3 years from NPR

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Cost Report Requirements

- Filing Requirements
 - Financial Statements
 - Working Trial Balance
 - Trial Balance crosswalk
 - Support for reclassifications, adjustments, and related party costs
 - Must have original ink signature (Blue?)
 - CMS Form 339 Questionnaire

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Cost Report Settlements

- Cost Reports – little or no settlement
 - Starting to see no adjustment settlements on most final settlements (NPR)
 - Are you losing flu vaccine reimbursement??

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Cost Report Data



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Cost Report Data



- **Accrual Basis of Accounting**

- Under the accrual basis of accounting, revenue is recorded in the period when it is earned, regardless of when it is collected, and expenditures for expense and asset items are recorded in the period in which they are incurred, regardless of when they are paid. (PRM 15-1, section 2302.1)

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Cost Report Data



- **Adequacy of cost information**

- Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records and original evidences of cost (purchase requisitions, purchase orders, vouchers, requisitions for materials, inventories, labor time cards, payrolls, bases for apportioning costs, etc.), which pertain to the determination of reasonable cost, capable of being audited. (PRM 15-1, section 2304)

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Cost Report Data



- Alternative methods for Cost Report allocations
- Distorted allocation of A&G costs
- More sophisticated methods (PRM 15-1, section 2310)
- Fragmented A&G or unique cost centers (PRM 15-1, section 2313 and PRM 15-2, section 3214)

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Home Health Cost Report and Medicare Cost Report Data



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HHA Cost Report



- CMS Form 1728-94
- Worksheet S
 - Certification page
 - Signed by Administrator of Officer
- Worksheet S-2
 - Identification information
 - Medicare Provider # (Legacy)
 - NPI Number (do not enter)
 - General questions

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HHH Cost Report



- Worksheet S-3

- Patient visit statistics

- Number of visits and patients by discipline
 - Separate for Medicare & Other patients
 - Count visits "As rendered" basis – date of service
 - Medicare Advantage patient are considered as "Other / Non Medicare" for cost report purposes
 - Non Like kind services – line 7
 - Unduplicated census count – Medicare & Other
 - Home Health Aide hours – Medicare & Other

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HHH Cost Report



- Like vs. Non like kind visits

- Non like kind services

- Home health services that do not meet Medicare eligibility criteria
 - Confined to home
 - Under the care of a physician
 - Intermittent SNC, PT, ST or continuing OT
 - Under a plan of care
 - Furnished by or under arrangement by participating HHA
 - HCFA Program Memorandum AB-97-11.60
 - Can be "like kind" if homebound only criteria missing

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HHH Cost Report



- How to count visits on the MCR?

- Only report "billable" visits
 - Supervisory visits should not be included unless skill rendered at same time
 - Can be more than one billable visit on the same day
 - Count visits, not hours

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HHH Cost Report

- Worksheet S-3

- Full time Equivalents
 - Total paid hours by employee type divided by 2,080 (Admin, SNC, PT, etc) – regardless of work week
 - Employees versus contract
- CBSA codes for episodes
- PPS Activity data (Part IV) – summary of episodes completed during the cost reporting period on the accrual basis – can take from the PS&R report
 - Medicare visits and charges by discipline and episode type (Full w/o outlier, Full w/ outlier, LUPA and PEP)
 - Number of Medicare episodes
 - Medical Supply Charges

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HHH Cost Report

- Worksheet A Categories (columns 1 to 5)

- Salaries
- Employee Benefits / Payroll Taxes
 - Direct assignment or allocate based on salaries
- Transportation (Mileage)
- Contracted Services
- Other Costs
 - Chart of accounts should be in sufficient detail to facilitate crosswalk from trial balance to MCR

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HHH Cost Report

- Worksheet A – Cost Centers

- General Service Cost Centers / Overhead costs (lines 1 to 5)
 - Capital Costs – Bldg
 - Capital Costs – MME
 - Plant Operation & Maintenance
 - Transportation
 - Administrative & General
- Be sure to classify all like overhead type costs together (like and non like kind)

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HHH Cost Report



- Worksheet A – Cost Centers
 - HHA Reimbursable Services / Direct Patient Care (lines 6 to 14)
 - Skilled Nursing Care
 - Physical Therapy
 - Occupational Therapy
 - Speech Therapy
 - Medical Social Services
 - Home Health Aide
 - Medical Supplies – Non Routine only (routine supplies goes to Admin & General costs or direct)
 - Drugs – Flu, Pneumococcal and calcimar injections – vaccine supply cost only (administration cost in nursing)
 - DME

