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Top 10 Cost Reporting Errors

Stroudwater Associates is a professional services firm focused on small hospital performance improvement. Using multi-disciplinary teams, Stroudwater analyzes the financial and clinical service operations of rural hospitals throughout the country and serves as the principal advisor to a number of State Offices of Rural Health (SORHs).

Preparing an accurate cost report is a critical element for CAHs as it is the sole determiner of how much the hospital will be paid by Medicare. The cost report is also important for general acute hospitals under 100 beds while the outpatient hold harmless is in effect.

Stroudwater provides financial analysis, modeling, and decision-making support to rural hospitals, but does not prepare or audit cost reports. The following list of Top 10 Cost Reporting Errors was compiled following a review of many cost reports in all regions of the country:

10. Not claiming any Medicare bad debts
9. Observation beds
8. Co-payment offset to outpatient costs (CAHs)
7. End of year negative/positive settlements
6. Program charges allocated to RCC departments with 0.0 value
5. Mis-allocating direct costs (Wkst. A) and statistical errors (Wkst. B-1)
4. Reporting of NF swing-beds
3. Not capturing costs for physician assistants in ED
2. Physician stand-by and on-call (CAHs only) costs in EDs
1. Considering cost reports as a "necessary inconvenience"

A well-completed cost report can also be used to facilitate decision-making, with one important caveat: investment decisions should be made on a variable/marginal cost basis. Using the cost report therefore requires that one separate direct from overhead costs before making a decision (e.g., whether to outsource a department). Case studies from clients using the cost report improperly are detailed.

A number of states have hosted educational workshops on cost reporting. The presentation used by Stroudwater at these sessions is available for download as an Acrobat file. The presentation offers additional information for each of the common cost reporting errors.

Cost Reporting Overview
and
Top 10 Cost Report Errors

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Stroudwater Associates

Presentation Overview

- Introductions
- Cost Report Structure
  - Purpose
  - Worksheets
- CAH vs. General Acute Care Hospital
- Top 10 Cost Reporting Errors
- Using Cost Reports for Benchmarking and Decision Making
- Summary
- Discussion

Cost Report Structure (1)

- Purpose
  - Section 1861(v)(1)(A)
    - *"...providers of service participating in the Medicare program are required to submit annual information to achieve settlement of costs for health care services…"*
  - Program Payment
    - Determination of Medicare ("Program") costs for reimbursement purposes
      - Fully allocated
        - » Begins with income statement, simplified into salary and all other
        - » Allocation of direct costs to departments
        - » Reclassifications and adjustments
        - » Results in "net expenses for allocation"

Cost Report Structure (2)

- Purpose
  - Determination of costs for reimbursement (continued)
    - Using net expense for allocation:
      - » Overhead costs allocated to revenue producing departments through “step downs”
      - » Ratio of total cost to total charges (RCCs) determined for ancillary and outpatient revenue departments
      - » Medicare program charges applied to RCCs to determine Program costs
      - » Settlement against interim payment
  - Data extraction in developing cost limits

Cost Report Structure (3)

- Summary
  1. Direct costs +/- reclassifications and adjustments = net expenses for allocation
  2. Overhead expenses are added to revenue-producing departments (step down) to equal fully allocated department costs
  3. Inpatient and swing:
     1. Average cost per day = routine costs/total days
     2. Program Costs = Program Days X Avg. cost per day
  4. Ancillary and Outpatient:
     1. Ratio of Cost to Charges (RCC) = Total Costs/Total Charges
     2. Program Costs = Program Charges X RCC
  5. Settlement = Program Costs – Deductibles & Coinsurance – Interim Payments

Cost Report Structure (4)

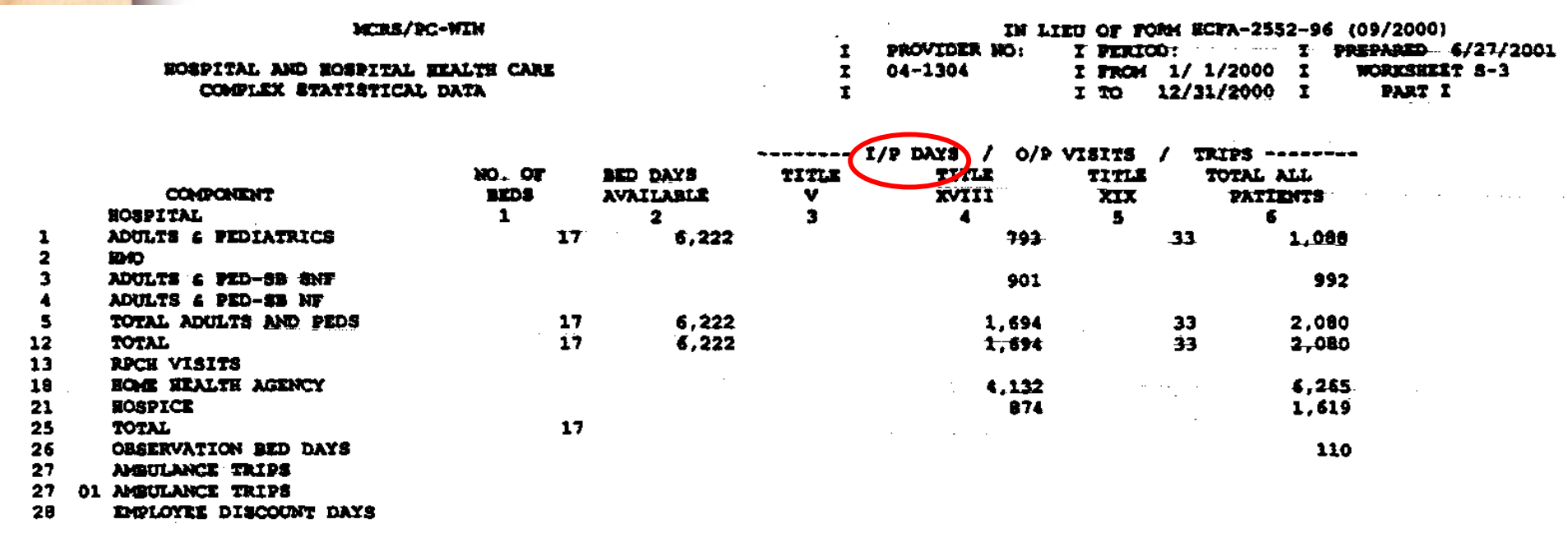
- *Remember (Source: CAH Conference 9/29/01)*
  - Medicare Reimbursement
    - Inpatient - Prospective payment paid on DRGs
      - BBA/BBRA limits on rate increases
    - Hospital Outpatient (Historical) - Cost based with limitations
      - ASC, Radiology, Diagnostic
      - Lesser of cost or charges
      - RCE
      - Reference lab fee schedule
      - PT, OT, RT fee schedule
      - Capital and operating expense reduction
    - Hospital Outpatient (Now)
      - Prospective payment based on APCs
      - Small rural hospitals protected until 2004

Cost Report Structure (5)

- *Remember (Source: CAH Conference 9/29/01)*
  - CAH Reimbursement
    - Cost-based reimbursement
      - "Reasonable Cost"Payment for Medicare inpatient and outpatient services. The following do not apply:
        - » ASC, Radiology and Diagnostic blends
        - » Lessor of cost or charges
        - » Capital cost reductions
        - » RCE limits
        - » Outpatient Lab fee schedule (if registered outpatients at the time of service)
        - » OPPS
      - Hawai`i has extended CAH reimbursement rules to their Medicaid programs
        - » *200% of Reasonable Cost Limits (RCL)*

Cost Report Structure (6)

- Significant Worksheets
  - S-3 Complex Statistical Data (3/-5/)
    - Purpose: Statistics on hospital beds, acute days, discharges, FTEs, etc.



MCRS/PC-WIN

IN LIEU OF FORM HCFA-2552-96 (09/2000)

HOSPITAL AND HOSPITAL HEALTH CARE
COMPLEX STATISTICAL DATA

I PROVIDER NO: 04-1304 I PERIOD: I FROM 1/ 1/2000 I TO 12/31/2000 I PREPARED 6/27/2001 I WORKSHEET S-3 I PART I

	COMPONENT	NO. OF BEDS	BED DAYS AVAILABLE	I/P DAYS / TITLE V	TITLE XVIII	O/P VISITS / TITLE XIX	TRIPS TOTAL ALL PATIENTS
	HOSPITAL	1	2	3	4	5	6
1	ADULTS & PEDIATRICS	17	6,222		793	33	1,088
2	HMO						
3	ADULTS & PED-SB SNF				901		992
4	ADULTS & PED-SB NF						
5	TOTAL ADULTS AND PEDS	17	6,222		1,694	33	2,080
12	TOTAL	17	6,222		1,694	33	2,080
13	RPCH VISITS						
18	HOME HEALTH AGENCY				4,132		6,265
21	HOSPICE				874		1,619
25	TOTAL	17					
26	OBSERVATION BED DAYS						110
27	AMBULANCE TRIPS						
27 01	AMBULANCE TRIPS						
28	EMPLOYEE DISCOUNT DAYS						

- Title XVIII = Medicare
- Title XIV = Medicaid
- All Other = Difference between Total, XVIII, and XIV

Cost Report Structure (7)

- Significant Worksheets (continued)
  - Worksheet A: Reclassification and Adjustment of Trial Balance of Expense (6/-12/)
    - Attribute direct expenses (salary and non-salary) to departments
    - Reclassifications and adjustments to comply with Medicare cost finding principles and program requirements
      - A-6 Reclassifications
      - A-8 Adjustments
        - » A-8/2 Provider-based physician adjustment
      - A-8/4 Reasonable Cost for Therapy Provided by Outside Suppliers

Cost Report Structure (8)

- Significant Worksheets (continued)
  - Worksheet B, Part I: Cost Allocation – General Service Costs (13/-18/)
    - Purpose: Allocates costs from non-revenue producing departments to revenue producing departments based on statistics
  - Worksheet B-1: Cost Allocation – Statistical Basis (19/-24/)
    - Purpose: Used to accumulate the statistics needed to allocate costs on worksheet B
      - E.g., Square feet, Pounds of Laundry, etc.

