

Home Health Cost Reporting: Doing it Right

Monday, April 12, 2010

2:15pm to 3:45pm

April 12, 2010 Home Health Cost Reporting: Doing It Right

The Home Care and Hospice Financial Managers Association Task Force Committee on the HHA Medicare Cost Report

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Objectives:

- * Educating providers on the importance of the cost report and accuracy in preparation.
- * Education regarding accurate cost reporting.
- * Improvement of the cost report itself (CMS & legislative efforts).
- * Improvement of the cost report review process by CMS & FI/MAC

General Cost Reporting Principles

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General Cost Reporting Principles

- Cost Report Types
 - No Utilization Cost Report Submission
 - Low Utilization Cost Report Submission
 - Full Cost Report Submission

Cost Reporting Periods and Due Dates

- Provider Selects Fiscal Year
 - Initial Cost Report Covers Period of One Month Through Thirteen Months
 - Cost Reports Due Five (5) Months After End of Period

Cost Report Accounting Requirements

- Cost Reports are to be Completed on Accrual Basis of Accounting
 - Expenses reported in the year incurred (important for purposes of determining visit, and accordingly episode costs)

Costs To Be Reported on the Cost Report

- All costs incurred by the provider are reported on the cost report (cost report expenses to be reconciled to any financial statements)
- Costs are categorized as Administrative and General, Reimbursable, or Non-Reimbursable based on the nature of the expenses and the activities being conducted.

Modifying and Adjusting Costs to Conform to Laws, Regulations, and Instructions

- Reclassification of costs
- Adjustment of costs
- Allocation of costs
- Attribution of costs

Key Issues in the Modification of Costs (Including Common Errors)

- When are costs non-allowable versus non-reimbursable?
- Common non-allowable costs:
 - Marketing
 - Related party cost principles
 - Not related to patient care
- Required non-reimbursable
 - Telemonitoring

Special Cost Reporting Issues

- Cost report is a claim (false claims act, false statement laws)
- Prescribed forms (electronically filed)
- Lack of intermediary review places greater importance on provider
- Final cost reports (overly simplified but stock sale no final report, asset sale triggers final report)
- Form 339 submission with cost report
- Supporting information
- Quality of report impacts assessment of industry

Common Errors in Cost Report Preparation

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Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Improper accounting method
- Inaccurate visit counts
- Proper understanding of like-kind visits

Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Inaccurate FTE calculations
- Proper use of the PS&R
- Missing data

Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Proper classification of direct costs
- Duplicating indirect cost allocations
- Proper reporting of non-reimbursable cost centers such as Telehealth

Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Proper reporting of non-routine medical supply costs and revenues
- FYI – there is a new worksheet in 2009 for reporting flu vaccines
- Failure to properly reclassify costs using the Trial Balance or Worksheet A-4

Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Lack of use or improper use of Worksheet A-5
- Proper use of Worksheet A-6 and related organizational costs issues
- Proper preparation and reconciliation of the F series of worksheets

Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Preparer worksheets in the H series should possess a good understanding of Form 1728
- Lack of home health knowledge of the Medicare Cost Report preparer

Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Failure to charge direct costs to the HHA
– just using the step-down method
- Benefit and other cost allocations that do not relate to HHA operations

Common Errors in Cost Report Preparation Free-Standing and Hospital Based

- Medical supplies costs without the revenue and the cost-to-charge ratio
- Need for direct costs to be in line with free-standing agencies
 - So that these costs can be included in calculations for rebasing/reimbursement rate setting

Cost Accounting is not a science, it's an art

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Cost Accounting

- Accountants and Financial Managers usually say that if revenue is covering direct cost and contributing to overhead the project or product is a go
- Are things really that simple in our business with our varying payers, disciplines, and payment types
- No

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Cost Accounting

- Some terms
 - Direct and indirect costs
 - Fixed and variable costs
 - Incremental costs
 - Fully absorbed costs

Cost Accounting

- Direct and indirect costs
 - Direct costs are those expenses incurred in producing a specific service. Nursing salaries are a direct cost of the Nursing discipline
 - Indirect costs are those expenses incurred in doing business but not specifically related to a given service. The billing department provides services to all disciplines

