NAHC Annual 2013

100 Series – Thursday, October 31, 11:30 am – 1 pm

103. Cost Report For Beginners and Those Seeking a Refresher Course

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Principal
Boyd & Nicholas, Inc.

The most vital and difficult filing document required by CMS is the Medicare HHA cost report. The “why” of the cost report will be discussed, but with the emphasis on the “how to” for small HHA’s.
OBJECTIVE # 1
Review and discuss the CMS cost report filing documents, along with CMS forms 1728-94 and 339.

OBJECTIVE # 2
Discuss the purpose of the cost report and filing process.
OBJECTIVE # 3

Describe and discuss related documents: the PS&R, financial statements, workpapers and more

Why is proper cost reporting important?
Compliance

PPS rebasing for Home Health rates
Cost reporting is sloppy

Reimbursement rules have not changed, only the payment methodology!
Rebasing the Rates

• Required by Affordable Care Act
• Adjust payment rates to reflect average cost of episodes today
  – Phased in over a four-year period beginning in 2014
  – Max cut of 3.5% per year (14% total)
• Used 2011 Medicare costs to arrive at costs
  – Could only use 6,252 out of 10,327 after “trimming”
  – Audited 98 cost reports from 2010 to assess accuracy
    • Suggest costs overstated by 8%
    • Eight agencies were turned over to ZPICS

Source: Mark P. Sharp, CPA | Partner, BKD

Medicare margins for freestanding home health agencies

<table>
<thead>
<tr>
<th>Volume quintile</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>10.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Second</td>
<td>11.2</td>
<td>8.3</td>
</tr>
<tr>
<td>Third</td>
<td>13.5</td>
<td>10.1</td>
</tr>
<tr>
<td>Fourth</td>
<td>17.7</td>
<td>13.4</td>
</tr>
<tr>
<td>Fifth</td>
<td>22.0</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Source: MedPAC analysis of home health Cost Report files from CMS
Freestanding Medicare Margins

Source: Mark P. Sharp, CPA | Partner, BKD
Management information

Cost Report Myths
Cost Report Myths

“I followed the prior year’s cost report – it must be right”

“The figures look reasonable and consistent to prior year”
Cost Report Myths
“"I followed the prior year’s cost report – it must be right”

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“Total revenues and expenses agree to my financial statements”

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“The cost report shows I made a profit on Medicare, I must be doing good”
Cost Report Myths

“I followed the prior year’s cost report – it must be right”

“The figures look reasonable and consistent to prior year”

“Total revenues and expenses agree to my financial statements”

“The cost report shows I made a profit on Medicare, I must be doing good”

“Medicare did not make any adjustments”

What is the intent of the cost report?

Information is submitted annually to the Medicare Contractor (MAC/FI) for settlement of costs relating to health care services rendered to Medicare beneficiaries
Medicare Contractors

CGS SM, LLC – www.cgsmedicare.com

National Government Services – www.NGSMedicare.com

Palmetto GBA (PGBA) – www.palmettogba.com/medicare
Preparation of the HHA Medicare Cost Report

WHO HAS TO FILE?

• Medicare Certified:
  • Provider-Based
  • Free-Standing
  • Is an LMU for you?

Preparation of the HHA Medicare Cost Report

1. Deadlines
2. Rejection
3. ECR Disks
4. Software
5. Signature
6. Medicaid
7. PS&R
Cost Report Software

- Health Financial Systems  
  www.hfsssoft.com  
- KPMG  
  www.KPMG.com  
- Manis & Ryan  
  www.manisandryan.com  
- Optimizer Systems  
  www.optimizer.com  
- Progressive Provider Services of Colorado  
  www.ppsassistant.com

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
General Requirements

Less Than Full Cost Report

- No Medicare Utilization
- Low Medicare Utilization (less than $200,000 in reimbursement)

General Requirements

- Changing cost report periods – prior approval
  - 120 days prior to end of new period
- Cessation of participation in the Medicare program
- Final cost report
- Payment for services after termination
General Requirements

- Stock purchase
- Asset purchase
- 36 month rule

General Requirements

Electronic filing (.ecr file)

Settlements / NPR letter

Due dates – 5 months after FYE (postmark)

Amended cost report
Accrual basis of accounting

Liquidation of accrued liabilities
Accrual basis of accounting

Liquidation of accrued liabilities

Adequacy of cost information

§2302.1 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. Section 2305ff sets forth special rules regarding recognition of expenses under the Medicare program relating to liquidation of liabilities.

What is to be filed with the cost report?