PROVIDER NO. 42-0031
PERIOD FROM 10/01/1998 TO 09/30/1999

KPMG COMPU-MAX MICRO SYSTEM
IN LIEU OF FORM HCFA-2552-96 (9/97)

VERSION: 99.10
04/26/2000 08:36:52

COST ALLOCATION - GENERAL SERVICE COSTS

WORKSHEET B
PART I

	COST CENTER DESCRIPTION	MAIN-TENANCE & REPAIRS 7	OPERATION OF PLANT 8	LAUNDRY & LINEN SERVICE 9	HOUSE-KEEPING 10	DIETARY 11	CAFETERIA 12	NURSING ADMINIS-TRATION 14	CENTRAL SERVICES & SUPPLY 15	
	GENERAL SERVICE COST CENTERS									
1	OLD CAP REL COSTS-BLDG & FIXT									1
2	OLD CAP REL COSTS-MVBLE EQUIP									2
3	NEW CAP REL COSTS-BLDG & FIXT									3
4	NEW CAP REL COSTS-MVBLE EQUIP									4
5	EMPLOYEE BENEFITS									5
6	ADMINISTRATIVE & GENERAL									6
7	MAINTENANCE & REPAIRS									7
8	OPERATION OF PLANT									8
9	LAUNDRY & LINEN SERVICE			15799						9
10	HOUSEKEEPING				165311					10
11	DIETARY				16409	727092				11
12	CAFETERIA				5865	201289	148433			12
14	NURSING ADMINISTRATION				1520			132253		14
15	CENTRAL SERVICES & SUPPLY				7372				105777	15
16	PHARMACY				807		625			16
17	MEDICAL RECORDS & LIBRARY				3782		6174			17
20	NONPHYSICIAN ANESTHETISTS									20
	INPATIENT ROUTINE SERV COST CENTEF									
25	ADULTS & PEDIATRICS			12273	22888	127433	48220	40214		25
33	NURSERY				1309					33
34	SKILLED NURSING FACILITY			3526	65019	304596	52547	92039		34
	ANCILLARY SERVICE COST CENTERS									
37	OPERATING ROOM				4134		126			37
39	DELIVERY ROOM & LABOR ROOM				5848					39
40	ANESTHESIOLOGY									40
41	RADIOLOGY-DIAGNOSTIC				9398		7259			41
44	LABORATORY				3057		9237			44
47.10	CT SCAN									47.10
48.10	ULTRASOUND				687					48.10
49	RESPIRATORY THERAPY				987		2623			49
50	PHYSICAL THERAPY				558					50
53	ELECTROCARDIOLOGY									53
	MEDICAL SUPPLIES CHARGED TO PAT								105777	55
	DRUGS CHARGED TO PATIENTS									56
	OUTPATIENT SERVICE COST CENTERS									
61	EMERGENCY	11655	34675		15671		21622			61
62	OBSERVATION BEDS (NON-DISTINCT									62
	OTHER REIMBURSABLE COST CENTERS									
71	HOME HEALTH AGENCY									71
	SPECIAL PURPOSE COST CENTERS									
95	SUBTOTALS	127871	373265	15799	[illegible]	633318	148433	132253	105777	95
	NONREIMBURSABLE COST CENTERS									
96	GIFT, FLOWER, COFFEE SHOP & CAN					93774				96
101	CROSS FOOT ADJUSTMENTS									101
102	NEGATIVE COST CENTER									102
103	TOTAL	127871	373265	15799	165311	727092	148433	132253	105777	103

88%

12%

PROVIDER NO. 42-0031
PERIOD FROM 10/01/1998 TO 09/30/1999

KPMG COMPU-MAX MICRO SYSTEM
IN LIEU OF FORM HCFA-2552-96 (9/97)

VERSION: 99.10
04/26/2000 08:36:52

COST ALLOCATION - STATISTICAL BASIS

WORKSHEET B-1

	COST CENTER DESCRIPTION	MAINTENANCE & REPAIRS SQUARE FEET 7	OPERATION OF PLANT SQUARE FEET 8	LAUNDRY & LINEN SERVICE POUNDS OF LAUNDRY 9	HOUSEKEEPING HOURS OF SERVICE 10	DIETARY MEALS SERVED 11	CAFETERIA MEALS SERVED 12	NURSING ADMINISTRATION DIRECT NRSING HRS 14	CENTRAL SERVICES & SUPPLY COSTED REQUIS. 15	
	GENERAL SERVICE COST CENTERS									
1	OLD CAP REL COSTS-BLDG & FIXT									1
2	OLD CAP REL COSTS-MVBLE EQUIP									2
3	NEW CAP REL COSTS-BLDG & FIXT									3
4	NEW CAP REL COSTS-MVBLE EQUIP									4
5	EMPLOYEE BENEFITS									5
6	ADMINISTRATIVE & GENERAL									6
7	MAINTENANCE & REPAIRS									7
8	OPERATION OF PLANT									8
9	LAUNDRY & LINEN SERVICE			53067						9
10	HOUSEKEEPING				38504					10
11	DIETARY				3822	112653				11
12	CAFETERIA				1366	31187	184413			12
14	NURSING ADMINISTRATION				354			22646		14
15	CENTRAL SERVICES & SUPPLY				171[illegible]				100	15
16	PHARMACY				188		777			16
17	MEDICAL RECORDS & LIBRARY				881		7670			17
20	NONPHYSICIAN ANESTHETISTS									20
	INPATIENT ROUTINE SERV COST CENT									
25	ADULTS & PEDIATRICS			41224	5331	19744	59909	6886		25
33	NURSERY				305					33
34	SKILLED NURSING FACILITY			11843	15144	47193	65284	15760		34
	ANCILLARY SERVICE COST CENTERS									
37	OPERATING ROOM				963		156			37
39	DELIVERY ROOM & LABOR ROOM				1362					39
40	ANESTHESIOLOGY									40
41	RADIOLOGY-DIAGNOSTIC				2189		9019			41
44	LABORATORY				712		11476			44
47.10	CT SCAN									47.10
48.10	ULTRASOUND				160					48.10
49	RESPIRATORY THERAPY				230		3259			49
	PHYSICAL THERAPY				130					50
	ELECTROCARDIOLOGY									53
55	MEDICAL SUPPLIES CHARGED TO P								100	55
56	DRUGS CHARGED TO PATIENTS									56
	OUTPATIENT SERVICE COST CENTERS									
61	EMERGENCY	3650	3650		3650		26863			61
62	OBSERVATION BEDS (NON-DISTINC									62
	OTHER REIMBURSABLE COST CENTERS									
71	HOME HEALTH AGENCY									71
	SPECIAL PURPOSE COST CENTERS									
95	SUBTOTALS	40047	39291	53067	[illegible]	98124	184413	22646	100	95
	NONREIMBURSABLE COST CENTERS									
96	GIFT, FLOWER, COFFEE SHOP & C					14529				96

88%

12%

Cost Report Structure (9)

- Significant Worksheets (continued)
  - Worksheet C: Computation of Ratio of Costs to Charges (25/-27/)
    - Purpose: Divides fully allocated costs for ancillary and outpatient revenue departments by total department charges (inpatient and outpatient) to determine RCC
      - Part I – RCC
      - Part II – Capital and Operating Cost Reduction
  - Worksheet D Part V: Apportionment of Medical and Other Health Services Costs (28/-33/)
    - Purpose: Using RCCs determined on Worksheet C, apply Program Outpatient Charges to determine Program Outpatient Costs
      - Charges accumulated in 4 areas: ASC, Radiology, Other Diagnostic, All Other

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IN LIEU OF FORM HCFA-2552-96 (09/2000)

APPORTIONMENT OF MEDICAL, OTHER HEALTH SERVICES & VACCINE COSTS

PROVIDER NO:	PERIOD:	PREPARED 6/27/2
04-1304	FROM 1/ 1/2000	WORKSHEET D
COMPONENT NO:	TO 12/31/2000	PART V
04-1304		

TITLE XVIII, PART B HOSPITAL

PART V - APPORTIONMENT OF MEDICAL AND OTHER HEALTH SERVICES COSTS

	COST CENTER DESCRIPTION	COST TO CHARGE RATIO FROM C, PART II, COL 8 PRIOR 8/1/00	COST TO CHARGE RATIO FROM C, PART I, COL 9 8/1/00 & AFTR	PROGRAM CHARGES OUTPATIENT ASC THRU 7/31/00	PROGRAM CHARGES OUTPATIENT RADIOLOGY THRU 7/31/00	PROGRAM CHARGES OTHER OUTPAT DIAGNOSTIC THRU 7/31/00	ALL OTHER PRIOR 8/1/00	PPS SERVIC 8/1/00 & A
		1	1.01	2	3	4	5	5.01
	ANCILLARY SRVC COST CNTRS							
37	OPERATING ROOM	1.107538	1.107538				32,325	
41	RADIOLOGY-DIAGNOSTIC	.810596	.810596				86,853	
44	LABORATORY	.605284	.605284				73,697	
49	RESPIRATORY THERAPY	.032930	.032930				4,060	
50	PHYSICAL THERAPY	1.208281	1.208281				63,840	
53	ELECTROCARDIOLOGY	.034544	.034544				18,706	
54	ELECTROENCEPHALOGRAPHY							
55	MEDICAL SUPPLIES CHARGED	.665986	.665986				37,130	
56	DRUGS CHARGED TO PATIENTS	.469051	.469051				50,901	
	OUTPAT SERVICE COST CNTRS							
61	EMERGENCY	.556752	.556752				51,924	
62	OBSERVATION BEDS (NON-DIS	1.628588	1.628588				27,920	
	OTHER REIMBURS COST CNTRS							
101	SUBTOTAL						447,356	
102	CRNA CHARGES							
103	LESS PBP CLINIC LAB SVCS-PROGRAM ONLY CHARGES							
104	NET CHARGES						447,356	

Cost Report Structure (10)

- Significant Worksheets (continued)
  - Worksheet D-1: Computation of Inpatient Operating Costs (34/-37/)
    - Purpose: Determines both Inpatient Routine Costs per day, net of swing-bed carveout (Parts I and II), and observation bed costs (outpatient) (Part IV)
  - Worksheet D-4: Inpatient Ancillary Service Cost Appor. (38/-39/)
    - Purpose: Applies inpatient ancillary department charges to RCCs to determine inpatient ancillary costs
      - Hospital
      - Distinct Part SNF
      - Swing-bed SNF

Cost Report Structure (11)

- Significant Worksheets (continued)
  - Worksheet E: Calculation of Reimbursement Settlements
    - Wkst. E, Part A Inpatient Hospital Services Under PPS (40/-42/)
      - Purpose: Compares interim payments with PPS Payment amount, net of deductibles and co-pays, and determines any amounts owed between hospital and program
    - Wkst. E, Part B Medical and Other Health Services (43/-46/)
      - Purpose: Compares interim outpatient payments with outpatient program costs, net of deductibles and co-pays, and determines settlement

Cost Report Structure (12)

- Significant Worksheets (continued)
  - Worksheet E: Calculation of Reimbursement Settlements (cont.)
    - Wkst. E, Part C Outpatient Ambulatory Surgical Center (47/)
      - Purpose: Determines ASC payment amount using allowable costs and applying both a blended reduction, and deductibles and coinsurance to Program Costs
        - » Blended reduction based on 58% of allowable fees; and 42% of hospital costs
    - Wkst. E, Part D Outpatient Radiology Services (48/)
      - Purpose: Same as above for outpatient radiology services
        - » Blended reduction based on 58% of prevailing charges reduced by 38%; and 42% of hospital costs

Cost Report Structure (13)

- Significant Worksheets (continued)
  - Wkst. E, Part E Outpatient Diagnostic Procedures (49/)
    - Purpose: Same as above for outpatient diagnostic procedures
      - » Blended Reduction based on 50% of prevailing charges reduced by 58%, and 50% hospital costs
  - Other Worksheets
    - E-2 Calculation of Reimbursement Settlement – Swing Beds
    - E-3 Medicare Part A Services – Cost Reimbursement Hospital
    - G Hospital Financial Statements
    - H Home Health Agency Costs
    - M Rural Health Clinic