Cost Accounting

- Fixed and variable costs
 - Fixed costs are those expenses that do not change with the level of service. Rent does not change with the number of visits performed
 - Variable costs do change with the number of units of service. Per diem nursing salary is a variable expense

Cost Accounting

- Incremental costs
 - Incremental costs are those expenses which are incurred with each added unit of service. For example there may be no incremental cost of adding nursing visits if your current staff can absorb them
- Fully absorbed costs
 - Fully absorbed costs are those that include all the expenses of the operation allocated to all the units of service

Cost Accounting

- How can we get these various types of costs and use them in the business decision making process
- Our “old friend”
- The Medicare Cost Report is a place to begin

Cost Accounting

- Lets begin with a group of expenses right out of our general ledger and follow them through the cost report into our unit costs
- We can begin with a grouping of the various types of salary. Your general ledger should be set up to accumulate your expenses to support the Cost Report

| SALARIES | |
|----------------------------|-----------|
| SUPERVISORS | |
| SENIOR MGMT. | 81,073 |
| MIDDLE MGMT. | 120,038 |
| FIRST LINE MGMT. - A&G | 346,292 |
| FIRST LINE MGMT. - LIAISON | 41,617 |
| FIRST LINE MGMT. - MCH | 40,583 |
| A&G | 629,603 |
| FIRST LINE MGMT. - S.N. | 916,786 |
| FIRST LINE MGMT. - P.T. | 29,374 |
| FIRST LINE MGMT. - HHA | 42,442 |
| DIRECT SUPERVISORS | 988,602 |
| NURSES | |
| LIAISON | 661,967 |
| NURSE CONSULTANT | 101,075 |
| R.N. | 4,438,963 |
| PER VISIT R.N. | 435,105 |
| SKILLED NURSING | 4,874,068 |
| NURSES | 5,637,110 |

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Expenses

- These expenses go different places in the cost report and will be used later to calculate various types of unit costs
- We can look at what used to be called Worksheet A - 1

| | Supv Salary | Nurses Salary | Aides Salary | Other Salary | Benefits | Travel | Purchased Services |
|-------------------------|------------------------|--------------------------|-------------------------|-------------------------|------------------|----------------|-------------------------------|
| General Services | | | | | | | |
| Bldg & Fixed | | | | | | | |
| Plant Operation | | | | | | | |
| Transportation | | | | | | | |
| A&G | 629,603 | 661,967 | 0 | 1,307,776 | 583,469 | 12,702 | 3,160,515 |
| Reimbursable | | | | | | | |
| SN | 916,786 | 4,874,068 | 0 | | 1,244,411 | 280,393 | 2,066 |
| PT | 23,977 | 0 | 0 | 1,297,387 | 155,408 | 12,750 | 57,302 |
| OT | 4,801 | 0 | 0 | 272,019 | 39,104 | 5,426 | 0 |
| ST | 596 | 0 | 0 | 50,699 | 11,514 | 1,993 | 0 |
| MSW | 0 | 0 | 0 | 87,476 | 19,636 | | 1,541 |
| HHA | 42,442 | 0 | 0 | 0 | 9,527 | 0 | 671,324 |
| Supplies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nonreimbursable | | | | | | | |
| Mgmt Fees | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | | | | | | | |
| Nurse Consulting | | 101,075 | | 22,688 | | | |
| Interest | | | | | | | |
| TOTAL | 1,618,205 | 5,637,110 | 0 | 3,038,045 | 2,063,069 | 313,264 | 3,892,748 |