Financial Statements (Internal)
  Audit / Review / Compilation

Working Trial Balance
  Should be sufficient in detail to facilitate crosswalk from trial balance to Medicare cost report

Supporting schedules for reclasses and adjustments

CMS Form 339

Original signatures (blue ink)

CMS Form 339 Questionnaire 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
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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Overview of Flow of Cost Report

Worksheet S - Certification
Overview of Flow of Cost Report

Worksheet S  - Certification
Worksheet S-2  - General Information
Worksheet S-3  - Utilization Statistics
Overview of Flow of Cost Report

Worksheet S  - Certification
Worksheet S-2  - General Information
Worksheet S-3  - Utilization Statistics
Worksheet A series  - Cost Allocation

Overview of Flow of Cost Report

Worksheet S  - Certification
Worksheet S-2  - General Information
Worksheet S-3  - Utilization Statistics
Worksheet A series  - Cost Allocation
Worksheet B & B-1  - Cost Finding
## Overview of Flow of Cost Report

<table>
<thead>
<tr>
<th>Worksheet Type</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worksheet S</td>
<td>Certification</td>
</tr>
<tr>
<td>Worksheet S-2</td>
<td>General Information</td>
</tr>
<tr>
<td>Worksheet S-3</td>
<td>Utilization Statistics</td>
</tr>
<tr>
<td>Worksheet A series</td>
<td>Cost Allocation</td>
</tr>
<tr>
<td>Worksheet B &amp; B-1</td>
<td>Cost Finding</td>
</tr>
<tr>
<td>Worksheet C</td>
<td>Apportionment to Medicare</td>
</tr>
<tr>
<td>Worksheet D &amp; D-1</td>
<td>Medicare Settlement</td>
</tr>
</tbody>
</table>
Overview of Flow of Cost Report

Worksheet S - Certification
Worksheet S-2 - General Information
Worksheet S-3 - Utilization Statistics
Worksheet A series - Cost Allocation
Worksheet B & B-1 - Cost Finding
Worksheet C - Apportionment to Medicare
Worksheet D & D-1 - Medicare Settlement
Worksheet F, F-1, F-2 - Financial Statements

Worksheet S-3, Part I

Number of visits and patients by discipline

- Separate counts for Medicare & Other patients
- Count visits “As rendered” basis – date of service

Patient Visit Statistics

NOTE: Medicare Advantage patients are considered as “Other / Non Medicare” for cost reporting purposes
Worksheet S-3, Part I

- Unduplicated Census Count – Medicare & Other
- Patients counted once per year
- Home Health Aide Hours – Medicare & Other

Definition of Home Health Visit (PRM 2302.15)

A personal contact in the place of residence of a patient made for the purpose of providing a covered service by a health worker on the staff of the home health agency or by others under contract or arrangement with the home health agency; or a visit by a homebound patient on an outpatient basis to a hospital, skilled nursing facility, rehabilitation center, or outpatient department affiliated with a medical school when arrangements have been made by the home health agency for the furnishing of a covered service on an outpatient basis because it requires the use of equipment which cannot be made readily available in the home.
How to count visits on the MCR

Only report “billable” visits
Supervisory visits should not be included unless skill rendered at the same time
Can be more than one billable visit on the same day
Count visits, not hours – very important

Like vs. Non Like Kind Visits

Medicare Eligibility Criteria

- Confined to home
- Under care of a physician
- Intermittent SNC, PT, ST or continuing OT
- Under a plan of care
- Furnished by or under arrangement by participating HHA
**Like vs. Non Like Kind Visits**

HCFA Program Memorandum AB-97-11.60

Can be considered “like kind” if homebound only criteria missing

![Image](image.png)

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**Worksheet S-3, Part II**

<table>
<thead>
<tr>
<th>Full Time Equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total “paid hours” by employee type divided by 2,080 (Admin, SNC, PT, etc.)</td>
</tr>
</tbody>
</table>

- Separate amounts for employees vs. contract
- If hours not available, use 1 hour per visit (rule of thumb)
Productivity

<table>
<thead>
<tr>
<th>Role</th>
<th>Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>RN</td>
<td>5.22</td>
</tr>
<tr>
<td>LPN</td>
<td>6.19</td>
</tr>
<tr>
<td>HCA</td>
<td>5.51</td>
</tr>
<tr>
<td>Physical Therapist</td>
<td>5.64</td>
</tr>
<tr>
<td>Occupational Therapist</td>
<td>5.47</td>
</tr>
<tr>
<td>Social Worker</td>
<td>3.81</td>
</tr>
</tbody>
</table>

Source: Home Care Salary & Benefits Report 2012-2013, HCS

Worksheet S-3, Part IV
PPS Activity Data

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 ($$)
### Medicare Visit Statistics

