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Alternative Handling of CAH Overhead Allocations

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CPAs & BUSINESS ADVISORS

Background

- CAH facilities frequently fail to access the reimbursement available under CAH status.
- This is often due to the failure to periodically explore approved alternative methodologies for allocating overhead costs.



Agenda

- Alternative allocation methodologies
- Recordkeeping requirements
- Strategies



Overhead Allocations

- Capital – Buildings
- Capital – Major Moveable Equipment
- Employee Benefits
- Administrative and General
- Operation of Plant
- Laundry
- Housekeeping
- Dietary
- Cafeteria
- Nursing Administration
- Medical Records
- Social Services
- Activities



Allocation Statistics

- Methodologies
 - Medicare allows for alternative allocation methodologies
 - Request for change in methodology must be made 90 days prior to end of affected cost report period
 - Request required for first cost report?



Capital Buildings

- Allocated based on square footage
- Alternatives include the breakout (subscript) of new buildings and/or renovations
 - Hospital versus non-hospital space
 - Inpatient versus outpatient space
 - Verify with MAC
 - Consistency



Capital Buildings

- Square Footage
 - Make sure updated statistics are maintained
 - Increased focus of review by Medicare auditors
 - Use electronic spreadsheets
 - Maintain history



Capital Buildings

- Square Footage
 - Idle Space
 - Monitor
 - Maintain previous records
 - Shared Space
 - Cardiac Rehab
 - Pulmonary Rehab
 - Physical Therapy



Capital Buildings

- Square Footage
 - Gross vs Net
 - Consistency
 - Model impact
 - Frequently minimal impact
 - Placement and amount of common space is determining factor



Capital – Major Moveable Equipment

- Square footage or actual
 - Actual
 - Usually better for facilities with non-reimbursable cost centers
 - Unit multiplier should be near 1.0
 - Check for capital lease information if not near 1.0



Capital – Major Moveable Equipment

- Square footage or actual
 - Actual
 - Need to maintain updated asset listing
 - Deletions
 - Transfers



Capital – Major Moveable Equipment

Example – CAH without NH

Category	Actual	Square Footage
Overhead	28%	46%
Med/Surg	15%	14%
Ancillaries	56%	38%
Non-Reimbursable	1%	2%

Example Impact = (\$5,000)



Capital – Major Moveable Equipment

Example – CAH with NH

Category	Actual	Square Footage
Overhead	8%	24%
Med/Surg	5%	9%
Nursing Home	7%	32%
Ancillaries	79%	21%
Non-Reimbursable	1%	14%

Example Impact = (\$55,000)



Employee Benefits

- Allocated based on Gross Salaries
 - Limited options for alternatives
- Directly assign identifiable benefits
 - FICA
 - Pension
- Allocate
 - Worker's Compensation
 - Healthcare
 - Unemployment Taxes



Administrative and General

- Administrative and General Costs are allocated based on accumulated costs unless this cost center is fragmented
- Opportunities for fragmenting
 - Business Office
 - Registration
 - Education
 - Information Technology
 - Purchasing
 - Pastoral Care



A&G – Business Office

- Opportunity arises when Business Office is not involved in billing and collection of services in all departments of the hospital
 - Home Health
 - Hospice
 - Clinics
 - Rental Property



A&G – Business Office

- Allocation methodologies
 - Gross Revenues versus Accumulated Cost



A&G – Business Office

Example – Fragmented A&G

Category	Original	Fragmented
Overhead	13%	0%
Med/Surg	14%	13%
Ancillaries	59%	77%
Non-Reimbursable	14%	10%

Example Impact = \$45,000



A&G – Registration

- Opportunity arises when Registration is not involved in admissions process in all departments of the hospital
 - Home Health
 - Hospice
 - Clinics
 - Rental Property



A&G – Registration

- Allocation methodologies
 - Gross Revenues versus Accumulated Cost



A&G – Registration

Example – Fragmented A&G

Category	Original	Fragmented
Overhead	13%	0%
Med/Surg	14%	15%
Ancillaries	59%	85%
Non-Reimbursable	14%	0%

Example Impact = \$90,000



A&G - Education

- Opportunity arises when Education department does not provide services to non-reimbursable departments and/or highly Medicare utilized departments receive higher levels of educational programming
 - Clinics
 - Rental Property
 - Nursing Departments
- Opportunity may be partially offset if provider has non-reimbursable nursing departments
 - Home Health
 - Hospice



A&G - Education

- Allocation Methodologies
 - Number of employees
 - Number of full-time-equivalents
 - Time records



A&G – Education

Example – Fragmented A&G – Time Records

Category	Original	Fragmented
Overhead	13%	25%
Med/Surg	14%	28%
Ancillaries	59%	40%
Non-Reimbursable	14%	6%

Example Impact = \$35,000



A&G – Information Technology

- Opportunities arise when Information Technology does not provide services to non-reimbursable cost centers of the organization and/or when nursing departments have adopted the use of bedside terminals.
 - Rental Property
 - Nursing Departments
- The opportunities may be partially offset by non-reimbursable cost centers
 - Home Health
 - Hospice



A&G – Information Technology

- Allocation methodologies
 - Terminals versus Accumulated Cost



A&G – Information Technology

Example – Fragmented A&G – Terminals

Category	Original	Fragmented
Overhead	13%	39%
Med/Surg	14%	4%
Ancillaries	59%	43%
Non-Reimbursable	14%	14%

Example Impact = (\$36,000)



