What is a Cost Report and why is it important?

The cost report is a financial report that identifies the cost and charges related to healthcare activities.

Cost Reports Impact Reimbursement!
- Today
- Future Reimbursement

Congress/CMS rate setting and policy decisions are based on data in the cost reports and MedPar.
Filing Guidelines

Medicare cost reports are due within 150 days, approximately 5 months, from the FYE of the hospital.

Electronic cost report and supporting documentation are submitted.

Basic Data Rules

Every data file has its unique issues and reasons for being used in the cost report. As an universal rule, the general ledger is the “Parent” data source and all others should agree to or relate to the general ledger.

- Accounts/Departments/Accounting Units/Cost Centers
- Cost Report Line Number Groupings
- Sub-Accounts
- Raw Data vs. Processed Data
WS S-2 Part 1
(Hospital Identification)

WS S-2 is designed to provide CMS with basic demographic information about the hospital to identify various reimbursement mechanisms as well as specialty programs and services.

- Mostly Yes/No Answers
- Includes hospital and all hospital-based components
- Includes Medicare hospital status
- Includes information affecting various reimbursement methods
- Affects settlement pages and what can be claimed

WS S-2 Part II
(Reimbursement Questionnaire)

Continues to report information on changes made by hospital during the year and reimbursement claimed

Examples:
- Changes in ownership, available beds, debt, purchased services, provider-based physician costs
- Requests for nursing school, Allied Health, bad debt, interns & residents reimbursement
- Reports how PS&R data is used the cost report
WS S-3 Part 1
(Census Data)

WS S-3 Part 1 is designed to report to CMS the volume of services (Patient Days/Discharges) as well as visits for specific services.

- Medicare
- Medicaid
- Total

Affects various reimbursement calculations such as: DSH, cost per day (CAH), IME, HITECH payments, maintaining MDH status, future uncompensated care payments

WS S-3 Part 1 (continued)

Steps to process WS S-3 Part 1 data:

Identify the data to be used:

- Midnight census
- Patient accounting system statistics
- Provider summary report (PS&R)
- Medicare logs
- Observation logs
- Payroll register
WS S-3 Part 2
(Wage Index)

WS S-3 Part 2 is designed to identify the average hourly wage of staff and contract employees at the hospital by department or category.

Includes wage related costs and home office salaries and associated wage related costs

Used to compare to national data to set Medicare payments rates

WS S-3 Part 2 (continued)

Steps to process WS S-3 Part 2 data:

Identify data to be used:
- General ledger
- Payroll register
- Contract labor files or invoices
- Home office documentation

Start with GL or reconcile to GL

Processing payroll hours
- Identify duplicate hours
- Identify non-payroll items
- Incorporate WS A-6 reclasses of salary expenses
WS S-10
(Uncompensated Care)

WS S-10 is designed to identify what portion of the hospital's business is provided to uncompensated and indigent care patients.

Created so this will become the new calculation for Medicare DSH...why?

- State specific variances in Medicaid eligibility
- State specific variances in coverage of services

Expecting for CMS to start reviewing data for accuracy soon

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WS S-10 (continued)

Steps to process WS S-10 data:

Identify the data to be used:
- General ledger
- Patient accounting system analysis
- Accounts receivable reports
- Decision support queries

Workpapers should clearly identify where the data was obtained and what the basis of the information is
Documentation is the Key!

Why have we stressed documentation?
- Increasing complexity
- Time lag between preparation and audit
- Staff turnover
- Accuracy, Efficiency and Consistency

WS A (Expenses by Department)

The purpose of WS A is to identify all direct expenses (salary vs. other) incurred at the facility by department and classify into cost report lines

There are standard CMS line numbers and descriptions that cannot be changed, but lines can be added.

If additional lines are added for general service cost centers, statistics are needed to allocate the additional lines.
WS A (continued)

Cost report line numbers should be grouped based on the account:
- Overhead departments (1-23)
- Routine services (30-46)
- Ancillary services (50-76)
- Outpatient services (88-93)
- Other reimbursable services (94-101)
- Special purpose cost centers (105-118)
- Non-reimbursable cost centers (190-194)

WS A-6 (Reclassifications)

The purpose of the WS A-6 reclassifications is to move expenses from where they were booked per the FASB accounting rules to where Medicare requires these expenses to be.

WS A-6 reclassifications need to separately identify salary vs. other expenses.
WS A-6 (continued)

Common examples of WS A-6 reclassifications:
- Medical supplies charged to patient
- Drugs charged to patient
- Equipment depreciation expense
- Cafeteria expenses

Steps to process WS A-6 data:
Identify the data to be reclassified:
- General ledger
- Statistics

What is the basis for reclassification?
- Whole move
- Partial move
- Allocation move

Cost center assignment

Workpapers should always show the increase as well as the decrease so there are no assumptions
WS A-6 (Impact on cost report)

Items to consider:
- Matching principle
- Prior year reclass impact on current reclass
- WS S-3 wage index impact
- WS B-1 statistics impact
- WS C revenue impact
- Settlement charges impact

WS A-8
(Revenue/Expense Adjustments)

WS A-8 adjustments allow the user to adjust the expenses on WS A for differences between financial accounting and Medicare.