<table>
<thead>
<tr>
<th>Service</th>
<th>2010 Rendered</th>
<th>2009 / 10 Crossover</th>
<th>2010 / 11 Crossover</th>
<th>2010 Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>2,711</td>
<td>156</td>
<td>(112)</td>
<td>2,755</td>
</tr>
<tr>
<td>PT</td>
<td>1,435</td>
<td>75</td>
<td>(41)</td>
<td>1,469</td>
</tr>
<tr>
<td>OT</td>
<td>517</td>
<td>39</td>
<td>(27)</td>
<td>529</td>
</tr>
<tr>
<td>ST</td>
<td>35</td>
<td>5</td>
<td>(13)</td>
<td>27</td>
</tr>
<tr>
<td>MSW</td>
<td>20</td>
<td>3</td>
<td>(4)</td>
<td>19</td>
</tr>
<tr>
<td>HHA</td>
<td>1,179</td>
<td>62</td>
<td>(44)</td>
<td>1,197</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,897</strong></td>
<td><strong>340</strong></td>
<td>(241)</td>
<td><strong>5,996</strong></td>
</tr>
</tbody>
</table>

### Cost Reporting Process

- Total provider costs
- Categories of costs
- Reclassification of costs
- Adjustment of costs
- Apportionment of costs

- Overhead
- Reimbursable
- Non Reimbursable

- $\text{\$} \text{\$} \text{\$} \text{\$} \text{\$}$

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59

60
### Worksheet A – Trial Balance of Expenses

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
<th>Column 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>Employee Benefits / Payroll Taxes</td>
<td>Transportation (mileage reimbursement)</td>
<td>Contract Services</td>
<td>Other Costs</td>
</tr>
</tbody>
</table>

### General Service Cost Centers / Overhead Costs

- **Line 1**: Capital Costs - Bldg
- **Line 2**: Capital Costs - MME
- **Line 3**: Plant Operation & Maintenance
- **Line 4**: Transportation
- **Line 5**: Administrative & General

Be sure to classify all overhead type costs together.
### Worksheet A – Trial Balance of Expenses

**HHA Reimbursable Services / Direct Patient Care**

<table>
<thead>
<tr>
<th>Line</th>
<th>Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line 6</td>
<td>Skilled Nursing Care</td>
</tr>
<tr>
<td>Line 7</td>
<td>Physical Therapy</td>
</tr>
<tr>
<td>Line 8</td>
<td>Occupational Therapy</td>
</tr>
<tr>
<td>Line 9</td>
<td>Speech Therapy</td>
</tr>
<tr>
<td>Line 10</td>
<td>Medical Social Services</td>
</tr>
<tr>
<td>Line 11</td>
<td>Home Health Aide</td>
</tr>
<tr>
<td>Line 12</td>
<td>Medical Supplies</td>
</tr>
<tr>
<td>Line 13</td>
<td>Drugs - Flu, Pneumococcal and calcimic injections</td>
</tr>
<tr>
<td></td>
<td>- Vaccine supply cost only</td>
</tr>
<tr>
<td>Line 13.20</td>
<td>Vaccine Administration</td>
</tr>
<tr>
<td>Line 14</td>
<td>DME</td>
</tr>
</tbody>
</table>

### Medical Supplies

**Routine vs. Non Routine**

- **Routine (non billable) (line 5)**
  - Small quantities – not patient specific

- **Non Routine (billable) (line 12)**
  - Patient specific illness or injury
  - Separately identifiable in patient records (POC)
  - Must be ordered by the physician
  - Separate charge

**Notes:** All payments for Medicare PPS episodes includes NRS Add-On
Many agencies still not billing for NRS
Examples of Non Routine Medical Supplies

- Dressings / Wound Care
- I.V. Supplies
- Ostomy Supplies
- Catheter and Catheter Supplies
- Syringes and Needles

Consolidated Billing List
http://www.cms.gov/HomeHealthPPS/03_coding_billing.asp

Worksheet A – Trial Balance of Expenses

**HHA Non Reimbursable Services Non Like Kind Services**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Private Duty</td>
</tr>
<tr>
<td>22</td>
<td>Homemaker</td>
</tr>
<tr>
<td>23</td>
<td>Other Services</td>
</tr>
<tr>
<td>23.20</td>
<td>Telemedicine</td>
</tr>
<tr>
<td>25</td>
<td>Hospice - K Series</td>
</tr>
</tbody>
</table>
Adjustments to Expenses
Costs Identified As Not Being Related To Patient Care

- Two methods to treat non allowable expenses
  - Remove from cost report via adjustment
  - Non reimbursable cost center – picks up administrative overhead costs