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HHH Cost Report



- Medical Supplies
 - Routine (non billable)
 - Small quantities – not patient specific
 - Non Routine (billable)
 - Patient specific illness or injury
 - Separately identifiable in patient records (POC)
 - Must be ordered by the physician
 - Separate charge

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HHH Cost Report



- Worksheet A – Cost Centers
 - HHA Non Reimbursable Services (non Like Kind)
 - Private Duty (line 17)
 - Homemaker (line 22)
 - Other services (non like kind) (line 23)
 - Telemedicine (line 23.20)

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HHH Cost Report

- Worksheet A-4 - Reclassification of Expenses
 - Move costs between cost centers
 - Should do on the trial balance rather than this worksheet
- Worksheet A-5
 - Adjustments to Expenses
 - ♦ Other income offsets
 - ♦ Non allowable expenses

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HHH Cost Report

- Worksheet A-6
 - Related Organizations and Home Office Costs
 - ♦ Report “amount charged” and “amount allowable”
 - ♦ Identify related party by name and type of relationship
 - ♦ Identify all related party costs even if qualify for Section 1010 Exception (amount charged = amount allowable)
 - ♦ Compare to AFS footnotes

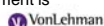
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Medicare Cost Report Data

- Related party transactions
 - Related through common ownership or control
 - Family relationships create relatedness
 - Adjust cost report to “related party” costs
 - ♦ Direct and indirect
 - Interest on related party loans
 - Exceptions to cost conversion (Section 1010)
 - ♦ Supplier – bona fide separate organization
 - ♦ Substantial part of business with other non related entities - Key
 - ♦ Commonly obtained from other organizations
 - ♦ Charge is in line with open market
 - ♦ If meet the 1010 exception criteria – no adjustment is necessary

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Medicare Cost Report Data

- How to compute related party costs?
 - Medical Supply & Home Health
 - Expense on Home Health books = revenue on Medical Supply company books
 - HHA is 30% of revenue of Medical Supply
 - HHA should record 30% of total expenses of Medical Supply company
 - Effect is to eliminate profit of medical supply company

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Medicare Cost Report Data

- Medical Supply Company
 - Medical Supply Revenue \$300,000
 - Medical Supply Expense \$250,000
 - Medical Supply Profit \$ 50,000
- Home Health Agency (Medical Supply Expense)
 - Amount Charged \$ 90,000
 - HHA % ($\$90,000 / \$300,000 = 30\%$)
 - Amount Allowable ($\$250,000 * 30\%$) \$ 75,000
 - Cost Report Adjustment (\$ 15,000)

(30% of total expense, not just raw supply expense)

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Medicare Cost Report Data

- Costs identifiable to the Medicare Program as being part of the provider's operation in a way that it utilizes overhead departments, such as administrative and other important central functions to effectively perform its task(s)
- Expenses related to services that may be furnished by a provider or required to be furnished, but that the Medicare program would not pay for
- These costs must remain on the cost report as a non-reimbursable cost center to share in the overhead allocations

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Medicare Cost Report Data

- Non allowable costs
 - Costs that are identified by the Medicare Program as not being related to patient care
 - It should be offset on applicable worksheet and removed from the cost report
 - These would not be set up as a non reimbursable cost center as the expense does not relate to other central functions of the provider and should not draw overhead

– Source: United Government Services, May 2005

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Medicare Cost Report Data

- Allowable vs. Non allowable costs
 - General principle
 - Must be reasonable and necessary and related to patient care
 - Prudent Buyer
 - Objective
 - Cost of providing services to Medicare based upon average cost
 - If no specific Medicare rule, defer to GAAP
 - Some differences from IRS

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Medicare Cost Report Data

- Allowable vs. Non allowable costs
 - Depreciation expense
 - Straight line method only
 - AHA Useful Lives – 2004 edition
 - Capitalization Policy - \$5,000 and 2 or more year life
 - Can not have higher \$\$\$ threshold – may have lower
 - Repairs and improvements – capitalize or expense?
 - Leased Assets – capital vs. operating
 - Interest Expense

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Medicare Cost Report Data

- Allowable vs. Non allowable costs
 - Miscellaneous Income – cost recovery
 - Purchase discounts and expense refunds (Other income offset)
 - Compensation to owners and key management
 - Deferred Compensation and Pension Plans
 - Sick Pay, Vacation Pay, and PDO Plans
 - Organization costs
 - Reorganization costs (vs. reengineering expense)