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Expenses

- These expenses feed into Worksheet A and constitute the largest part of your expenses

| WORKSHEET A | SALARIES | BENEFITS | TRAVEL | SERVICE | OTHER | COSTS | ADJUST | ALLOC |
|---------------------------------|-------------------|------------------|----------------|------------------|------------------|-------------------|-----------------|-------------------|
| General Services | | | | | | | | |
| Cap Rel - Bldg & Fixed | XXXXXX | XXXXXX | XXXXXX | XXXXXX | 338,431 | 338,431 | 0 | 338,431 |
| Cap Rel - Mov Equip | XXXXXX | XXXXXX | XXXXXX | XXXXXX | 207,739 | 207,739 | 0 | 207,739 |
| Plant Operation & Maintenance | 0 | 0 | 0 | 0 | 71,191 | 71,191 | 0 | 71,191 |
| Transportation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Administrative - General | 2,599,346 | 583,469 | 12,702 | 3,160,515 | 264,363 | 6,620,395 | -363,702 | 6,256,693 |
| Reimbursable Services | | | | | | | | |
| Skilled Nursing Care | 5,790,854 | 1,244,411 | 280,393 | 2,066 | 33,365 | 7,351,089 | 0 | 7,351,089 |
| Physical Therapy | 1,321,364 | 155,408 | 12,750 | 57,302 | 6,781 | 1,553,604 | 0 | 1,553,604 |
| Occupational Therapy | 276,820 | 39,104 | 5,426 | 0 | 0 | 321,350 | 0 | 321,350 |
| Speech Pathology | 51,295 | 11,514 | 1,993 | 0 | 0 | 64,802 | 0 | 64,802 |
| Medical Social Services | 87,476 | 19,636 | 1,541 | 0 | 0 | 108,653 | 0 | 108,653 |
| Home Health Aide | 42,442 | 9,527 | 0 | 671,324 | 0 | 723,293 | 0 | 723,293 |
| Supplies | 0 | 0 | 0 | 0 | 158,180 | 158,180 | 0 | 158,180 |
| Nonreimbursable Services | | | | | | | | |
| Nurse Consulting | 101,075 | 22,688 | 0 | 0 | 0 | 123,763 | 0 | 123,763 |
| Other Costs | | | | | | | | |
| Interest | XXXXXX | XXXXXX | XXXXXX | XXXXXX | 141,912 | 141,912 | -141,912 | 0 |
| TOTAL | 10,270,672 | 2,085,756 | 314,805 | 3,891,207 | 1,221,962 | 17,784,402 | -505,614 | 17,278,788 |

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Expenses

- Worksheet A leads to Worksheet B which allocates all your overhead expenses to the various services you provide

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| WORKSHEET B | ALLOC | BLDG & FIX | DEPREC | PLANT | TRANS | A & G | TOTAL |
|---|-------------------|------------|----------|----------|----------|------------|-------------------|
| General Services | | | | | | | |
| Cap Rel - Bldg & Fixed | 338,431 | -338,431 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX |
| Cap Rel - Mov Equip | 207,739 | 0 | -207,739 | XXXXXX | XXXXXX | XXXXXX | XXXXXX |
| Plant Operation & Maintenance | 71,191 | 0 | 0 | -71,191 | XXXXXX | XXXXXX | XXXXXX |
| Transportation | 0 | 0 | 0 | 0 | 0 | XXXXXX | XXXXXX |
| Administrative - General | 6,256,693 | 164,504 | 100,977 | 34,604 | 0 | -6,556,778 | XXXXXX |
| Reimbursable Services | | | | | | | |
| Skilled Nursing Care | 7,351,089 | 98,967 | 60,749 | 20,818 | 0 | 4,703,968 | 12,235,590 |
| Physical Therapy | 1,553,604 | 14,600 | 8,962 | 3,071 | 0 | 994,153 | 2,574,391 |
| Occupational Therapy | 321,350 | 7,144 | 4,385 | 1,503 | 0 | 205,632 | 540,014 |
| Speech Pathology | 64,802 | 6,008 | 3,688 | 1,264 | 0 | 41,467 | 117,230 |
| Medical Social Services | 108,653 | 0 | 0 | 0 | 0 | 69,527 | 178,179 |
| Home Health Aide | 723,293 | 0 | 0 | 0 | 0 | 462,836 | 1,186,129 |
| Supplies | 158,180 | 0 | 0 | 0 | 0 | 0 | 158,180 |
| Nonreimbursable Services | | | | | | | |
| MGMT Resource, Inc. | 0 | 47,208 | 28,978 | 9,930 | 0 | 0 | 86,116 |
| Other Costs | | | | | | | |
| Nurse Consulting | 123,763 | 0 | 0 | 0 | 0 | 79,196 | 202,959 |
| TOTAL | 17,278,788 | 0 | 0 | 0 | 0 | 0 | 17,278,788 |
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Expenses