Revenue adjustments are where other operating/non-operating revenue is “offset” against the associated expenses.

Expense adjustments are where expenses are treated differently between financial accounting and Medicare.
WS A-8 (continued)

Common examples of WS A-8 adjustments:
- Bad debt expense
- Misc revenue
- Interest income/expense
- Cafeteria revenue

What are non-allowable expenses?

- Alcoholic beverages
- Lobbying expenses
- Gifts and donations
- Advertising to increase patient utilization
- Physician recruitment & guarantees
- Cost of meals served to executives that exceed cost of meals served to employees
- Gift shops & vending machines
- Cost of travel related to non-patient care
- Fines & penalties
- Costs of catering & guest meals
- Cost of drugs sold to other than patients
- Personal use of autos
- Promotional items
- Sports and other tickets
- Surety bonds
- Marketing salary and related costs
- Costs incurred on behalf of related organizations
- Patient telephones and televisions
- Physician clinics
- Barber and beauty shops
- Country club dues
- Education expenses for spouse or other relatives
- Costs associated with reorganizations, mergers & acquisitions
Related party transactions are transactions where a facility is doing business with parent or related company. This definition also includes instances where one organization has “directorship” over another.

- Arms length transactions
- Actual cost of the service/supply

Steps to process WS A-8-1 data:
Identify the data to be used:
- General ledger
- Home office cost statement
- Related party expenses

Calculate the actual related party expenses that corresponds to expense incurred at the facility

Workpapers should clearly identify where the data was obtained and what the basis of the information is.
WS A-8-2
(Physician Compensation)

CMS believes that physicians go to many years of school to learn to treat patients; therefore unless otherwise documented, all physician activities are for patient treatment. WS A-8-2 is where the hospital can document the component of the physician’s payments that are for administrative duties.

WS A-8-2 (continued)

Physician administrative time (Part A):

Activities that are designed to help the hospital manage the treatment of all of its patients

- Medical directors
- Utilization/Quality review
- Department directorship
- Do not include activities that are meant to manage the physician’s practice

Part A activities must be documented!
WS A-8-2 (continued)
How to document Part A vs. Part B

Part A
- Time sheets completed for payment
- Contracts

Part B
- Unless noted as Part A time, all time is assumed to be for Part B activities

WS A-8-2 (continued)
Steps to process WS A-8-2 data

Identify the data to be used:
- General ledger
- Payroll register
- Physician contracts and invoices
- Physician time studies

Organize data by physician or by cost center
WS B-1 (Statistical Allocations)

WS B-1 is where the overhead cost centers are allocated to the rest of the hospital departments based on their individual statistics.

WS B-1 (continued)

The standard statistics that CMS allows for each cost center are:

- Square Feet
- Dollar Value
- Gross Salaries
- Accumulated Cost
- Pounds of Laundry
- Meals Served
- Direct Nursing Hours
- Costed Requisitions
- Time Spent
- Assigned Time
WS B-1 (continued)
Steps to process WS B-1 data:

Identify data to be used as statistic:
  - General ledger
  - Various other data sources

Cost center assignment

Identify adjustments due to WS A-6 or A-8

Workpapers should always agree to total statistic that was used in the cost report.

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WS C
COMPUTATION OF RATIO OF COSTS TO CHARGES

WS C is where the charges from the general ledger are entered and Cost to charge ratios are calculated. These cost to charge ratios are used to determine cost report settlement for cost based services and outlier payments. They are also used to set future interim payment rates.
WS D Series

WS D part I - Apportionment of Inpatient Routine Service Capital Costs
Assigns routine services capital cost to the various routine cost centers (i.e. Acute, ICU, nursery, sub providers, etc)

WS D part II - Apportionment of Inpatient Ancillary Service Capital Costs
Assigns ancillary services capital cost to the various ancillary cost centers

WS D part III - Apportionment of Inpatient Routine Service Other Pass Through Costs
Assigns other pass through cost (i.e. allied health, nursing school and other medical education cost) to the various routine cost centers

WS D part IV - Apportionment of Inpatient/Outpatient Ancillary Service Other Pass Through Costs
Assigns other pass through cost to the various ancillary cost centers

WS D part V - Apportionment of Medical, Other Health Services And Vaccine Cost
Medicare/Medicaid outpatient charges are entered from the PS&R and the WS calculates the Medicare/Medicaid cost to charge ratios and total cost associated with the charges based on the cost to charge ratios

WS D Series (continued)

WS D-1 - Computation of Inpatient Operating Cost
This WS pulls days from S-3 and cost from B part I to determine cost per day
Add Ancillary cost from WS D-3 and pass through costs from WS D part I and II and IV to calculate overall Medicare/Medicaid cost
These overall Medicare/Medicaid cost flow to WS E series