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Medicare Cost Report Data

- Start Up costs (amortize 60 months)
 - Legal
 - Accounting
 - Salaries of employees to establish business
 - Utilities
 - Rent
 - Interest
 - Start up period ends when 1st visit is made
 - Different from pre certification period

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Medicare Cost Report Data

- Allowable vs. Non allowable costs
 - Transportation costs
 - Personal vehicle
 - Company vehicle
 - Medical Supply costs – routine & non routine
 - Board Fees
 - Medical Director Fees
 - Professional Advisory Group
 - Contract billing costs
 - Orientation and on the job training

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Medicare Cost Report Data

- Allowable vs. Non allowable costs
 - Franchise Fees - limited
 - Credit card costs
 - Collection agency costs
 - Life Insurance premiums
 - ♦ Term insurance – employee benefit
 - ♦ Key man insurance
 - Taxes
 - ♦ Income taxes
 - ♦ Property or franchise

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Medicare Cost Report Data

- Marketing / Advertising costs
 - Allowable – help wanted, yellow pages, informational, good public image, activities involving professional contacts with physicians, hospitals, public health agencies, nurses associations, etc. (referral sources)
 - information about availability of services
 - Non allowable – fundraising, promotional, advertising to the general public which seeks to increase patient utilization of provider's services
 - Health fairs
 - Private inurement regulations – gifts, etc.

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Medicare Cost Report Data

- Educational related costs
 - Registration fees
 - Travel costs
 - Lodging
 - Meals
 - Maintaining in house education programs
 - Formal education of staff members

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Medicare Cost Report Data

- Management / Patient Care Service Contracts
 - Must be necessary and related to patient care
 - Not in excess of 5 years
 - Contingency contracts?
 - Payment based upon percentage of revenue or profit

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Medicare Cost Report Data

- Management Contracts
 - Control of policies and procedures retained by provider
 - Stated contract duration
 - Detailed listing of services to be rendered and those available on an as-needed or standby basis
 - Amount of fees
 - Provision for access to contractor records (\$10,000)

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Medicare Cost Report Data

- Following are common non allowable costs
 - Membership dues – political / lobbying portion
 - Political contributions and lobbying activities / contributions
 - Country club dues
 - Alcoholic beverages
 - Costs of buying or selling a business
 - Non compete agreements
 - Goodwill

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Medicare Cost Report Data

- Common non allowable costs (con't)
 - Gifts or donations
 - Entertainment
 - Marketing / promotional giveaways
 - Health Fairs
 - Fines and Penalties
 - Spousal or dependent education
 - Bad Debts
 - Loss on disposal of assets

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HHA Cost Report

- Worksheet A-7 – Analysis of changes in capital asset balances
 - Land, Building, Equipment, etc.
 - ♦ Beginning Balance
 - ♦ Purchases
 - ♦ Disposals & Retirements
 - ♦ Ending Balance

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HHA Cost Report

- Worksheets B and B-1
 - Allocation of overhead costs to patient care cost centers (Stepdown)
 - Statistical bases (unit cost multiplier)
 - ♦ Capital Costs – Bldg – square footage
 - ♦ Capital Costs – MME – square footage or \$ value
 - ♦ Plant Operation – square footage
 - ♦ Transportation – mileage
 - ♦ Administrative and General – accumulated costs

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HHH Cost Report



- Worksheet C
 - Computes cost per visit for each discipline (includes direct plus overhead costs)
 - Computes cost to charge ratio for
 - Medical supplies
 - Drugs (vaccines and calcimar injections)
 - Computes Total Medicare costs for all services
 - Includes direct costs plus overhead

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HHH Cost Report



- Special items Home Health cost report
 - Flu, Pneumococcal, and Hepatitis B vaccines
 - Vaccine (#636) – cost reimbursed
 - Administration (#771) – OPPS fee schedule
 - 2 separate charges for Medicare
 - Calcimar injections (osteoporosis)
 - Injection (#636) – cost reimbursed
 - Bill type 34X

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HHH Cost Report



- Medicare Vaccines / Injections
 - These services are reimbursed through the Drugs cost center (line 13)
 - Charges must be the same for all payers
 - Cash versus accrual basis (gross up if not the same)
 - Subject to lower of cost or charge
 - No coinsurance amounts

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HHH Cost Report



- Worksheet D
 - Medicare PPS Payments by episode type (base payment and outlier portion)
 - Lower of cost or charge comparison for Drugs services on Worksheet C
 - Computes Medicare settlement on Drugs
- Worksheet D-1
 - Total Medicare interim payments
 - Part A and B – include Drug payments with Part B PPS payments