- Worksheet B leads to Worksheet C which calculates your cost per visit
- This is in the aggregate though and is not very useful in making your contracting decisions yet
- It does not give you any of the various categories of costs yet but it is fully absorbed

| WORKSHEET C | Total Costs | Total Visits | Cost Visit | Visits | Cost |
|---------------------|-------------------|----------------|------------|---------------|-------------------|
| Medicare | | | | | |
| SN | 12,235,590 | 68,775 | \$177.91 | 42,276 | 7,521,219 |
| PT | 2,574,391 | 27,387 | \$94.00 | 19,761 | 1,857,543 |
| OT | 540,014 | 5,484 | \$98.47 | 3,889 | 382,953 |
| ST | 117,230 | 681 | \$172.14 | 391 | 67,308 |
| MSW | 178,179 | 342 | \$520.99 | 255 | 132,853 |
| HHA | 1,186,129 | 36,784 | \$32.25 | 19,807 | 638,692 |
| Total | 16,831,533 | 139,453 | | 86,379 | 10,600,568 |
| Medicaid | | | | | |
| SN | 12,235,590 | 68,775 | \$177.91 | 7,137 | 1,269,726 |
| PT | 2,574,391 | 27,387 | \$94.00 | 1,589 | 149,367 |
| OT | 540,014 | 5,484 | \$98.47 | 337 | 33,185 |
| ST | 117,230 | 681 | \$172.14 | 50 | 8,607 |
| MSW | 178,179 | 342 | \$520.99 | 5 | 2,605 |
| HHA | 1,186,129 | 36,784 | \$32.25 | 10,159 | 327,585 |
| Total | 16,831,533 | 139,453 | | 19,277 | 1,791,075 |
| Managed Care | | | | | |
| SN | 12,235,590 | 68,775 | \$177.91 | 19,362 | 3,444,646 |
| PT | 2,574,391 | 27,387 | \$94.00 | 6,037 | 567,481 |
| OT | 540,014 | 5,484 | \$98.47 | 1,258 | 123,876 |
| ST | 117,230 | 681 | \$172.14 | 240 | 41,314 |
| MSW | 178,179 | 342 | \$520.99 | 82 | 42,721 |
| HHA | 1,186,129 | 36,784 | \$32.25 | 6,818 | 219,852 |
| Total | 16,831,533 | 139,453 | | 33,797 | 4,439,890 |

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Expenses

- Using the costs and visits in Worksheet C and going back to Worksheet A 1 we can calculate our direct and indirect costs per visit and the makeup of those costs

| Cost Per Visit | SN | PT | ST | OT | MSW | HHA (visit) | H H A (hourly) |
|--------------------------|----------|---------|----------|---------|----------|----------------|-------------------|
| Salaries - Supervisors | \$13.33 | \$0.88 | \$0.88 | \$0.88 | \$0.00 | \$1.53 | \$1.15 |
| Salaries - Nurses | \$70.87 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Salaries - Aides | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Salaries - All Other | \$0.00 | \$47.37 | \$74.45 | \$49.60 | \$255.78 | \$0.00 | \$0.00 |
| Total Salaries | \$84.20 | \$48.25 | \$75.32 | \$50.48 | \$255.78 | \$1.53 | \$1.15 |
| Employee Benefits | \$18.09 | \$5.67 | \$16.91 | \$7.13 | \$57.41 | \$0.34 | \$0.26 |
| Transportation | \$4.08 | \$0.47 | \$2.93 | \$0.99 | \$4.51 | \$0.00 | \$0.00 |
| Purchased Services | \$0.03 | \$2.09 | \$0.00 | \$0.00 | \$0.00 | \$24.16 | \$18.25 |
| Other Direct Costs | \$0.49 | \$0.25 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Direct Costs | \$106.89 | \$56.73 | \$95.16 | \$58.60 | \$317.70 | \$26.03 | \$19.66 |
| Facilities | \$2.62 | \$0.97 | \$16.09 | \$2.38 | \$0.00 | \$0.00 | \$0.00 |
| Administrative & General | \$68.40 | \$36.30 | \$60.89 | \$37.50 | \$203.29 | \$16.66 | \$12.58 |
| Cost Per Visit | \$177.91 | \$94.00 | \$172.14 | \$98.47 | \$520.99 | \$42.69 | \$32.25 |