Allowable vs. Non Allowable Expenses

Expenses must be prudent and reasonable
Allowable vs. Non Allowable Expenses

Expenses must be prudent and reasonable

Expenses must be related to patient care

If no specific Medicare rule, defer to GAAP

Some differences from IRS
Allowable vs. Non Allowable Expenses

Expenses must be prudent and reasonable

Expenses must be related to patient care

If no specific Medicare rule, defer to GAAP

Some differences from IRS

Allowable vs. Non Allowable Expenses

Allowable

Medical supply costs – routine & non routine

Board of Director fees

Medical Director fees

Professional Advisory Group

Orientation and OJT

Education related costs
### Allowable vs. Non-Allowable Expenses

#### Allowable

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient refunds</td>
<td>- not expense, revenue reduction</td>
</tr>
<tr>
<td>Interest expense</td>
<td>- must have financial need</td>
</tr>
<tr>
<td>Franchise fees</td>
<td>- not income based</td>
</tr>
<tr>
<td>Sales taxes</td>
<td></td>
</tr>
<tr>
<td>Broad based healthcare taxes</td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td></td>
</tr>
</tbody>
</table>

#### Allowable

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civic organizations</td>
<td></td>
</tr>
<tr>
<td>Business trade organizations - except % related to lobbying</td>
<td></td>
</tr>
<tr>
<td>Organizational costs</td>
<td></td>
</tr>
<tr>
<td>Payments to staff up to IRS rates for business use of personal vehicle</td>
<td></td>
</tr>
<tr>
<td>Yellow page advertising</td>
<td></td>
</tr>
<tr>
<td>Employee recruiting</td>
<td></td>
</tr>
</tbody>
</table>
Allowable vs. Non Allowable Expenses

**Allowable**

Deferred compensation – when funded

Public image and education

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Allowable vs. Non Allowable Expenses

**Allowable? Maybe – Maybe Not**

Life insurance on key employees payable to the provider not allowable unless required by debt instrument

Legal fees – depends on nature of activity

Expenses not liquidated within one year after the end of the cost reporting period in which they were reported as expenses are not allowable. They become allowable in the year liquidated. Exception can be requested.

Owners compensation accrued at year end must be liquidated within 45 days of year to be allowable
Allowable vs. Non Allowable Expenses

**Non Allowable**
- Interest income offset
- Other income – non patient
- Purchase discounts and rebates
- Expense refunds
- Bad debts
- Alcoholic beverages

Allowable vs. Non Allowable Expenses

**Non Allowable**
- Gifts and donations
- Fines and penalties
- Spousal expenses – when not employee or contractor
- Non competition agreements
- Costs of buying or selling a business
- Mergers and acquisitions
## Allowable vs. Non Allowable Expenses

### Non Allowable

- Goodwill
- Unsuccessful beneficiary appeals
- Patient solicitation expense
- Marketing costs / promos
- Marketing salaries & other marketing indirect costs
- Health Fairs

### Non Allowable

- Loss on disposal of assets
- Collection agency fees
- Start up costs
- Excessive owner/administrator compensation
- Taxes based on income
- Penalties and finance fees
### Allowable vs. Non Allowable Expenses

#### Non Allowable
- Franchise fees based on income
- Entertainment
  - Country club dues
- Social, fraternal organization dues
- Lobbying costs
- Interest expense with related party

#### Non Allowable
- Reorganization costs
- Personal use of company owned vehicles even if reported as salaries and wages to the employee (OBRA-97)
Depreciation expense

- Straight line method only
- AHA Useful lives – (2008)
- Capitalization Policy - $5,000 & 2+ year life

- Cannot have higher $$ threshold but may be lower
- Different than IRS

Capitalization Policy

§108.1 Acquisitions

If a depreciable asset has at the time of its acquisition an estimated useful life of at least 2 years and a historical cost of at least $5,000, its cost must be capitalized and written off ratably over the estimated useful life of the asset using one of the approved methods of depreciation. If a depreciable asset has a historical cost of less than $5,000, or if the asset has a useful life of less than 2 years, its cost is allowable in the year it is acquired, subject to the provisions of §106.

Provider Reimbursement Manual (CMS-Pub. 15-1)
Worksheet A-4
Reclassification of Expenses

Move costs between cost centers

Should do on the trial balance rather than this worksheet, e.g. medical supplies

Worksheet A-5
Adjustments to Expenses

Other income offsets

Non allowable expenses
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

Worksheet A-6
Related Organizations and Home Office Costs

**Who is a related party?**

Common ownership or control

Related to the provider means that the provider, to a significant extent, is associated with or affiliated with, or has control of, or is controlled by, the entity or individual furnishing the services, facilities, or supplies.

Family relationship creates relatedness
Control exists where an individual or an organization has the power, directly or indirectly, significantly to influence or direct the actions or policies of an organization or institution.

The term “control” includes any kind of control, whether or not it is legally enforceable and however it is exercisable or exercised. It is the reality of control which is decisive, not its form or the mode of its exercise.