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HHH Cost Report



- Medicare Settlement Data
 - All Medicare settlement data should be on the accrual basis meaning that all claims data associated with episodes completed during the cost report period should be included even if paid in the subsequent year
 - Reality, most agencies use the PS&R report (3 months after FYE) for Medicare settlement data
 - FI's will adjust at final settlement – no reimbursement impact

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HHH Cost Report



- Worksheet F – Balance Sheet
- Worksheet F-1 – Income Statement
- Worksheet F-2 – Statement of Changes in Fund Balance
 - Must match internal financial statements

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HHA Cost Report



- Review of sample Medicare Cost Report
 - CMS Form 1728-94

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HHA Cost Report



- Common Cost Report Problems
 - Costs not properly segregated on the trial balance (flow expenses to CR cost centers)
 - “Like-kind” and “non like-kind” costs not segregated
 - Costs and utilization statistics not properly matched
 - Cost per visit by discipline is unreasonable
 - Prior year adjustments after cost report is filed (i.e. tax return extended)
 - Worksheet F series not reconciled

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Actual Cost Report



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Cost Report Questionnaire

- CMS Form 339 – sections that apply to Home Health
 - A. Provider organization and operation
 - B. Financial data and reports
 - E. Approved education activities
 - I. Medicare bad debts
 - J. Bed complement
 - K. PS&R data
- Review of sample MCR Questionnaire
 - CMS Form 339

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CMS Documentation Requirements

- Provider Reimbursement Manual (PRM 15-1)
- Medicare Cost Report Forms and Instructions (PRM 15-2)
 - Form 339 – Chapter 11
 - Home Health – Chapter 32

<http://www.cms.hhs.gov/Manuals/PBM/list.asp>

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PS&R Redesign

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PS&R Redesign



- What is the PS&R report?
- Legacy PS&R report no longer available
- PS&R used to complete the MCR
- CMS issued Transmittal 153 (CR 6519) dated June 12, 2009
- Need to register with IACS
- All providers should have begun registration process by October 1, 2009
- Don't wait until last minute – process take several weeks

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PS&R Redesign



- Registration process
 - Individuals Authorized Access to the CMS Computer Services (IACS)
 - ♦ Security Official (SO) – required
 - 1st person to register
 - Submit all required documentation
 - IRS Form CP 575 or alternate, or
 - IRS Federal Tax Deposit Coupon or
 - IRS 147C letter, or
 - Other official IRS documentation – legal business name and taxpayer ID #
 - Approve end users

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PS&R Redesign



- Registration process
 - Back-up Security Official (BSO) – optional
 - ♦ Absence of SO
 - End Users / Registry End Users – more than 1
 - ♦ Can access to PS&R system
 - ♦ Must be employees, not contractors
 - ♦ Same person on more than one provider only if chain

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PS&R Redesign

- PS&R FAQ's
 - Summary reports directly on line
 - Detail reports – FI / MAC authorizes
 - Turnaround time within 30 days
 - Format – “.pdf” or “CSV”
 - FI / MAC's will no longer mail PS&R reports
 - Home Office – obtain through provider

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PS&R Redesign

- Passwords must be changed every 60 days
- Must be 8 characters long
- At least 2 letters and 1 number
- Letters must be mixed case – upper / lower
- Must not contain your user ID
- Must not contain 4 consecutive characters from any of your previous 6 passwords
- Must be different from your previous 6 passwords

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PS&R Redesign

- CMS Transmittal 153 (CR 6519), June 12, 2009
 - <http://www.cms.hhs.gov/transmittals/downloads/R153FM.pdf>
- Overview of PS&R System
 - <http://www.cms.hhs.gov/PSRR/>
- Registration Tips
 - http://www.cms.hhs.gov/psrr/downloads/Registration_Tips_Providers.pdf

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PS&R Redesign



- PS&R FAQ's

- http://www.cms.hhs.gov/psrr/downloads/Frequently_Asked_Questions.pdf

- Overview of IACS

- <http://www.cms.hhs.gov/IACS/>
 - http://www.cms.hhs.gov/IACS/04_Provider_Community.asp#TopOfPage

- PS&R Quick Guide

- <http://www.cms.hhs.gov/psrr/downloads/QuickGuideProviders.pdf>

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PS&R Redesign



- IACS Support

- External User Services

- ♦ San Antonio, Texas
 - ♦ 1-866-484-8049
 - ♦ EUSupport@cqi.com

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Contact Information

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