CAH vs. General Acute (1)

- CAH Differences from General Acute
  - Worksheet A
    - Fact: Costs for On-call MDs allowable for CAHs
  - Worksheet C, Part I and II (27/ & CAH 19/)
    - Fact: No Capital/Operating Cost reductions
      - Part I
        - » PPS Cost to Charge Ratio
      - Part II
        - » No Capital Cost Reduction (Col 4)
        - » No Operating Cost Reduction (Col 5)
        - » Outpatient RCC = PPS RCC

CAH vs. General Acute (2)

- CAH Differences from General Acute
  - Worksheet D, Part V (28/ & CAH 21/)
    - Fact: No blended payment amounts for ASC, radiology, and other diagnostic services
      - All Program Charges entered into Col 5
    - Fact: Cost-based clinical Laboratory
      - Significantly higher “Program” laboratory Charges

CAH vs. General Acute (3)

- CAH Differences from General Acute (cont.)
  - Worksheet D-1, Part I (CAH 23/)
    - Fact: Cost-based Swing Bed (SB) SNF
      - Rows 17-27
        - » New methodology will not "Carve-out" Medicare SB SNF days at regional rate
        - » All SB SNF days will remain in denominator when determining Routine Costs Per Day
        - » Routine costs for both Acute and Medicare SB SNF will be reimbursed at the same amount

CAH vs. General Acute (4)

- CAH Differences from General Acute (cont.)
  - Worksheet E Part A, E-3 (40/-42/ & CAH 32/)
    - Fact: No DRG Payments and DSH, 100% Bad Debt
      - Work E is replaced by worksheet E-2
        - » I/P settlement based on Program Costs (worksheet D-1), less deductibles, plus 100% of bad debts, less interim payments

CAH vs. General Acute (5)

- CAH Differences from General Acute (cont.)
  - Worksheet E, Part B, C, D, E (47/-49/ & CAH 28/)
    - Fact: No blended payment amounts for ASC, radiology, and other diagnostic services
      - Worksheets E, Part C, D, E are eliminated when all program charges are classified as "other O/P"
    - Fact: No lesser of Costs or Charges
      - Worksheet E, Part B
        - » Rows 6 through 16 are blank
    - Fact: Coinsurance at 20% of Costs, not Charges
      - Worksheet E, Part B
        - » Rows 17 through 19 – For CAH, line 19 equals total costs (line 17), less deductibles (Line 18), times 80%

Top 10 Cost Reporting Issues (1)

- #10 Medicare Bad Debts
  - General Principle
    - Section 413.80: *"..bad debts attributable to the (Program) deductibles and coinsurance amounts are reimbursable under the program."*
      - Reasonable collection effort
      - Debt was uncollectible when claimed worthless
      - Sound business judgment established no likelihood of recovery
      - Excludes physician professional services
    - Opportunity
      - Often hospitals do not either track Program Bad Debts and/or record record them on the cost report
    - Cost Report Impact
      - Inpatient – Worksheet E, Part A, Row 21
      - Outpatient – Worksheet E, Part B, Row 27

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CALCULATION OF REIMBURSEMENT SETTLEMENT

IN LIEU OF FORM HCFA-2552-96-E-3 (03/1999)

PROVIDER NO:	PERIOD:		PREPARED 1/ 5/2001
24-1301	FROM 7/30/1999		WORKSHEET E-3
COMPONENT NO:	TO 6/30/2000		PART II
24-1301			

PART II - MEDICARE PART A SERVICES - COST REIMBURSEMENT

HOSPITAL

1	INPATIENT SERVICES	791,576
2	ORGAN ACQUISITION	
3	COST OF TEACHING PHYSICIANS	
4	SUBTOTAL	791,576
5	PRIMARY PAYER PAYMENTS	
6	TOTAL COST	791,576
	COMPUTATION OF LESSER OF COST OR CHARGES	
	REASONABLE CHARGES	
7	ROUTINE SERVICE CHARGES	
8	ANCILLARY SERVICE CHARGES	
9	ORGAN ACQUISITION CHARGES, NET OF REVENUE	
10	TEACHING PHYSICIANS	
11	TOTAL REASONABLE CHARGES	
	CUSTOMARY CHARGES	
12	AGGREGATE AMOUNT ACTUALLY COLLECTED FROM PATIENTS LIA BLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS	
13	AMOUNTS THAT WOULD HAVE BEEN REALIZED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS HAD SUCH PAYMENT BEEN MADE IN ACCORDANCE WITH 42 CFR 413.13(e)	
14	RATIO OF LINE 12 TO LINE 13 (NOT TO EXCEED 1.000000)	
15	TOTAL CUSTOMARY CHARGES (SEE INSTRUCTIONS)	
16	EXCESS OF CUSTOMARY CHARGES OVER REASONABLE COST	
17	EXCESS OF REASONABLE COST OVER CUSTOMARY CHARGES	
	COMPUTATION OF REIMBURSEMENT SETTLEMENT	
18	DIRECT GRADUATE MEDICAL EDUCATION PAYMENTS	
19	COST OF COVERED SERVICES	791,576
20	DEDUCTIBLES (EXCLUDE PROFESSIONAL COMPONENT)	86,512
21	EXCESS REASONABLE COST	
22	SUBTOTAL	705,064
23	COINSURANCE	
24	SUBTOTAL	705,064
25	REIMBURSABLE BAD DEBTS (EXCLUDE BAD DEBTS FOR PROFESS IONAL SERVICES (SEE INSTRUCTIONS)	2,167
25.01	REIMBURSABLE BAD DEBTS ADJUSTMENT (SEE INSTRU)	2,167
26	SUBTOTAL	707,231
27	RECOVERY OF EXCESS DEPRECIATION RESULTING FROM PROVID ER TERMINATION OR A DECREASE IN PROGRAM UTILIZATION	
28	OTHER ADJUSTMENTS (SPECIFY)	
29	AMOUNTS APPLICABLE TO PRIOR COST REPORTING PERIODS RESULTING FROM DISPOSITION OF DEPRECIABLE ASSETS	
30	SUBTOTAL	707,231
31	SEQUESTRATION ADJUSTMENT	
32	INTERIM PAYMENTS	565,738
32.01	TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)	
33	BALANCE DUE PROVIDER/PROGRAM	141,493
34	PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH HCFA PUB. 15-II, SECTION 115.2.	

PART B - MEDICAL AND OTHER HEALTH SERVICES

		HOSPITAL
1	MEDICAL AND OTHER SERVICES (SEE INSTRUCTIONS)	907,875
1.01	MEDICAL AND OTHER SERVICES ON OR AFTER AUGUST 1, 2000 FROM WORKSHEET D, PART V, COLUMN 9.01, LINE 104.	
1.02	PPS PAYMENT RECEIVED INCLUDING OUTLIERS.	
1.03	ENTER THE 1996 HOSPITAL SPECIFIC PAYMENT TO COST RATIO.	
1.04	LINE 1.01 TIMES LINE 1.03.	
1.05	LINE 1.02 DIVIDED BY LINE 1.04.	
1.06	TRANSITIONAL CORRIDOR PAYMENT (SEE INSTRUCTIONS).	
1.07	ENTER THE AMOUNT FROM WORKSHEET D, PART IV, COLUMN 9 ,LINE 101.	
2	INTERNS AND RESIDENTS	
3	ORGAN ACQUISITIONS	
4	COST OF TEACHING PHYSICIANS	
5	TOTAL COST	907,875
	COMPUTATION OF LESSER OF COST OR CHARGES	
	REASONABLE CHARGES	
6	ANCILLARY SERVICE CHARGES	
7	INTERNS AND RESIDENTS SERVICE CHARGES	
8	ORGAN ACQUISITION CHARGES	
9	CHARGES OF PROFESSIONAL SERVICES OF TEACHING PHYSICIANS.	
10	TOTAL REASONABLE CHARGES	
	CUSTOMARY CHARGES	
11	AGGREGATE AMOUNT ACUTALLY COLLECTED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS	
12	AMOUNTS THAT WOULD HAVE BEEN REALIZED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS HAD SUCH PAYMENT BEEN MADE IN ACCORDANCE WITH 42 CRF 413.13(e).	
13	RATIO OF LINE 11 TO LINE 12	
14	TOTAL CUSTOMARY CHARGES	
15	EXCESS OF CUSTOMARY CHARGES OVER REASONABLE COST	
16	EXCESS OF REASONABLE COST OVER CUSTOMARY CHARGES	
17	LESSER OF COST OR CHARGES	907,875
	COMPUTATION OF REIMBURSEMENT SETTLEMENT	
17.01	TOTAL PPS PAYMENTS (SUM OF LINES 1.02, 1.06 AND 1.07)	
18	DEDUCTIBLES AND COINSURANCE	19,927
18.01	DEDUCTIBLES AND COINSURANCE RELATING TO LINE 17.01.	
19	SUBTOTAL	710,358
20	SUM OF AMOUNTS FROM WORKSHEET E PARTS C, D & E, LINE 21.	
21	DIRECT GRADUATE MEDICAL EDUCATION PAYMENTS	
22	ESRD DIRECT MEDICAL EDUCATION COSTS	
23	SUBTOTAL	710,358
24	PRIMARY PAYER PAYMENTS	493
25	SUBTOTAL	709,865
	REIMBURSABLE BAD DEBTS (EXCLUDE BAD DEBTS FOR PROFESSIONAL SERVICES)	
26	COMPOSITE RATE ESRD	
27	BAD DEBTS (SEE INSTRUCTIONS)	2,574
27.01	REIMBURSABLE BAD DEBTS ADJUSTMENT	2,574
28	SUBTOTAL	712,439
29	RECOVERY OF EXCESS DEPRECIATION RESULTING FROM PROVIDER TERMINATION OR A DECREASE IN PROGRAM UTILIZATION.	
30	OTHER ADJUSTMENTS (SPECIFY)	
31	AMOUNTS APPLICABLE TO PRIOR COST REPORTING PERIODS RESULTING FROM DISPOSITION OF DEPRECIABLE ASSETS.	
32	SUBTOTAL	712,439
33	SEQUESTRATION ADJUSTMENT (SEE INSTRUCTIONS)	
34	INTERIM PAYMENTS	749,772
34.01	TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)	
35	BALANCE DUE PROVIDER/PROGRAM	-37,333
36	PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH HCFA PUB. 15-II, SECTION 115.2.	