Worksheet A-6
Related Organizations and Home Office Costs

General Principle

Costs applicable to services, facilities and supplies furnished to the provider by a related party are includable only to the extent the related party incurred costs to provide the services, facilities and supplies

(profits related to such transactions are not allowable).
Worksheet A-6
Related Organizations and Home Office Costs

Related party transactions
Adjust cost report to “related party” costs
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 criteria
Commonly obtained from other organizations
Charge is in line with open market
If meet “all” the 1010 exception criteria – no adjustment is necessary

Worksheet A-6
Related Organizations and Home Office Costs

Home Office Organizations

Home office organizations are centralized management services to multiple related providers. A Medicare-designated home office files a cost report (Form 287-05) that is the allocation of these shared costs to the related entities benefitting from the shared services. The costs of home office organizations are reported as related party transactions.

The Home Office cost report can be complex as costs are allocated as follows:

Direct
Functional
Pooled
Worksheet B and B-1
Allocation of Overhead Costs

Allocation of overhead costs to patient care cost centers reimbursable and non reimbursable (Step-down Method –2306.1)

Statistical basis (unit cost multiplier)

- Capital Costs – Bldg – square footage
  - Weighted average for mid year changes
- Capital Costs – MME – square footage or $ value (Location of Equipment)
- Plant Operation – square footage
- Transportation – mileage by cost center (pooled cars)
- Administrative and General – accumulated costs

Worksheet C

- Average cost per visit
- Cost of non routine medical supplies
  - Cost of drugs (calcimar, flu vaccines, etc.)
Reimbursement for Vaccines

Vaccine and Calcimar injections

Flu, Pneumococcal, and Hepatitis B vaccines
- 2 separate charges for Medicare
  - Vaccine (#636) – cost reimbursed
  - Administration (#771) – OPPS fee schedule

Calcimar injections (osteoporosis)
- Injection (#636) – cost reimbursed

Bill type 34X

These services are cost reimbursed through the Drugs cost center (line 13)

Amounts reported for charges and payments on W/S C and W/S D-1 only relate to vaccine supply (revenue code 636)

Amounts for charges and payments for vaccine administration (revenue code 771 are excluded from MCR)

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 applied
Worksheet D and D-1

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 (vaccine supply only #636)
Computes Medicare settlement on Drugs

Worksheet D-1
Total Medicare interim payments
Part A and B – include Drug payments with Part B PPS payments (vaccine supply only #636)

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 most recent available PS&R report for Medicare settlement data
- The Medicare Contractor (MAC/FI) may adjust at final settlement. No reimbursement impact (except vaccine)
Medicare Cost Report – PS&R

• PS&R Issues
  – CMS migration – not all information moved over
  – Need to check status of your registrations NOW
  – Security Officials can now access the PS&R reports – need to update registration
  – Backup Security Official (BSO) – highly recommend
  – User Group Administrator – eliminated

• Passwords must be changed every 60 days
  – Emails sent beginning two weeks prior to 60 day password expiration
  – If password expires, user will be redirected to change the password screen

• Account Inactivity
  – Disabled if not “active” within 180 days – login
  – Emails sent beginning two weeks prior to disabling user account
  – After 180 days will require answers to security questions to renew password
Medicare Cost Report – PS&R

• Annual Recertification
  – Effective November 15, 2010
  – Required to verify account information for each user
  – Emails sent beginning 45 days prior to certification due date
  – Must verify before one year due date or account will be archived
    • By Midnight
    • Individual user anniversary date
  – New user registration will be required to reactivate

Medicare Cost Report – PS&R

• Passwords
  – 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 significantly different from your previous 6 passwords
Medicare Cost Report – PS&R

• Don’t forget to change passwords TIMELY

• Don’t share user ID and password information

• Establish a Back Up Security Official ASAP

• Make sure that users know who their first approver is (i.e. SO, BSO)

• Review all your users frequently – delete former employees

Medicare Cost Report – PS&R

• Maintain current your contact information

• New registration requests expire after 60 days

• Remember FI / MAC have no access to IACS to troubleshoot or investigate issues

• Set reminders on calendars for deadlines for on going maintenance
Medicare Cost Report – PS&R

• Home Health Reports – needed for cost report
  – 329 HH PPS Part B Episodes
  – 339 HH PPS Part A Episodes
  – 399 HH PPS Part A & B Episodes
  – 342 HH PPS Part B Vaccine (Flu Vaccine Supply)

Medicare Cost Report – PS&R

• Helpful Links
  – PSRR Overview
    • http://www.cms.gov/PSRR
  – IACS User Guides
  – PSRR Login
Worksheet F – Balance Sheet
Worksheet F-1 – Income Statement
Worksheet F-2 – Statement of Changes in Fund Balance

Must match internal financial statements

Management Use of Cost Report

The MCR is NOT just a “compliance” requirement that must be filed with CMS but can be a valuable tool to assist in budgeting, pricing and strategic analysis.

Direct and indirect costs by discipline (per hour and per visit)

Fixed and variable costs

Non-routine medical supplies
Management Use of Cost Report

When looking at total cost, you should add back non allowable expenses (marketing, donations, etc.)