WS D-3 - Inpatient Ancillary Service Cost Apportionment
Medicare and Medicaid charges from the PS&R are entered and cost to charge ratios are pulled from WS C to determine Medicare and Medicaid cost associated with the PS&R charges
WS E Part A
Calculation of Reimbursement Settlement
Enter PS&R amounts for DRG payments, outliers, deductible, coinsurance, MSP, readmission adjustments, HBV purchasing adjustments, etc
Pulls Medicaid eligible and total days from WS S-3 and enter SSI% to determine historical DSH amounts
Pulls/Enter Uncompensated Care DSH data from final federal schedules to determine uncompensated care DSH payment
Pulls capital payment data from WS L and interim payments from E-I part I
Enter Medicare bad debts from internal bad debt logs
WS calculates sequestration adjustment and Medicare settlement for inpatient services

WS DSH
Calculation of DSH Payment Percentage
Pulls Medicaid and total days from WS S-3 to determine DSH Payment percentage under the historical DSH formula
WS E Part B
Calculation of Reimbursement Settlement
Enter PS&R amounts for OPPS payments, outliers, deductible, coinsurance, MSP, etc
Pulls cost of cost based services form WS D part V and interim payments from E-I part
Enter Medicare bad debts from internal bad debt logs
WS calculates sequestration adjustment and Medicare settlement for outpatient services

WS E-1 Part I
Analysis of Payments to Providers for Services Rendered
Add pass through payment amounts received to PS&R interim payment amounts to determine total interim payments.
Enter any lump sum adjustments received or paid for the fiscal year
WS calculates overall net reimbursement to flow to WS E part A, E part B, E-3 part II, etc
WS E-1 Part II  
**Calculation of Reimbursement Settlement for HIT**

Pulls statistics from WS S-3 series, charges from WS C, Charity amounts from wks S-10  
Enter interim payments received  
WS calculates settlement amount for HIT

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WS E-2  
**Calculation of Reimbursement Settlement - Swing Beds**

Pulls swing bed cost from WS D-1 and D-3  
Enter PS&R amounts for deductible, coinsurance, etc  
WS calculates sequestration and Medicare settlement for swing bed services  
Primarily used for CAH's with cost reimbursed swing bed services or Hospitals with SNF Units
WS E-3 Part II
Calculation of Reimbursement Settlement

Enter PS&R amounts for PPS payments, outliers, deductible, coinsurance, MSP, etc
Enter Medicare bad debts from internal bad debt logs
WS calculates sequestration adjustment and Medicare settlement for sub provider services (i.e. Psych and Rehab)

WS E-3 Part V
Calculation of Reimbursement Settlement

Pulls acute routine cost from WS D-1 and D-3
Enter PS&R amounts for deductible, coinsurance, etc
Enter Medicare bad debts from internal bad debt logs
WS calculates sequestration and Medicare settlement for cost based inpatient services
Primarily used for critical access hospitals
**WS E-3 Part VII**

**Calculation of Reimbursement Settlement**

Pulls applicable cost from WS D-1, D-3 and/or D part V
Enter PS&R amounts for deductible, coinsurance, interim payments, etc
PPS hospitals are limited to 850 per day for Arkansas Medicaid Title XIX inpatient services and an adjustment is necessary on this worksheet.
These PPS hospitals are paid cost on Title V services on this same WS
Outpatient PPS services are paid on a fee schedule and not reported on the cost report
CAH’s complete a separate WS E-3 part VII for inpatient and outpatient which are both cost reimbursed by Arkansas Medicaid.

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**WS G Series**

WS G – Balance Sheet
Report the amounts from the financial statements for the cost reporting period
WS G-1 – Statement of Changes in Fund Balances
Pulls amounts from Balance Sheet and Statement of Revenues and Expenses to reconcile the change in fund balance – must enter any equity transfers, etc
WS G-2 – Statement of Patient Revenue and Operating Expenses
Report total patient revenue by inpatient and outpatient and service area – should reconcile back to financial statements for the cost reporting period
Pulls operating expenses from WS A
Wks G-3 – Statement of Revenues and Expenses
Pulls total patient revenue and operating expenses from Ws G-2
Enter other revenue and other expenses from financial statements
WS calculates income/loss or change in fund balance which flows to wks G-1
Other WS Series

WS H Series – splits home health cost and statistics reported elsewhere in the cost report into the various home health service types (i.e. PT, OT, ST, etc)
Calculates cost per visit for each service type
WS K Series – reports hospice cost, statistics, etc
WS M Series – reports RHC cost, statistics, etc
These three WS series are like miniature cost reports inside the cost report with a separate WS for cost, stats, allocations, settlement, etc
No cost report impact for Home Health and Hospice – just used for analysis, future rate setting, etc.
WS L Series – reports capital payments from PS&R and calculates capital DSH payments based on SSI%

Uses for Cost Report Data

Internal financial analysis
Pricing – compare to cost of services
Medicaid DSH, UPL and other surveys requesting similar data
340B eligibility determination
Community benefit reporting
Medicare and Medicaid profitability analysis
Benchmarking – comparisons with other providers
Modeling of month end 3rd party estimates