Top 10 Cost Reporting Issues (4)

- #9 Observation Beds
  - General Principle
    - Medicare reimburses observation bed costs that are in the general acute care routine area of the hospital on a cost basis (prior to APCs for non-CAHs)
      - Cost amount based upon number of observation days multiplied by routine cost per diem
  - Opportunity
    - Hospitals must record observation days on Worksheet S-3 in order to "pull" costs out of the inpatient unit and be reimbursed on a cost basis
      - Financial impact diminishes as a CAH and vanishes under APCs
  - Cost Report Impact
    - Worksheet S-3
    - Worksheet D-1, Part IV
    - Worksheet C, Part II
    - Worksheet D, Part I

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IN LIEU OF FORM HCFA-2552-96 (09/2000)

HOSPITAL AND HOSPITAL HEALTH CARE
COMPLEX STATISTICAL DATA

I PROVIDER NO: 04-1304 I PERIOD: I FROM 1/ 1/2000 I TO 12/31/2000 I PREPARED 6/27/2001 I WORKSHEET S-3 I PART I

			NO. OF BEDS	BED DAYS AVAILABLE	I/P DAYS / O/P VISITS / TRIPS TITLE V	TITLE XVIII	TITLE XIX	TOTAL ALL PATIENTS
		HOSPITAL	1	2	3	4	5	6
1		ADULTS & PEDIATRICS	17	6,222		793	33	1,088
2		EMO						
3		ADULTS & PED-SB SNF				901		992
4		ADULTS & PED-SB NF						
5		TOTAL ADULTS AND PEDS	17	6,222		1,694	33	2,080
12		TOTAL	17	6,222		1,694	33	2,080
13		RPCH VISITS						
18		HOME HEALTH AGENCY				4,132		6,265
21		HOSPICE				874		1,619
25		TOTAL	17					
26		OBSERVATION BED DAYS						110
27		AMBULANCE TRIPS						
27	01	AMBULANCE TRIPS						
28		EMPLOYEE DISCOUNT DAYS						

PART III - SKILLED NURSING FACILITY, NURSINGFACILITY & ICF/MR ONLY

		1
66	SKILLED NURSING FACILITY/OTHER NURSING FACILITY/ICF/MR ROUTINE SERVICE COST	
67	ADJUSTED GENERAL INPATIENT ROUTINE SERVICE COST PER DIEM	
68	PROGRAM ROUTINE SERVICE COST	
69	MEDICALLY NECESSARY PRIVATE ROOM COST APPLICABLE TO PROGRAM	
70	TOTAL PROGRAM GENERAL INPATIENT ROUTINE SERVICE COSTS	
71	CAPITAL-RELATED COST ALLOCATED TO INPATIENT ROUTINE SERVICE COSTS	
72	PER DIEM CAPITAL-RELATED COSTS	
73	PROGRAM CAPITAL-RELATED COSTS	
74	INPATIENT ROUTINE SERVICE COST	
75	AGGREGATE CHARGES TO BENEFICIARIES FOR EXCESS COSTS	
76	TOTAL PROGRAM ROUTINE SERVICE COSTS FOR COMPARISON TO THE COST LIMITATION	
77	INPATIENT ROUTINE SERVICE COST PER DIEM LIMITATION	
78	INPATIENT ROUTINE SERVICE COST LIMITATION	
79	REASONABLE INPATIENT ROUTINE SERVICE COSTS	
80	PROGRAM INPATIENT ANCILLARY SERVICES	
81	UTILIZATION REVIEW - PHYSICIAN COMPENSATION	
82	TOTAL PROGRAM INPATIENT OPERATING COSTS	

PART IV - COMPUTATION OF OBSERVATION BED COST

83	TOTAL OBSERVATION BED DAYS	110
84	ADJUSTED GENERAL INPATIENT ROUTINE COST PER DIEM	680.81
85	OBSERVATION BED COST	74,889

COMPUTATION OF OBSERVATION BED PASS THROUGH COST

		COST	ROUTINE COST	COLUMN 1 DIVIDED BY COLUMN 2	TOTAL OBSERVATION BED COST	OBSERVATION BED PASS THROUGH COST
		1	2	3	4	5
86	OLD CAPITAL-RELATED COST					
87	NEW CAPITAL-RELATED COST					
88	NON PHYSICIAN ANESTHETIST					
89	MEDICAL EDUCATION					

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CALCULATION OF OUTPATIENT SERVICE COST TO CHARGE RATIOS NET OF REDUCTIONS

IN LIEU OF FORM ECFA-2552-96(09/1996)

PROVIDER NO:	PERIOD:	PREPARED 6/27/
04-1304	FROM 1/ 1/2000	WORKSHEET C
	TO 12/31/2000	PART II

WKST A LINE NO.	COST CENTER DESCRIPTION	TOTAL COST WKST B, PT I COL. 27 1	CAPITAL COST WKST B PT II & III, COL. 27 2	OPERATING COST NET OF CAPITAL COST 3	CAPITAL REDUCTION 4	OPERATING COST REDUCTION AMOUNT 5	COST NET OF CAP AND OPER COST REDUCTION 6
	ANCILLARY SRVC COST CNTRS						
37	OPERATING ROOM	73,494	19,850	53,644			73,494
41	RADIOLOGY-DIAGNOSTIC	305,306	8,762	296,544			305,306
44	LABORATORY	245,756	4,037	241,719			245,756
49	RESPIRATORY THERAPY	3,410	96	3,314			3,410
50	PHYSICAL THERAPY	196,881	2,875	194,006			196,881
53	ELECTROCARDIOLOGY	1,013	83	930			1,013
54	ELECTROENCEPHALOGRAPHY						
55	MEDICAL SUPPLIES CHARGED	243,077	6,067	237,010			243,077
56	DRUGS CHARGED TO PATIENTS	224,062	2,389	221,673			224,062
	OUTPAT SERVICE COST CNTRS						
61	EMERGENCY	130,963	3,804	127,159			130,963
62	OBSERVATION BEDS (NON-DIS	74,889		74,889			74,889
	OTHER REIMBURS COST CNTRS						
101	SUBTOTAL	1,498,851	47,963	1,450,888			1,498,851
102	LESS OBSERVATION BEDS	74,889		74,889			74,889
103	TOTAL	1,423,962	47,963	1,375,999			1,423,962

MCRS/PC-WIN

IN LIEU OF FORM HCFA-2552-96 (09/2000)

APPORTIONMENT OF MEDICAL, OTHER HEALTH SERVICES & VACCINE COSTS

PROVIDER NO:	PERIOD:	PREPARED 6/27/200
04-1304	FROM 1/ 1/2000	WORKSHEET D
COMPONENT NO:	TO 12/31/2000	PART V
04-1304		

TITLE XVIII, PART B HOSPITAL

PART V - APPORTIONMENT OF MEDICAL AND OTHER HEALTH SERVICES COSTS

	COST CENTER DESCRIPTION	COST TO CHARGE RATIO FROM C, PART II, COL 8 PRIOR 8/1/00	COST TO CHARGE RATIO FROM C, PART I, COL 9 8/1/00 & AFTR	PROGRAM CHARGES OUTPATIENT ASC THRU 7/31/00	PROGRAM CHARGES OUTPATIENT RADIOLOGY THRU 7/31/00	PROGRAM CHARGES OTHER OUTPAT DIAGNOSTIC THRU 7/31/00	ALL OTHER PRIOR 8/1/00	PPS SERVICES 8/1/00 & AFTI
		1	1.01	2	3	4	5	5.01
	ANCILLARY SRVC COST CNTRS							
37	OPERATING ROOM	1.107538	1.107538				32,325	
41	RADIOLOGY-DIAGNOSTIC	.810596	.810596				86,853	
44	LABORATORY	.605284	.605284				73,697	
49	RESPIRATORY THERAPY	.032930	.032930				4,060	
50	PHYSICAL THERAPY	1.208281	1.208281				63,840	
53	ELECTROCARDIOLOGY	.034544	.034544				18,706	
54	ELECTROENCEPHALOGRAPHY							
55	MEDICAL SUPPLIES CHARGED	.665986	.665986				37,130	
56	DRUGS CHARGED TO PATIENTS	.469051	.469051				50,901	
	OUTPAT SERVICE COST CNTRS							
61	EMERGENCY	.556752	.556752				81,924	
62	OBSERVATION BEDS (NON-DIS	1.628588	1.628588				27,920	
	OTHER REIMBURS COST CNTRS							
101	SUBTOTAL						447,356	
102	CRNA CHARGES							
103	LESS PBP CLINIC LAB SVCS-PROGRAM ONLY CHARGES							
104	NET CHARGES						447,356	

MCRS/PC-WIN

IN LIEU OF FORM HCFA-2552-96(09/2000)

APPORTIONMENT OF MEDICAL, OTHER HEALTH SERVICES & VACCINE COSTS

PROVIDER NO:	PERIOD:	PREPARED 6/27
04-1304	FROM 1/ 1/2000	WORKSHEET D
COMPONENT NO:	TO 12/31/2000	PART V
04-1304		

TITLE XVIII, PART B HOSPITAL

		PROG CHARGES	PROGRAM COSTS					
		ALL OTHER	OUTPATIENT ASC	OUTPATIENT RADIOLOGY	OTHER OUTPAT DIAGNOSTIC	ALL OTHER	PPS SERVICES	ALL O
		8/1/00 & AFTR	THRU 7/31/00	THRU 7/31/00	THRU 7/31/00	PRIOR 8/1/00	8/1/00 & AFTR	8/1/00 &
		5.02	6	7	8	9	9.01	9.
	ANCILLARY SRVC COST CNTRS							
37	OPERATING ROOM					35,801		
41	RADIOLOGY-DIAGNOSTIC					70,403		
44	LABORATORY					44,608		
49	RESPIRATORY THERAPY					134		
50	PHYSICAL THERAPY					77,137		
53	ELECTROCARDIOLOGY					646		
54	ELECTROENCEPHALOGRAPHY							
55	MEDICAL SUPPLIES CHARGED					24,728		
56	DRUGS CHARGED TO PATIENTS					23,875		
	OUTPAT SERVICE COST CNTRS							
61	EMERGENCY					28,809		
62	OBSERVATION BEDS (NON-DIS					45,470		
	OTHER REIMBURS COST CNTRS							
101	TOTAL					351,711		
102	CRNA COST							
103	LESS PBP CLINIC LAB SVCS-PROGRAM ONLY							
104	NET CHARGES					351,711		

Top 10 Cost Reporting Issues (10)

- #8 Co-payment Offset to Outpatient Costs
  - General Principle
    - Cost Report Instructions: For hospitals exempt from Lower of Cost or Charge (LCC), Part B deductibles are entered as an offset to program related costs. This cost-based amount is multiplied by 80% as an estimate for co-insurance
      - Cost Report Instructions: *"If services are exempt from LCC, subtract line 18 (Part B deductibles) from line 17 (reasonable outpatient costs), and multiply the result by 80%."*
        - » Net effect is that co-insurance is 80% of costs, not charges
  - Opportunity
    - CAHs must be careful to accurately record deductibles only where called on the cost report or risk getting "double hit" on co-insurance
  - Cost Report Impact
    - Worksheet E, Part B