- Cost per episode / Medicare margin
- Cost, revenue and margin by payer
- Service utilization per episode

Cost Report Indicators

Average Visits per Episode

Full episodes w/o Outliers (228 episodes)

<table>
<thead>
<tr>
<th>Service</th>
<th>Count</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>2,300</td>
<td>10.09</td>
</tr>
<tr>
<td>PT</td>
<td>1,381</td>
<td>6.06</td>
</tr>
<tr>
<td>OT</td>
<td>466</td>
<td>2.04</td>
</tr>
<tr>
<td>ST</td>
<td>27</td>
<td>.12</td>
</tr>
<tr>
<td>MSW</td>
<td>19</td>
<td>.08</td>
</tr>
<tr>
<td>HHA</td>
<td>1,174</td>
<td>5.15</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,367</strong></td>
<td><strong>23.54</strong></td>
</tr>
</tbody>
</table>

Total episodes (302 episodes)

<table>
<thead>
<tr>
<th>Service</th>
<th>Count</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>2,755</td>
<td>9.13</td>
</tr>
<tr>
<td>PT</td>
<td>1,469</td>
<td>4.86</td>
</tr>
<tr>
<td>OT</td>
<td>529</td>
<td>1.75</td>
</tr>
<tr>
<td>ST</td>
<td>27</td>
<td>.09</td>
</tr>
<tr>
<td>MSW</td>
<td>19</td>
<td>.06</td>
</tr>
<tr>
<td>HHA</td>
<td>1,197</td>
<td>3.96</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,996</strong></td>
<td><strong>19.85</strong></td>
</tr>
</tbody>
</table>
Cost Report Indicators

Percent of Episodes by Type

<table>
<thead>
<tr>
<th>Type</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full w/o Outliers</td>
<td>228</td>
<td>75.50%</td>
</tr>
<tr>
<td>Full with Outliers</td>
<td>6</td>
<td>1.99%</td>
</tr>
<tr>
<td>LUPA</td>
<td>64</td>
<td>21.19%</td>
</tr>
<tr>
<td>PEP</td>
<td>4</td>
<td>1.32%</td>
</tr>
<tr>
<td>Total</td>
<td>302</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Cost Report Indicators

Computation of Cost per Visit

<table>
<thead>
<tr>
<th></th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>$54.49</td>
<td>$24.49</td>
<td>$78.98</td>
</tr>
<tr>
<td>PT</td>
<td>$75.00</td>
<td>$31.76</td>
<td>$106.76</td>
</tr>
<tr>
<td>OT</td>
<td>$72.00</td>
<td>$30.49</td>
<td>$102.49</td>
</tr>
<tr>
<td>ST</td>
<td>$73.00</td>
<td>$30.90</td>
<td>$103.90</td>
</tr>
<tr>
<td>MSW</td>
<td>$120.00</td>
<td>$50.80</td>
<td>$170.80</td>
</tr>
<tr>
<td>HHA</td>
<td>$33.14</td>
<td>$14.27</td>
<td>$47.41</td>
</tr>
</tbody>
</table>
Cost Report Indicators

Medicare Profit Margin

Medicare PPS Reimbursement $649,607
Medicare PPS Cost
  Visit Cost $491,437
  NRS Cost $6,560
  Total Cost $497,997
Medicare Profit Margin $151,610
Medicare Margin % 23.3%

Cost Report Indicators

Profit By Episode Type

<table>
<thead>
<tr>
<th></th>
<th>Full w/o Outliers</th>
<th>Full with Outliers</th>
<th>LUPA</th>
<th>PEP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$600,270</td>
<td>$26,195</td>
<td>$14,789</td>
<td>$8,353</td>
<td>$649,607</td>
</tr>
<tr>
<td>Cost</td>
<td>$444,324</td>
<td>$35,096</td>
<td>$12,822</td>
<td>$5,755</td>
<td>$497,997</td>
</tr>
<tr>
<td>Profit</td>
<td>$155,946</td>
<td>($8,901)</td>
<td>$1,967</td>
<td>$2,598</td>
<td>$151,610</td>
</tr>
</tbody>
</table>
## Cost Report Indicators

### Total Profit Margin

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Patient Revenue</td>
<td>$1,809,392</td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>$1,765,064</td>
</tr>
<tr>
<td>Net Operating Margin</td>
<td>$ 44,328</td>
</tr>
<tr>
<td>Misc. Income</td>
<td>$ 2,400</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 46,728</td>
</tr>
<tr>
<td>Net Income %</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

### Cost Analysis

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Amount</th>
<th>% of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>$ 55,500</td>
<td></td>
</tr>
<tr>
<td>Plant Operation / Maint</td>
<td>$ 10,400</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$ 464,218</td>
<td>26.48%</td>
</tr>
<tr>
<td>Total Overhead Costs</td>
<td>$ 530,118</td>
<td>30.24%</td>
</tr>
<tr>
<td>Direct Costs</td>
<td>$1,222,646</td>
<td>69.76%</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$1,752,764</td>
<td></td>
</tr>
<tr>
<td>Total Patient Revenue</td>
<td>$1,809,392</td>
<td></td>
</tr>
<tr>
<td>Admin Costs as % of Revenue</td>
<td>25.66%</td>
<td></td>
</tr>
</tbody>
</table>
Preparation of the HHA Medicare Cost Report

NAHC has compiled the data from over 12,000 HHA Medicare Cost Reports. The Data Compendium is available for purchase.