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Cost Accounting

- Make sure you have all your expenses included
 - Some expenses have traditionally been left out of the cost report but need to be back in for this purpose
 - Marketing expenses
 - Bad debt
 - Interest expense

Cost Accounting

- Now we know what our direct and indirect expenses are on a fully absorbed basis
- One would suggest your price for a nursing visit should be \$177.91 plus some margin for profit
- Now the art sets in

Pricing

- We have different methods of being paid for our services
- If you think about our business its not really different than any other business
- We have product lines, products, markets and distribution channels
- Nursing is a product line and MCH nursing is a product within the nursing product line
- Our payers are our distribution channels
- Our referrers are our markets

Pricing

- Our payers have different contracts and payment methods
 - Fee for service
 - Episodic
 - Capitation
- Our payers and referrers also have other sources of our products – our competition

Pricing

- Long gone are the days when we could submit our Cost Report to Medicare and assume that was our price and our reimbursement
- Now we have to win our business from the referrer through service
- Now we have to negotiate our contracts and beat our competition for the managed care business both on service and price
- We may even have to take the patients from our parent hospitals

Pricing

- What additional information do we need to do that
- Besides our cost per visit we need to know our costs per hour of service
- Many of our costs are billed out at episodic or per visit rates but the costs are actually incurred on a per hour basis
- This may be specific to your organization

Pricing

- Most of the billing systems will give you both the number of visits by payer and the hours of service by payer, both within discipline
- What makes things different between payers
- What does the managed care entity demand that is different

Pricing

- Will the length of the visits be different between your various payors
 - Does the managed care entity want more data
 - Do you do OASIS
 - Do they give you fewer visits so the longer and more expensive admission visit cost is spread over fewer subsequent visits
 - Do they want additional reports
 - Do you have different mix of visits between disciplines or visit types (MCH, EMD, IV, etc)

Pricing

- Using the total cost per discipline we came up with way back in the cost report we can spread the costs using the hours of service
- Simply divide the total costs per discipline by the number of hours of service
- Then look at your various payers and visit types to see how the cost pattern changes

Pricing

- How can you split the costs between payers or even types of visits within payer
- Looking at nursing only for now
 - We did 68,775 visits and took 40,200 hours to do them
 - That's $40,200/68,775$ or .5845 of an hour or 35 minutes per visit
 - Using 40,200 hours we get 2,412,000 minutes
 - Our nursing costs were \$12,235,590

Pricing

- So $\$12,235,590/2,412,000$ is \$5.07 per minute
- Lets assume our managed care visits are 30 minutes long
- We did 19,362 managed care visits but our cost on that basis was \$2,944,960
- Our cost is not the \$177.91 per visit but \$152.10 per visit
- That, of course, means other payers cost more per visit than the \$177.91

Pricing

- In addition you can determine what the cost is for various types of nursing visits
- MCH visits tend to be much longer than regular geriatric visits
- An MCH visit that is 1 hour long costs \$304.20 at these rates
- Obviously you need to be able to price your services in some detail

Pricing

- That will let us see if there is a significant difference between our payers
- For example longer visits may mean fewer visits per episode of care or it may mean more paperwork per visit
- Either way you should have this data to negotiate your various prices per episode or per visit

Pricing

- We have talked about direct and indirect costs, incremental costs, and fully absorbed costs. Where does fixed and variable come in
 - You need to think through what will happen to your various costs if you take on additional visits
 - If you have no excess capacity adding additional visits means adding additional costs, but how much

Pricing

- What about your capacity
 - Can you take on additional visits with your current staff
 - Do you have unused capacity
 - What is your productivity
 - What is your case load
 - Adding visits and patients to absorb unused capacity decreases all your unit costs because there is no incremental costs