PART B - MEDICAL AND OTHER HEALTH SERVICES

		HOSPITAL
1	MEDICAL AND OTHER SERVICES (SEE INSTRUCTIONS)	554,393
2	INTERNS AND RESIDENTS	
3	ORGAN ACQUISITIONS	
4	COST OF TEACHING PHYSICIANS	
5	TOTAL COST	554,393
	COMPUTATION OF LESSER OF COST OR CHARGES	
	REASONABLE CHARGES	
6	ANCILLARY SERVICE CHARGES	
7	INTERNS AND RESIDENTS SERVICE CHARGES	
8	ORGAN ACQUISITION CHARGES	
9	CHARGES OF PROFESSIONAL SERVICES OF TEACHING PHYSICIANS.	
10	TOTAL REASONABLE CHARGES	
	CUSTOMARY CHARGES	
11	AGGREGATE AMOUNT ACUTALLY COLLECTED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS	
12	AMOUNTS THAT WOULD HAVE BEEN REALIZED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS HAD SUCH PAYMENT BEEN MADE IN ACCORDANCE WITH 42 CRF 413.13(e).	
13	RATIO OF LINE 11 TO LINE 12	
14	TOTAL CUSTOMARY CHARGES	
15	EXCESS OF CUSTOMARY CHARGES OVER REASONABLE COST	
16	EXCESS OF REASONABLE COST OVER CUSTOMARY CHARGES	
17	LESSER OF COST OR CHARGES	554,393
	COMPUTATION OF REIMBURSEMENT SETTLEMENT	
18	DEDUCTIBLES AND COINSURANCE	22,010
19	SUBTOTAL	425,266
20	SUM OF AMOUNTS FROM WORKSHEET E PARTS C, D & E, LINE 21.	
21	DIRECT GRADUATE MEDICAL EDUCATION PAYMENTS	
22	ESRD DIRECT MEDICAL EDUCATION COSTS	
23	SUBTOTAL	425,266
24	PRIMARY PAYER PAYMENTS	76
25	SUBTOTAL	425,190
	REIMBURSABLE BAD DEBTS (EXCLUDE BAD DEBTS FOR PROFESSIONAL SERVICES)	
26	COMPOSITE RATE ESRD	
	BAD DEBTS (SEE INSTRUCTIONS)	2,613
27.01	REIMBURSABLE BAD DEBTS ADJUSTMENT	2,613
28	SUBTOTAL	427,803
29	RECOVERY OF EXCESS DEPRECIATION RESULTING FROM PROVIDER TERMINATION OR A DECREASE IN PROGRAM UTILIZATION.	
30		
31	AMOUNTS APPLICABLE TO PRIOR COST REPORTING PERIODS RESULTING FROM DISPOSITION OF DEPRECIABLE ASSETS.	
32	SUBTOTAL	427,803
33	SEQUESTRATION ADJUSTMENT (SEE INSTRUCTIONS)	
34	INTERIM PAYMENTS	293,086
34.01	TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)	
35	BALANCE DUE PROVIDER/PROGRAM	134,717
36	PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH HCFA PUB. 15-II, SECTION 115.2.	5,402

Top 10 Cost Reporting Issues (12)

- #7 Negative/Positive Settlements
  - General Principle
    - Medicare has obligation to pay reasonable cost of covered services related to the care of beneficiaries
      - Section 413.64(b) *"..the intent is that the interim payments shall approximate actual costs as nearly as is practical so that retro adjustment based on actual costs will be as small as possible."*
  - Opportunity
    - CAHs are paid on in interim basis significantly higher or lower than actual costs
      - Reasons
        - » Higher/lower costs
        - » Higher/lower patient volume
      - Opportunity to revise interim payment rates that more accurately reflect current year operations
        - » Interim cost reports or projections
  - Cost Report Impact
    - CAH Worksheet E-3
    - CAH Worksheet E, Part B

PART II - MEDICARE PART A SERVICES - COST REIMBURSEMENT
HOSPITAL

1	INPATIENT SERVICES	791,576
2	ORGAN ACQUISITION	
3	COST OF TEACHING PHYSICIANS	
4	SUBTOTAL	791,576
5	PRIMARY PAYER PAYMENTS	
6	TOTAL COST	791,576
	COMPUTATION OF LESSER OF COST OR CHARGES	
	REASONABLE CHARGES	
7	ROUTINE SERVICE CHARGES	
8	ANCILLARY SERVICE CHARGES	
9	ORGAN ACQUISITION CHARGES, NET OF REVENUE	
10	TEACHING PHYSICIANS	
11	TOTAL REASONABLE CHARGES	
	CUSTOMARY CHARGES	
12	AGGREGATE AMOUNT ACTUALLY COLLECTED FROM PATIENTS LIA BLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS	
13	AMOUNTS THAT WOULD HAVE BEEN REALIZED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS HAD SUCH PAYMENT BEEN MADE IN ACCORDANCE WITH 42 CFR 413.13(e)	
14	RATIO OF LINE 12 TO LINE 13 (NOT TO EXCEED 1.000000)	
15	TOTAL CUSTOMARY CHARGES (SEE INSTRUCTIONS)	
16	EXCESS OF CUSTOMARY CHARGES OVER REASONABLE COST	
17	EXCESS OF REASONABLE COST OVER CUSTOMARY CHARGES	
	COMPUTATION OF REIMBURSEMENT SETTLEMENT	
18	DIRECT GRADUATE MEDICAL EDUCATION PAYMENTS	
19	COST OF COVERED SERVICES	791,576
20	DEDUCTIBLES (EXCLUDE PROFESSIONAL COMPONENT)	86,512
21	EXCESS REASONABLE COST	
22	SUBTOTAL	705,064
23	COINSURANCE	
24	SUBTOTAL	705,064
25	REIMBURSABLE BAD DEBTS (EXCLUDE BAD DEBTS FOR PROFESS IONAL SERVICES (SEE INSTRUCTIONS)	2,167
25.01	REIMBURSABLE BAD DEBTS ADJUSTMENT (SEE INSTRU)	2,167
6	SUBTOTAL	707,231
7	RECOVERY OF EXCESS DEPRECIATION RESULTING FROM PROVID ER TERMINATION OR A DECREASE IN PROGRAM UTILIZATION	
28	OTHER ADJUSTMENTS (SPECIFY)	
29	AMOUNTS APPLICABLE TO PRIOR COST REPORTING PERIODS RESULTING FROM DISPOSITION OF DEPRECIABLE ASSETS	
30	SUBTOTAL	707,231
31	SEQUESTRATION ADJUSTMENT	
32	INTERIM PAYMENTS	565,738
32.01	TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)	
33	BALANCE DUE PROVIDER/PROGRAM	141,493
34	PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH HCFA PUB. 15-II, SECTION 115.2.	

PART B - MEDICAL AND OTHER HEALTH SERVICES

		HOSPITAL
1	MEDICAL AND OTHER SERVICES (SEE INSTRUCTIONS)	554,393
2	INTERNS AND RESIDENTS	
3	ORGAN ACQUISITIONS	
4	COST OF TEACHING PHYSICIANS	
5	TOTAL COST	554,393
	COMPUTATION OF LESSER OF COST OR CHARGES	
	REASONABLE CHARGES	
6	ANCILLARY SERVICE CHARGES	
7	INTERNS AND RESIDENTS SERVICE CHARGES	
8	ORGAN ACQUISITION CHARGES	
9	CHARGES OF PROFESSIONAL SERVICES OF TEACHING PHYSICIANS.	
10	TOTAL REASONABLE CHARGES	
	CUSTOMARY CHARGES	
11	AGGREGATE AMOUNT ACUTALLY COLLECTED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS	
12	AMOUNTS THAT WOULD HAVE BEEN REALIZED FROM PATIENTS LIABLE FOR PAYMENT FOR SERVICES ON A CHARGE BASIS HAD SUCH PAYMENT BEEN MADE IN ACCORDANCE WITH 42 CRF 413.13(e).	
13	RATIO OF LINE 11 TO LINE 12	
14	TOTAL CUSTOMARY CHARGES	
15	EXCESS OF CUSTOMARY CHARGES OVER REASONABLE COST	
16	EXCESS OF REASONABLE COST OVER CUSTOMARY CHARGES	
17	LESSER OF COST OR CHARGES	554,393
	COMPUTATION OF REIMBURSEMENT SETTLEMENT	
18	DEDUCTIBLES AND COINSURANCE	22,810
19	SUBTOTAL	425,266
20	SUM OF AMOUNTS FROM WORKSHEET E PARTS C, D & E, LINE 21.	
21	DIRECT GRADUATE MEDICAL EDUCATION PAYMENTS	
22	ESRD DIRECT MEDICAL EDUCATION COSTS	
23	SUBTOTAL	425,266
24	PRIMARY PAYER PAYMENTS	76
25	SUBTOTAL	425,190
	REIMBURSABLE BAD DEBTS (EXCLUDE BAD DEBTS FOR PROFESSIONAL SERVICES)	
26	COMPOSITE RATE ESRD	
	BAD DEBTS (SEE INSTRUCTIONS)	2,613
27.01	REIMBURSABLE BAD DEBTS ADJUSTMENT	2,613
28	SUBTOTAL	427,803
29	RECOVERY OF EXCESS DEPRECIATION RESULTING FROM PROVIDER TERMINATION OR A DECREASE IN PROGRAM UTILIZATION.	
30		
31	AMOUNTS APPLICABLE TO PRIOR COST REPORTING PERIODS RESULTING FROM DISPOSITION OF DEPRECIABLE ASSETS.	
32	SUBTOTAL	427,803
33	SEQUESTRATION ADJUSTMENT (SEE INSTRUCTIONS)	
34	INTERIM PAYMENTS	293,086
34.01	TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)	
35	BALANCE DUE PROVIDER/PROGRAM	134,717
36	PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH HCFA PUB. 15-II, SECTION 115.2.	5,402

Top 10 Cost Reporting Issues (15)

- #6 Program Charges to 0.0 RCC Deps
  - General Principle
    - Program reimbursement is based on Program charges multiplied by the RCC for the hospital department in which the charges were incurred
  - Opportunity
    - In order to be "reimbursed" for hospital services to Program beneficiaries, departments for which services were provided must have an RCC. Hospital will not be reimbursement for department services without department RCC

Top 10 Cost Reporting Issues (16)

- #6 Program Charges to 0.0 RCC Departments
  - Opportunity (continued)
    - Note that on in interim basis, charges will be paid based on the estimated overall RCC
    - Examples
      - » Medical supplies charged to patients
      - » Drugs charged to patients
  - Cost Report Impact
    - Worksheet D, Part V
  - Example

Top 10 Cost Reporting Issues (17)

- #5 Statistical Allocation of Costs
  - General Principle
    - Accurate cost allocations of non-revenue producing cost centers, based on statistical data, are essential in determining "reasonable costs" of patient care
  - Opportunity
    - Hospitals that have errors in statistical data may misrepresent reasonable costs on a departmental basis
      - Inappropriate costs allocated to "below the line" cost centers has direct negative financial impact
  - Cost Report Impact
    - Worksheet B-1
    - Worksheet B, Part I;