The information, existing by state and national averages, can be used to benchmark information vital to the organization.

### NAHC Cost Report Data Compendium (Individual State)

The individual state reports will include national benchmarking data

The NAHC COST REPORT DATA COMPENDIUM is an in-depth analysis of Medicare cost reports filed by home health agencies since the beginning of the HH PPS payment system in October 2000. NAHC has acquired over 20,000 filed cost reports to develop this Compendium. Cost reports contain a wealth of data. For purposes of this compendium, NAHC used data on per unit costs, supply costs, service utilization, and Medicare PPS episodes. In addition, overall HHA cost and revenue data is used to calculate overall financial margins. The geographic location of the HHA and its categorizations also is utilized. The Compendium is a valuable tool for providers of services, consultants, health policy planners, home care advocates, investors, and trade associations looking to gain an understanding of the financial status of home health agencies.
### Preparation of the HHA Medicare Cost Report

**NAHC Cost Report Data**

<table>
<thead>
<tr>
<th>Cost &amp; Revenue Trends by State and Year 2001 – 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Cost Reports</td>
</tr>
<tr>
<td>Free Standing</td>
</tr>
<tr>
<td>Hospital Based</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost &amp; Revenue Trends by Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Cost Reports</td>
</tr>
<tr>
<td>Free Standing</td>
</tr>
<tr>
<td>Hospital Based</td>
</tr>
</tbody>
</table>

### Preparation of the HHA Medicare Cost Report

**NAHC Cost Report Data**

<table>
<thead>
<tr>
<th>Revenues &amp; Expenses – National Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Cost Reports</td>
</tr>
<tr>
<td>Free-Standing</td>
</tr>
<tr>
<td>Free-Standing Rural</td>
</tr>
<tr>
<td>Free-Standing Urban</td>
</tr>
</tbody>
</table>
Preparation of the HHA Medicare Cost Report

**NAHC Cost Report Data**

Revenue & Expenses  
Categorized Profit Margins – National  
Categorized Profit Margins – by State  
State Profit Margin Summary  
National Profit Margin Detail  
State Profit Margin Detail  
Visits per Episode – National  
Visits per Episode – Detail by State

Preparation of the HHA Medicare Cost Report

The following five pages compare a Home Health Agency's data to that made available by NAHC for national averages and to that existing for the state.

Disclosure of total average cost per visit [includes cost report allocated overhead].

Average PPS visits per Medicare episode and average PPS visits per full Medicare episode.

PPS data including cost and payment per episode.
### Preparation of the HHA Medicare Cost Report

#### Cost Report Data

<table>
<thead>
<tr>
<th>ITEM</th>
<th>NATIONAL</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>$108.41</td>
<td>$142.69</td>
</tr>
<tr>
<td>PT</td>
<td>173.40</td>
<td>126.45</td>
</tr>
<tr>
<td>OT</td>
<td>140.41</td>
<td>128.31</td>
</tr>
<tr>
<td>ST</td>
<td>175.32</td>
<td>142.56</td>
</tr>
<tr>
<td>MSW</td>
<td>120.24</td>
<td>308.04</td>
</tr>
<tr>
<td>AIDE</td>
<td>83.69</td>
<td>71.28</td>
</tr>
</tbody>
</table>

#### Average Cost Per Visit

<table>
<thead>
<tr>
<th>ITEM</th>
<th>NATIONAL</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>$108.41</td>
<td>$142.69</td>
</tr>
<tr>
<td>PT</td>
<td>173.40</td>
<td>126.45</td>
</tr>
<tr>
<td>OT</td>
<td>140.41</td>
<td>128.31</td>
</tr>
<tr>
<td>ST</td>
<td>175.32</td>
<td>142.56</td>
</tr>
<tr>
<td>MSW</td>
<td>120.24</td>
<td>308.04</td>
</tr>
<tr>
<td>AIDE</td>
<td>83.69</td>
<td>71.28</td>
</tr>
</tbody>
</table>