Pricing

- Looking back at our direct and indirect analysis we can assume that adding visits will increase clinician salary but probably not supervision and certainly not overhead. That will have the effect of decreasing the fully absorbed cost per visit and benefiting all your other payers
- Can you make business decisions to change expenses from fixed to variable
 - Outsourcing
 - Paying on a per visit basis

Pricing

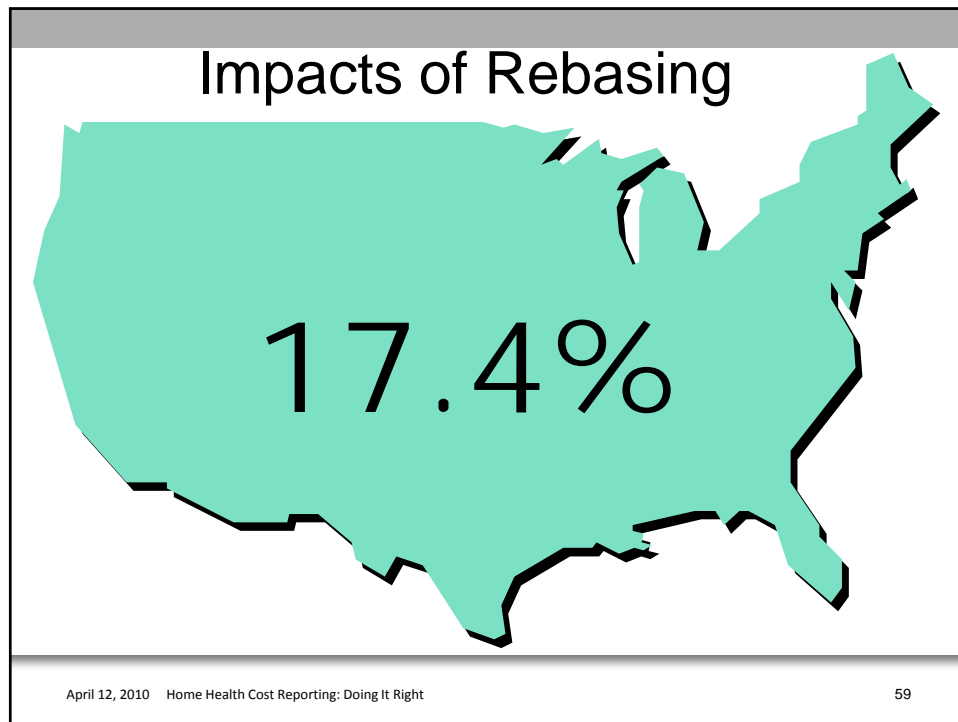
- Think it through though
 - Reducing expenses in one discipline can increase your expenses in another with unforeseen effect
 - The overhead just gets reallocated to other disciplines
 - For example outsourcing may turn some fixed expenses to variable expenses but the fixed overhead will be reallocated to the other disciplines, increasing their cost
 - Fixing one discipline may upset your gains on another product
 - You should use the cost report process to test what happens to your profitability under different scenarios

Pricing Summary

- So what are we saying
 - You should be very careful doing your cost report with the various expenses being allocated properly
 - You should know your costs per visit and per hour of service within discipline
 - You should calculate your costs for the services you provide within each payer
 - Using both your per visit and per hour costs you should calculate the cost of your episodes

Impacts of Rebasing

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What is Rebasing?

- Change prospective rates based on more current cost data
 - President
 - Improve Medicare home health payments to align to costs
 - MedPAC
 - Rebase rates for home health care services to reflect the average cost of providing care
- It is not...

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Methods of Rebasing

- Provider specific vs. all providers
- Ownership type vs. all ownership types
- Provider type vs. all provider types
- Regional vs. national
- Phase-in vs. one-time adjustment
- Ceiling/floor vs. no limits
- Cost report methodology vs. IRS standards

Home Health Rebasing

- Proposed Approaches
 - MedPAC
 - President
 - Health Care Reform
 - Senate
 - House

QUESTIONS?