COST ALLOCATION - STATISTICAL BASIS

WORKSHEET B-1

	COST CENTER DESCRIPTION	MAINTENANCE & REPAIRS SQUARE FEET 7	OPERATION OF PLANT SQUARE FEET 8	LAUNDRY & LINEN SERVICE POUNDS OF LAUNDRY 9	HOUSEKEEPING HOURS OF SERVICE 10	DIETARY MEALS SERVED 11	CAFETERIA MEALS SERVED 12	NURSING ADMINISTRATION DIRECT NRSING HRS 14	CENTRAL SERVICES & SUPPLY COSTED REQUIS. 15	
	GENERAL SERVICE COST CENTERS									
1	OLD CAP REL COSTS-BLDG & FIXT									1
2	OLD CAP REL COSTS-MVBLE EQUIP									2
3	NEW CAP REL COSTS-BLDG & FIXT									3
4	NEW CAP REL COSTS-MVBLE EQUIP									4
5	EMPLOYEE BENEFITS									5
6	ADMINISTRATIVE & GENERAL									6
7	MAINTENANCE & REPAIRS	40047								7
8	OPERATION OF PLANT	756	39291							8
9	LAUNDRY & LINEN SERVICE	358	358	53067						9
10	HOUSEKEEPING	429	429		38504					10
11	DIETARY	3822	3822		3822	112653				11
12	CAFETERIA	1366	1366		1366	31187	184413			12
14	NURSING ADMINISTRATION	354	354		354			22646		14
15	CENTRAL SERVICES & SUPPLY	1717	1717		1717				100	15
16	PHARMACY	188	188		188		777			16
17	MEDICAL RECORDS & LIBRARY	881	881		881		7670			17
20	NONPHYSICIAN ANESTHETISTS									20
	INPATIENT ROUTINE SERV COST CENTERS									
25	ADULTS & PEDIATRICS	5331	5331	41224	5331	19744	59909	6886		25
33	NURSERY	305	305		305					33
34	SKILLED NURSING FACILITY	15144	15144	11843	15144	47193	65284	15760		34
	ANCILLARY SERVICE COST CENTERS									
37	OPERATING ROOM	963	963		963		156			37
39	DELIVERY ROOM & LABOR ROOM	1362	1362		1362					39
40	ANESTHESIOLOGY									40
41	RADIOLOGY-DIAGNOSTIC	2189	2189		2189		9019			41
44	LABORATORY	712	712		712		11476			44
47.10	CT SCAN									47.10
48.10	ULTRASOUND	160	160		160					48.10
49	RESPIRATORY THERAPY	230	230		230		3259			49
50	PHYSICAL THERAPY	130	130		130					50
53	ELECTROCARDIOLOGY									53
55	MEDICAL SUPPLIES CHARGED TO P								100	55
56	DRUGS CHARGED TO PATIENTS									56
	OUTPATIENT SERVICE COST CENTERS									
61	EMERGENCY	3650	3650		3650		26863			61
62	OBSERVATION BEDS (NON-DISTINC									62
	OTHER REIMBURSABLE COST CENTERS									
71	HOME HEALTH AGENCY									71
	SPECIAL PURPOSE COST CENTERS									
95	SUBTOTALS	40047	39291	53067	38504	98124	184413	22646	100	95
	NONREIMBURSABLE COST CENTERS									
96	GIFT, FLOWER, COFFEE SHOP & C					14529				96

COST ALLOCATION - GENERAL SERVICE COSTS

WORKSHEET B
PART I

	COST CENTER DESCRIPTION	MAIN-TENANCE & REPAIRS 7	OPERATION OF PLANT 8	LAUNDRY & LINEN SERVICE 9	HOUSE-KEEPING 10	DIETARY 11	CAFETERIA 12	NURSING ADMINIS-TRATION 14	CENTRAL SERVICES & SUPPLY 15	
	GENERAL SERVICE COST CENTERS									
1	OLD CAP REL COSTS-BLDG & FIXT									1
2	OLD CAP REL COSTS-MVBLE EQUIP									2
3	NEW CAP REL COSTS-BLDG & FIXT									3
4	NEW CAP REL COSTS-MVBLE EQUIP									4
5	EMPLOYEE BENEFITS									5
6	ADMINISTRATIVE & GENERAL									6
7	MAINTENANCE & REPAIRS	127871								7
8	OPERATION OF PLANT	2414	373265							8
9	LAUNDRY & LINEN SERVICE	1143	3401	15799						9
10	HOUSEKEEPING	1370	4076		165311					10
11	DIETARY	12204	36309		16409	727092				11
12	CAFETERIA	4362	12977		5865	201289	148433			12
14	NURSING ADMINISTRATION	1130	3363		1520			132253		14
15	CENTRAL SERVICES & SUPPLY	5482	16312		7372				105777	15
16	PHARMACY	600	1786		807		625			16
17	MEDICAL RECORDS & LIBRARY	2813	8370		3782		6174			17
20	NONPHYSICIAN ANESTHETISTS									20
	INPATIENT ROUTINE SERV COST CENTERS									
25	ADULTS & PEDIATRICS	17022	50645	12273	22888	127433	48220	40214		25
33	NURSERY	974	2898		1309					33
34	SKILLED NURSING FACILITY	48355	143865	3526	65019	304596	52547	92039		34
	ANCILLARY SERVICE COST CENTERS									
37	OPERATING ROOM	3075	9149		4134		126			37
39	DELIVERY ROOM & LABOR ROOM	4349	12939		5848					39
40	ANESTHESIOLOGY									40
41	RADIOLOGY-DIAGNOSTIC	6990	20796		9398		7259			41
44	LABORATORY	2273	6764		3057		9237			44
47.10	CT SCAN									47.10
48.10	ULTRASOUND	511	1520		687					48.10
49	RESPIRATORY THERAPY	734	2185		987		2623			49
50	PHYSICAL THERAPY	415	1235		558					50
53	ELECTROCARDIOLOGY									53
	MEDICAL SUPPLIES CHARGED TO PAT								105777	55
	DRUGS CHARGED TO PATIENTS									56
	OUTPATIENT SERVICE COST CENTERS									
61	EMERGENCY	11655	34675		15671		21622			61
62	OBSERVATION BEDS (NON-DISTINCT									62
	OTHER REIMBURSABLE COST CENTERS									
71	HOME HEALTH AGENCY									71
	SPECIAL PURPOSE COST CENTERS									
95	SUBTOTALS	127871	373265	15799	165311	633318	148433	132253	105777	95
	NONREIMBURSABLE COST CENTERS									
96	GIFT, FLOWER, COFFEE SHOP & CAN					93774				96
101	CROSS FOOT ADJUSTMENTS									101
102	NEGATIVE COST CENTER									102
103	TOTAL	127871	373265	15799	165311	727092	148433	132253	105777	103

Top 10 Cost Reporting Issues (20)

- #4 Swing-Bed Reporting of NF Days
  - General Principle
    - For CAH fiscal years beginning after 12/21/00, current "carve-out" method of determining inpatient and SB routine costs has been modified
      - 6-120 Rev. 1843 – *"…To calculate SNF-like SB cost per day, adjusted routine costs are divided by the sum of the total number of inpatient routine days and total SNF-like SB days*
        - » Adjusted routine costs = total routine costs less NF-like SB days
  - Opportunity
    - It is essential that SNF-like and NF-like SBs are properly classified on Worksheet S-3 as NF-like SBs are reimbursed on a "PPS" basis while SNF-like SBs on a cost basis
      - High Medicare payer mix for SNF-like beds will increase reimbursement
  - Cost Report Impact
    - Worksheets S-3; and D-1

HOSPITAL AND HEALTH CARE COMPLEX STATISTICAL DATA

WORKSHEET
PART I

	COMPONENT	NO. OF BEDS 1	BED DAYS AVAILABLE 2	---I/P DAYS / O/P VISITS / TRIPS---- TITLE V 3	TITLE XVIII 4	TITLE XIX 5	TOTAL ALL PATIENTS 6	----INTERNS & RES FTES---- TOTAL 7	LESS I & R REPL NON-PHYS ANES 8	NET 9	
1	HOSPITAL ADULTS & PEDS, EXCL SWING BED, OBSERV & HOSPICE DAYS	36	13140		662	714	1753				1
2	HMO										2
3	HOSPITAL ADULTS & PEDS - SWING BED SNF				854		5133				3
4	HOSPITAL ADULTS & PEDS - SWING BED NF										4
5	TOTAL ADULTS & PEDS EXCL OBSERVATION BEDS	36	13140		1516	714	6886				5
6	INTENSIVE CARE UNIT										6
7	CORONARY CARE UNIT										7
8	BURN INTENSIVE CARE UNIT										8
9	SURGICAL INTENSIVE CARE UNIT										9
10	OTHER SPECIAL CARE (SPECIFY)										10
11	NURSERY	10	3650			232	293				11
12	TOTAL HOSPITAL	46	16790		1516	946	7179				12
13	RPCH VISITS										13
14	SUBPROVIDER										14
15	SKILLED NURSING FACILITY	44	16790				15760				15
16	NURSING FACILITY										16
17	OTHER LONG TERM CARE										17
18	HOME HEALTH AGENCY										18
20	ASC (DISTINCT PART)										20
21	HOSPICE (DISTINCT PART)										21
23	O/P REHAB PROVIDER										23
24	RHC I										24
25	TOTAL	90									25
26	OBSERVATION BED DAYS						145				26
27	AMBULANCE TRIPS										27
28	EMPLOYEE DISCOUNT DAYS										28

Top 10 Cost Reporting Issues (22)

- #3 Physician Assistants in ED
  - General Principle
    - Costs related to hospital employed PA coverage in the ED are allowable costs and included in direct salary costs of the ED
      - Cost Report Instructions Worksheet A-8, line 34: *"The PA is an employee of the hospital and (separate) payment is made to the employer. Make an adjustment on Worksheet A-8 for any payments made directly to the PA…"*
  - Opportunity
    - Common for hospitals to remove cost of PA rather than the revenue generated by them
      - Eliminates any opportunity to "cover" stand-by costs associated with PA coverage
  - Cost Report Impact
    - Worksheet A-8

REF. NO. 2 5 5 2	DESCRIPTION	LN. REF. NO.	BASIS FOR ADJ.	AMOUNT INCR/ (DECR) 0707	- COST CENTER CODE NUMBER - ALL PAYORS 0708	MEDI-CARE 0709	MEDI-CAID 0051	BLUE CROSS 0047	EXP CLASSIFICATION ON EXH 11 FROM WHICH THE AMOUNT IS TO BE DEDUCTED OR TO WHICH THE AMOUNT IS TO BE ADDED. COST CENTER	
	SUBTOTAL BROUGHT FORWARD			-246210						
29	DEPRECIATION--OLD BUILDINGS & FIXTURES	031								29
30	DEPRECIATION--OLD MOVABLE EQUIPMENT	032								30
31	DEPRECIATION--NEW BUILDINGS & FIXTURES	033								31
32	DEPRECIATION--NEW MOVABLE EQUIPMENT	034								32
33	NON-PHYSICIAN ANESTHETIST	035	A	-[illegible]		029			NONPHYSICIAN ANESTHETISTS	33
34	PHYSICIANS' ASSISTANT	036	A	-305609	236				EMERGENCY	34
35	ADJ FOR OCCUPATIONAL THERAPY COSTS IN EXCESS OF LIMITATION - HOSPITAL	037							SEE WS A-8-4 FOR DETAILS	35
36	ADJ FOR SPEECH PATHOLOGY COSTS IN EXCESS OF LIMITATION - HOSPITAL	038							SEE WS A-8-4 FOR DETAILS	36
37	INTEREST ON INTERFUND BORROWING	039								37
37.28	PHYSICIANS ASSISTANT	076	B	-35499	235				CLINIC	37.28
37.29	DIETARY NUTRITION INCOME	077	B	-216	008				DIETARY - OTHER	37.29
37.30	PHYSICAL THERAPY INCOME	078	B	-9575	109				PHYSICAL THERAPY	37.30
37.31	OCCUPATIONAL HEALTH INCOME	079	B	-868	113				RESPIRATORY THERAPY	37.31
37.32	LAB JOINT VENTURE	080	B	-34978	106				LABORATORY	37.32
37.33	BABY PICTURES	081	B	-921	228				NURSERY - NEWBORN	37.33
37.34	LOBBYING EXPENSES	082	A	-2878	095				ADMINISTRATIVE & GENERAL	37.34
38		083								38
39		084								39
50	TOTAL	085								50
	TOTAL-ALL PROGRAM ADJUSTMENTS (0708)	960		-440553						
	TOTAL-MEDICARE SPECIFIC ADJ (0709)	961		-306001						
	TOTAL-ALL PGM +/- MEDICARE ADJ	962		-746554						
	TOTAL-MEDICAID SPECIFIC ADJ (0051)	963								
	TOTAL-BLUE CROSS SPECIFIC ADJ (0047)	964			1016	777				