#### Visits Per Episode

<table>
<thead>
<tr>
<th>ITEM</th>
<th>NATIONAL</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>10.97</td>
<td>9.15</td>
</tr>
<tr>
<td>PT</td>
<td>2.95</td>
<td>4.04</td>
</tr>
<tr>
<td>OT</td>
<td>1.07</td>
<td>0.73</td>
</tr>
<tr>
<td>ST</td>
<td>0.05</td>
<td>0.14</td>
</tr>
<tr>
<td>MSW</td>
<td>0.22</td>
<td>0.17</td>
</tr>
<tr>
<td>AIDE</td>
<td>2.46</td>
<td>4.31</td>
</tr>
</tbody>
</table>
# Preparation of the HHA Medicare Cost Report

## Visits Per Full Episode

<table>
<thead>
<tr>
<th>ITEM</th>
<th>NATIONAL</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNC</td>
<td>12.00</td>
<td>8.7</td>
</tr>
<tr>
<td>PT</td>
<td>3.27</td>
<td>4.7</td>
</tr>
<tr>
<td>OT</td>
<td>1.19</td>
<td>0.8</td>
</tr>
<tr>
<td>ST</td>
<td>0.05</td>
<td>0.2</td>
</tr>
<tr>
<td>MSW</td>
<td>0.21</td>
<td>0.2</td>
</tr>
<tr>
<td>AIDE</td>
<td>19.51</td>
<td>19.3</td>
</tr>
</tbody>
</table>

## Average Per Episode

<table>
<thead>
<tr>
<th>ITEM</th>
<th>NATIONAL</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursement</td>
<td>$2,558.99</td>
<td>$2,225.59</td>
</tr>
<tr>
<td>Cost</td>
<td>$2,137.25</td>
<td>$1,977.66</td>
</tr>
<tr>
<td>Profit</td>
<td>$421.74</td>
<td>$247.93</td>
</tr>
<tr>
<td>Visits</td>
<td>17.72</td>
<td>18.5</td>
</tr>
<tr>
<td>Pmt. Per Full Episode</td>
<td>$2,776.62</td>
<td>$2,547.48</td>
</tr>
<tr>
<td>% Profit Margin</td>
<td>16.50</td>
<td>1.53</td>
</tr>
</tbody>
</table>
Preparation of the HHA Medicare Cost Report

<table>
<thead>
<tr>
<th>ITEM</th>
<th>NATIONAL</th>
<th>STATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPS Episodes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Full w/o outliers</td>
<td>85.56</td>
<td>78.51</td>
</tr>
<tr>
<td>% Full with outliers</td>
<td>2.13</td>
<td>2.71</td>
</tr>
<tr>
<td>% LUPA</td>
<td>10.02</td>
<td>13.76</td>
</tr>
<tr>
<td>% PEP only</td>
<td>2.05</td>
<td>2.38</td>
</tr>
<tr>
<td>% SCIC within PEP</td>
<td>-</td>
<td>0.08</td>
</tr>
<tr>
<td>% SCIC</td>
<td>0.25</td>
<td>2.56</td>
</tr>
<tr>
<td>Supply Cost Per Episode</td>
<td>$132.55</td>
<td>$41.00</td>
</tr>
</tbody>
</table>

Common Cost Report Problems

Inaccurate visit statistics – date of service / visits vs. units

Cost and visit counts for “Like-kind” and “non like-kind” services not segregated – What are non like-kind services?” (HCFA PM 97-11.60)

Costs and utilization statistics not properly matched

Inaccurate FTE calculations
Common Cost Report Problems

Improper accounting method – cash vs. accrual

Improper classification of direct and indirect expenses
  Double allocation to NRCC

Costs not properly segregated on the trial balance
  By discipline, by program
  Like kind / non like kind

Costs not in the correct cost centers
  Salaries, transportation, etc.

Common Cost Report Problems

Improper reporting of non-routine medical supply costs and charges

Improper reporting of flu vaccine costs, charges and Medicare settlement data

Telemedicine costs not properly reported

Prior year adjustments made after cost report is filed (i.e. tax return extended)
Common Cost Report Problems

Incorrect adjustments to adjust costs on W/S A-5

Failure to identify all related party transactions section 1010 exception

Cost per visit by discipline is unreasonable

Improper use of the PS&R report

Common Cost Report Problems

Worksheet F series not reconciled

(Balance Sheet, Income Statement and Statement of Changes in Fund Balance)
Links

Provider Reimbursement Manual (PRM 15-1)

Medicare Cost Report Forms and Instructions (PRM 15-2)

CMS Form 339 – Chapter 11

Home Health CMS Form 1728-94 – Chapter 32

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

Boyd & Nicholas Whitepapers

• Medicare PPS Rates and the Medicare HHA Cost Report

• Are You Getting What You Paid For?

• Medicare Accrual Basis Accounting

• How to Hire a Business Consultant

• Be A Thorough Housekeeper

• The Yes, But...

• Three Lies...

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