Top 10 Cost Reporting Issues (24)

- #2 Physician Stand-by Costs in ED
  - General Principle
    - Provider Reimbursement Manual 2109: *"When ED physicians are compensated on an hourly or salary basis, or under a minimum guarantee arrangement, providers may include a reasonable amount in allowable costs for ED physician availability services…"*
    - Certain Requirements
      - No feasible alternative to obtaining physician coverage
      - Immediate response to life-threatening emergencies
      - Documentation
      - Subject to RCE limits
  - Opportunity
    - CAHs are often able to record a portion of ED physicians salary on the cost report
  - Cost Report Impact
    - Worksheet A-8
    - Worksheet A-8/2

ADJUSTMENTS TO EXPENSES

WORKSHEET A-8

	DESCRIPTION	BASIS 1	AMOUNT 2	EXPENSE CLASSIFICATION ON WORKSHEET A TO/FROM WHICH THE AMOUNT IS TO BE ADJUSTED COST CENTER 3	LINE NO. 4	WKST A-7 REF 5	
1	INVESTMENT INCOME-OLD BLDGS & FIXTURES			OLD CAP REL COSTS-BLDG & FIXT	1		1
2	INVESTMENT INCOME-OLD MOVABLE EQUIPMENT			OLD CAP REL COSTS-MVBLE EQUIP	2		2
3	INVESTMENT INCOME-NEW BLDGS & FIXTURES			NEW CAP REL COSTS-BLDG & FIXT	3		3
4	INVESTMENT INCOME-NEW MOVABLE EQUIPMENT			NEW CAP REL COSTS-MVBLE EQUIP	4		4
5	INVESTMENT INCOME-OTHER	B	-2898	ADMINISTRATIVE & GENERAL	24.51		5
6	TRADE, QUANTITY, AND TIME DISCOUNTS						6
7	REFUNDS AND REBATES OF EXPENSES						7
8	RENTAL OF PROVIDER SPACE BY SUPPLIERS						8
9	TELEPHONE SERVICES (PAY STATIONS EXCL)	B	-1753	ADMINISTRATIVE & GENERAL	24.51		9
10	TELEVISION AND RADIO SERVICE						10
11	PARKING LOT						11
12	PROVIDER-BASED PHYSICIAN ADJUSTMENT	WKST A-8-2	-962556				12
13	SALE OF SCRAP, WASTE, ETC.						13
14	RELATED ORGANIZATION TRANSACTIONS	WKST A-8-1					14
15	LAUNDRY AND LINEN SERVICE						15
16	CAFETERIA - EMPLOYEES AND GUESTS	B	-49689	CAFETERIA	12		16
17	RENTAL OF QUARTERS TO EMPLOYEES & OTHERS						17
18	SALE OF MEDICAL AND SURGICAL SUPPLIES TO OTHER THAN PATIENTS						18
19	SALE OF DRUGS TO OTHER THAN PATIENTS	B	-7333	PHARMACY	19.02		19
20	SALE OF MEDICAL RECORDS AND ABSTRACTS	B	-791	MEDICAL RECORDS & LIBRARY	17		20
21	NURSING SCHOOL (TUITION, FEES, BOOKS, ETC.)						21
22	VENDING MACHINES						22
23	INCOME FROM IMPOSITION OF INTEREST, FINANCE OR PENALTY CHARGES						23
24	INTEREST EXP ON MEDICARE OVERPAYMENTS & BORROWINGS TO REPAY MEDICARE OVERPAYMENT						24
25	ADJ FOR RESPIRATORY THERAPY COSTS IN EXCESS OF LIMITATION - HOSPITAL	WKST A-8-4		RESPIRATORY THERAPY	49		25
26	ADJ FOR PHYSICAL THERAPY COSTS IN EXCESS OF LIMITATION - HOSPITAL	WKST A-8-4		PHYSICAL THERAPY	50		26
27	ADJ FOR HHA PHYSICAL THERAPY COSTS IN EXCESS OF LIMITATION	WKST A-8-3		HOME HEALTH AGENCY	71		27
28	UTIL REVIEW-PHYSICIANS' COMPENSATION			UTILIZATION REVIEW-SNF	89		28
29	DEPRECIATION--OLD BUILDINGS & FIXTURES			OLD CAP REL COSTS-BLDG & FIXT	1		29
30	DEPRECIATION--OLD MOVABLE EQUIPMENT			OLD CAP REL COSTS-MVBLE EQUIP	2		30
31	DEPRECIATION--NEW BUILDINGS & FIXTURES			NEW CAP REL COSTS-BLDG & FIXT	3		31
32	DEPRECIATION--NEW MOVABLE EQUIPMENT			NEW CAP REL COSTS-MVBLE EQUIP	4		32
33	NON-PHYSICIAN ANESTHETIST			NONPHYSICIAN ANESTHETISTS	20		33
34	PHYSICIANS' ASSISTANT						34
35							35
36							36
37							37
37.28	MISCELLANEOUS	B	-220	ADMINISTRATIVE & GENERAL	24.51		37.28

PROVIDER-BASED PHYSICIAN ADJUSTMENTS

WORKSHEET A-8-2

WKST A LINE NO. 1	COST CENTER/ PHYSICIAN IDENTIFIER 2		TOTAL REMUNERATION INCL FRINGES 3	PROFESSIONAL COMPONENT 4	PROVIDER COMPONENT 5	RCE AMOUNT 6	PHYSICIAN/ PROVIDER COMPONENT HOURS 7	UNADJUSTED RCE LIMIT 8	PERCENT OF UNADJUSTED RCE LIMIT 9
1 61	EMERGENCY	EMERGENCY	848304	848304					
2 40	ANESTHESIOLOGY	ANESTHESIOLOGY	114252	114252					
101	TOTAL		962556	962556					

Top 10 Cost Reporting Issues (27)

- #1 Cost Reporting is viewed as a "necessary inconvenience"
  - General Principle
    - The preparation of cost reports is a fiscal year end formality and is often completed at the last minute and without careful consideration
  - Opportunity
    - Understanding of cost reimbursement is essential input to effective decision making
    - Errors on cost report automatically result in negative margin
      - Payment is not "cost based" if costs are captured incorrectly
      - Costs "left on the table" must be covered by other payers
    - Improved understanding of cost reporting leads to better cash flow by updating the interim payment levels to accommodate changes in cost and/or volume

Cost Reports and Decision Making

- Overview
  - Cost report provides excellent source of information
    - Hospital statistics
    - Direct and allocated costs on a departmental basis
    - Ability to benchmark with other peer hospitals
    - Total salary and non-salary expense
  - When combined with operating statistics, provide additional information
    - Fully allocated per unit cost
  - Additional information to be derived includes
    - Direct cost per unit service
    - Variable cost per unit of service
  - Must use caution in using cost report for decision making purposes
    - Fully allocated costs vs. variable/marginal costs

Cost Reports and Benchmarking

- Overview
  - Benchmarking resources available
    - SACHs/HCIA
  - Provide basic information on where hospital expenses deviate from norms
    - Must be careful not to read into deviations too strongly
  - Examples of Benchmarking
    - Average cost per adjusted discharge
    - Salary expense per FTE

Cost Reports and Benchmarking

- Examples

Benchmark	Total Gross Patient Revenue (A)	Outpatient Gross Revenue (B)	Operating Revenue (C)
Hospital	**$ 6,292**	**43.40**	**$ 4,427**
Percentiles			
25th	$ 5,725	45.76	$ 3,693
50th	$ 6,646	52.42	$ 4,438
75th	$ 7,728	59.64	$ 5,273

(A) per Adjusted Discharge, Case Mix- and Wage Adjusted
(B) as a Percentage of Gross Patient Revenue
(C) per Adjusted Discharge

Cost Reports and Benchmarking

- Examples (continued)

Benchmark	Laboratory Cost (A)	Radiology Cost (A)	Pharmacy Cost (A)	Administrative Cost (B)
Hospital	**$ 349**	**$ 308**	**$ 244**	**$ 480**
Percentiles				
25th	$ 229	$ 225	$ 171	$ 406
50th	$ 282	$ 291	$ 216	$ 508
75th	$ 357	$ 358	$ 279	$ 625

(A) per Adjusted Discharge, Case Mix Adjusted
(B) per Adjusted Discharge

Cost Reports and Benchmarking

- Examples (continued)

Benchmark	Operating Expense (1)	Operating Expense (2)	FTE Personnel (3)	Salary and Benefits Expense (4)
Hospital	**$ 4,414**	**$ 6,604**	**10.1**	**66.30**
Percentiles				
25th	$ 3,706	$ 3,836	4.03	45.94
50th	$ 4,376	$ 4,419	4.76	51.02
75th	$ 5,106	$ 5,124	5.88	55.6

(1) per Adjusted Discharge
(2) per Adjusted Discharge, Case Mix- and Wage Adjusted
(3) per 100 Adjusted Discharges, Case Mix Adjusted
(4) as a % of Total Operating Expense

Cost Reports and Decision Making

- Examples
  - Inpatient Psychiatric Unit
  - Distinct Part Skilled Nursing Unit
  - Hospital-based Laboratory
  - Hospital-based Physician Clinic

Cost Reports and Decision Making

- Inpatient Psychiatric Unit
  - Overview
    - Sole Community Hospital with Distinct Part Psych Unit
    - Cost report indicated departmental costs greater than departmental net revenue by $1M
      - Cost report Worksheets B, Part 1
    - Decision made to more closely evaluate unit with expectation of closing the unit
  - Process
    - Contribution margin analysis used to evaluate unit
    - Cost report used to accumulate direct costs
      - Worksheet A
    - Allocated ancillary costs based on RCC for non-wage portion of costs only
    - No allocated overhead costs
      - If unit were to close, virtually no savings on overhead costs

Cost Reports and Decision Making

- Inpatient Psychiatric Unit (cont.)
  - Findings

Inpatient Psychiatric Operating Performance (amounts in 000s):

	Fiscal 1999		Fiscal 2000		Fiscal 2001 (projected)	
	$	$ Per Bed Day	$	$ Per Bed Day	$	$ Per Bed Day
Average Daily Census:		9.5		12.9		15.9
Average Length of Stay:		8.6		9.0		9.0
Net Revenue	$ 2,095	$ 602	$ 2,595	$ 553	$ 3,190	$ 548
Direct Expenses:						
Department Expenses	(1,619)		(1,841)		(2,067)	
Direct Allocated Overhead Expenses	(169)		(173)		(176)	
Allocated Ancillary Expenses	(92)		(126)		(160)	
Total Direct Expenses	(1,880)	(540)	(2,140)	(456)	(2,403)	(413)
Contribution Margin	215	62	454	97	786	135
Indirect Overhead Expenses (est)	(699)	(201)	(792)	(169)	(889)	(153)
CM less Indirect Overhead	$ (484)	$ (139)	$ (337)	$ (72)	$ (103)	$ (18)
% of Net Revenue:						
Contribution Margin		10%		18%		25%
Contribution Margin less Overhead		-23%		-13%		-3%

Cost Reports and Decision Making

- Inpatient Psychiatric Unit (cont.)
  - Conclusions
    - Unit had positive "contribution" toward overhead expenses
      - Exiting business without a revenue center that would contribute more than psych unit would have been ill-advised
    - Significant bottom line potential with growth in revenue
      - Indicates high amount of unit fixed/step-fixed costs
    - Focus not on closing unit, but on expanding services
  - Take Home
    - Fully allocated costs should not be used for management/operational decision making
    - With minor revisions, information from the cost report can be used to determine contribution margin

Cost Reports and Decision Making

- Distinct Part Skilled Nursing Unit
  - Overview
    - General Acute Care Hospital in process of CAH designation
    - Distinct Part SNF
    - CAH designation would significantly improve SNF reimbursement
    - Cost report indicated departmental costs greater than departmental net revenue by $700K
    - Cost report Worksheets B, Part 1
    - Board decision to close unit
  - Process
    - Contribution margin analysis used to evaluate unit
    - Cost report used to accumulate direct costs
      - Worksheet A
    - Allocated ancillary costs based on RCC
    - Allocated overhead costs based on costs that would “go away” if the unit were to close
      - Estimates Assumed
        - » 75% of dietary, 50% of laundry and linen

Cost Reports and Decision Making

- Distinct Part Skilled Nursing Unit (cont.)
  - Findings

For Hospital Internal Purposes Only

	Fiscal Year Ending June 30, 2002					
	PPS			*CAH*		
REVENUE:	WO/NF ***(I)***	W/NF ***(II)***	Difference ***(I - II)***	WO/NF ***(IV)***	W/NF ***(V)***	Difference ***(IV - V)***
Inpatient Revenue	$ 496,000	$ 1,081,000	$ (585,000)	$ 974,000	$ 1,920,000	$ (946,000)
Outpatient Revenue	2,116,000	2,109,000	7,000	2,194,000	2,183,000	11,000
Net Patient Revenue	2,612,000	3,190,000	(578,000)	3,168,000	4,103,000	(935,000)
Other Revenue	1,241,000	1,241,000	-	1,241,000	1,241,000	-
Total Revenue	3,853,000	4,431,000	(578,000)	4,409,000	5,344,000	(935,000)
OPERATING EXPENSES:						
Operating Expenses	6,733,000	7,311,000	(578,000)	6,733,000	7,311,000	(578,000)
OPERATING INCOME (LOSS)	$ (2,880,000)	$ (2,880,000)	$ -	$ (2,324,000)	$ (1,967,000)	$ (357,000)

Cost Reports and Decision Making

- Distinct Part Skilled Nursing Unit (cont.)
  - Conclusions
    - Unit had no "contribution" toward overhead expenses as a PPS hospital but significant "contribution" as a CAH
      - Unit did not "lose" $700K as originally thought
  - Take Home
    - Again, fully allocated costs should not be used for management/operational decision making
    - With minor revisions, information from the cost report can be used to determine contribution margin

Cost Reports and Decision Making

- Hospital-Based Laboratory
  - Overview
    - General Acute Care Hospital with Hospital-Based laboratory
    - Aggressive Blue Cross and managed care pricing in market
    - Hospital evaluating option to close hospital-based lab and outsource in- and outpatient business
  - Process
    - Contribution margin analysis used to evaluate Lab
    - Cost report used to accumulate direct costs
      - Worksheet A
    - Allocated overhead costs based on costs that would "go away" if the lab were to close
      - Began with lab allocated overhead costs
        - » Estimated variable portion of allocated overhead costs (e.g., 90% employee benefits, 10% of capital, etc.)

Cost Reports and Decision Making

- Hospital-Based Laboratory (cont.)
  - Low Fee Schedules

CPT	Description	Hospital Charge	Medicare	IHA	Medicaid	Total Net Revenue	Gross Revenue
80053	Comprehensive Metabolic Panel	$239.50	$13.21	$6.90	$10.00	$31,378	717,303
80048	Basic Metabolic Panel	$142.50	$8.83	$5.60	$7.25	$35,855	671,175
85025	CBC w/ Differential	$39.00	$10.74	$4.70	$3.17	$54,292	277,524
80061	Lipoprotein Lipid Profile	$76.50	$18.51	$8.70	$6.04	$43,511	255,051
80076	Liver Function Profile	$115.00	$8.83	$5.60	$7.25	$11,689	188,715
85610	Prothrombin Time	$20.00	$5.43	$2.60	$3.91	$15,450	65,400
87088	Culture - Urine	$41.50	$11.18	$5.30	$3.00	$8,228	44,779
81000	Urinalysis	$22.00	$4.37	$2.10	$0.50	$6,036	43,934

Cost Reports and Decision Making

- Hospital-Based Laboratory (cont.)

	Tests	Dollars		Price
Gross Revenue:	Annualized	Actual	Annualized	Per Test
2001 Gross Charges (In and Out) through 8/31	102,057	$ 3,829,000	$ 5,743,500	$ 56.28
Top Inhouse Tests:				
Total Gross Charges (In and Out) through 10/31	41,296	$ 2,523,974	$ 3,028,769	$ 73.34
Additional Tests:	60,761	N/A	$ 2,714,731	$ 44.68
Net Revenue:				
Total Net Revenue on top inhouse tests	41,296	$ 271,591	$ 325,909	$ 7.89
Expected net revenue on additional tests	60,761		$ 479,535	$ 7.89
Total Expected Net Revenue	102,057		$ 805,445	$ 7.89
Less Inpatient % (2000 ICR = 16.34% of charges)	(16,676)		$ (131,610)	$ 7.89
Expected Net Outpatient Revenue	85,381		$ 673,835	$ 7.89
Operating Expenses:				
Direct Expenses (2000 ICR):				
Salary expense			$ 326,632	
Other (including purchase of reference lab services			$ 581,708	
Total Direct Expense			$ 908,340	
	Total	Lab		
Indirect Expenses (ICR Stepdown)	Allocation	Variable %		
Admin and General	$ 320,822	25%	$ 80,206	
Employee benefits	$ 54,093	90%	$ 48,684	
Central Supplies	$ 66,478	75%	$ 49,859	
Medical Records	$ 47,477	50%	$ 23,739	
Cafeteria	$ 22,423	25%	$ 5,606	
Capital	$ 40,745	10%	$ 4,075	
Operation of Plant	$ 26,427	10%	$ 2,643	
Other	$ 4,975	50%	$ 2,488	
Total	$ 583,440		$ 217,297	
Total Lab Variable Expenses			$ 1,125,637	
Less: Inpatient %			$ (183,929)	
Total Outpatient Variable Lab expenses			$ 941,708	$ 11.03
Total Expected Outpatient Lab Loss			$ (267,873)	$ (3.14)
Additional O/P Tests Necessary for Breakeven (assume 75% marginal revenue)			45,256	$ 5.92

Cost Reports and Decision Making

- Hospital-Based Laboratory (cont.)
  - Conclusions
    - Hospital-based lab did not cover variable expenses
      - Contribution margin loss of approximately $270K
      - Would have to perform an additional 45K tests to breakeven
    - Hospital currently evaluating exit from lab business
  - Take Home
    - Contribution margin analysis to evaluate whether to remain in business or exit

Cost Reports and Decision Making

- Hospital-Based Physician Clinic
  - Overview
    - General Acute Care Hospital with four provider-based family health centers
    - Due to “losses” (approaching $500K on an annualized basis) at the largest center, Hospital announces that clinic will be divested
  - Process
    - Contribution margin analysis used to evaluate clinic
    - Review of contractual allowance to determine reasonableness
    - Hospital allocated overhead costs moved below the line

Cost Reports and Decision Making

- Hospital-Based Physician Clinic (cont.)

	Hoosick Falls		
Jan - Jun 2000 ($000)	Financial Statements	Adjusted	Diff
Revenue:			
Office Visits:			
Gross Charges	$ 509	$ 509	$ -
Contractuals	(207)	(71)	$ 136
Net OV Revenue	$ 302	$ 438	$ 136
Physical Therapy:			
Gross Charges	$ 133	$ 133	$ -
Contractuals	(54)	(80)	$ (26)
Net PT Revenue	$ 79	$ 53	$ (26)
X-Ray:			
Gross Charges	$ 138	$ 138	$ -
Contractuals	$ (56)	$ (83)	$ (27)
Net X-Ray Revenue	$ 82	$ 55	$ (27)
Total Patient Rev	$ 463	$ 546	$ 84
Other Op Revenue	$ 36	$ 36	$ -
Total Revenue	$ 499	$ 582	$ 84
Direct Expenses	$ (535)	$ (535)	$ -
Contribution Margin	$ (36)	$ 47	$ 84
Overhead	$ (202)	$ (202)	$ -
Net Profit	$ (238)	$ (155)	$ 84
Referred Ambulatory Services		$ 566	

Cost Reports and Decision Making

- Hospital-Based Physician Clinic (cont.)
  - Conclusions
    - Contribution Margin analysis indicated a $36K loss before adjustment to contractual allowance
    - Review of contractual allowance indicated that Medicare technical component allowance recorded was based on interim payment amount
      - » Interim Payment amount = 53%
      - » RCC for provider-based clinics = 113%
      - Hospital posting too high a contractual allowance. Upon correction, positive contribution margin of $47K
    - Hospital did not consider the $1M in referred ambulatory charges they would likely lose
    - Hospital reversed decision on divesting of clinic
  - Take Home
    - Contribution margin analysis to evaluate whether to remain in business or exit
    - Proper posting of contractual allowance based on RCCs

Presentation Summary

- Understanding of cost reimbursement through the operations of the Cost Report is essential to effective decision making
  - However, don't let the tail wag the dog
- Knowing where common cost report errors occur can help ensure they are not made in the future
- Benchmarking can provide reasonable information regarding hospital operations
- Cost Report can be used as a tool for evaluating operating departments
  - Caution regarding fully-allocated costs vs. variable/marginal costs