A&G – Information Technology

- Health Information Technology – Stimulus Impact
 - Providers are recommended to continue monitoring this cost center for opportunities
 - Implementation of new health information technology may significantly impact the potential benefit of this allocation methodology



A&G - Purchasing

- Opportunity arises when Purchasing does not provide support or provides limited support to non-reimbursable cost centers
 - Rental Property
 - Home Health
 - Hospice
 - Clinics
- Opportunities may be partially offset if provider has non-reimbursable departments utilizing significant amount of Purchasing resources
 - Nursing Home



A&G - Purchasing

- Allocation Methodologies
 - Purchased Requisitions versus Accumulated Costs



A&G – Purchasing

Example – Fragmented A&G – Purchased Requisitions

Category	Original	Fragmented
Overhead	13%	4%
Med/Surg	14%	5%
Ancillaries	59%	86%
Non-Reimbursable	14%	5%

Example Impact = \$68,000



A&G – Pastoral Care

- Opportunity arises when Pastoral Care does not provide support to non-reimbursable cost centers
 - Rental Property
- Opportunities may be partially offset if provider has non-reimbursable cost centers receiving substantial support from Pastoral Care
 - Home Health
 - Hospice



A&G – Other

- Do not be limited by the options presented
 - Look at each individual department reported in Administrative and General



Operation of Plant

- Operation of Plant is typically a combination of Maintenance and Repairs and Operation of Plant (Utilities)
- Cost Center can be split into two cost centers
 - Line 7 – Maintenance and Repairs
 - Line 8 – Operation of Plant



Operation of Plant

- Allocation Methodologies – Maintenance and Repairs
 - Time Study versus Square Footage
- Allocation Methodologies – Operation of Plant
 - Separate Metering of Buildings versus Accumulated Square Footage



Operation of Plant – Time Studies – PRM I 2313.E

- Problems are commonly found with time studies
 - Due to failure to follow the rules
- Time studies used must meet the following criteria:
 - The time records to be maintained must be specified in a written plan submitted to the intermediary no later than 90 days prior to the end of the cost reporting period to which the plan is to apply. The intermediary must respond in writing to the plan within 60 days from the date of receipt of the request, whether approving, modifying, or denying the plan.
 - A minimally acceptable time study must encompass at least one full week per month of the cost reporting period.



Operation of Plant – Time Studies – PRM I 2313.E

- Time studies used must meet the following criteria:
 - Each week selected must be a full work week (Monday to Friday, Monday to Saturday, or Sunday to Saturday).
 - The weeks selected must be equally distributed among the months in the cost reporting period, e.g., for a 12 month period, 3 of the 12 weeks in the study must be the first week beginning in the month, 3 weeks the 2nd week beginning in the month, 3 weeks the 3rd, and 3 weeks the fourth.
 - No two consecutive months may use the same week for the study, e.g., if the second week beginning in April is the study week for April, the weeks selected for March and May may not be the second week beginning in those months.



Operation of Plant – Time Studies – PRM I 2313.E

- Time studies used must meet the following criteria:
 - The time study must be contemporaneous with the costs to be allocated. Thus, a time study conducted in the current cost reporting year may not be used to allocate the costs of prior or subsequent cost reporting years.
 - The time study must be provider specific. Thus, chain organizations may not use a time study from one provider to allocate the costs of another provider or a time study of a sample group of providers to allocate the costs of all providers within the chain.



Operation of Plant – Time Studies – PRM I 2313.E

- Time studies used must meet the following criteria:
 - The intermediary may require the use of different, or additional, weeks in the study in its response to the provider's request for approval and may prospectively require changes in the provider's request as applied to subsequent cost reporting periods.



Operation of Plant – Time Studies – PRM I 2313.E

- Strategies

- Update tools for gathering time studies on at least an annual basis
 - Excel Worksheet
- Provide education to staff
 - Staff may provide what they think you are looking for.....
 - Productivity versus reimbursement



Operation of Plant – Time Studies – PRM I 2313.E

- Strategies – ER Physician Example
 - Historical allocation
 - 60% Professional
 - 40% Provider
 - \$1,200,000 Emergency room physician costs
 - 25% Medicare utilization
 - \$120,000 Medicare reimbursement



Operation of Plant – Time Studies – PRM I 2313.E

- Strategies – ER Physician Example
 - Updated allocation
 - 45% Professional
 - 55% Provider
 - \$1,200,000 Emergency room physician costs
 - 25% Medicare utilization
 - \$165,000 Medicare reimbursement



Operation of Plant – Time Studies – PRM I 2313.E

- Strategies – ER Physician Example
 - \$45,000 increase in reimbursement
 - 37.5% increase!



Laundry

- Limited opportunity to elect alternative methodology
 - Patient Days – Simplified Methodology
- Verify new departments are added to tool used to gather statistic



Housekeeping

- Opportunity arises when Housekeeping does not clean non-reimbursable cost centers or spends more time per square foot in reimbursable cost centers
 - Rental Property
 - Offsite Locations



Housekeeping

- Allocation methodologies
 - Time Study versus Square Footage
 - Verify tool used to gather statistic contains all departments
 - Provide ongoing education to staff regarding use of tool
 - Verify time studies follow Medicare rules



Dietary

- Opportunities arise when staff and preparers fail to communicate as contents of meal counts
 - Administrative Meals
 - Internal business related meals
 - Outside meals
 - Update tool used to gather statistics to ensure accuracy of data



Cafeteria

- Opportunities may arise when some departments are located offsite
 - Departments offsite should not receive allocation
- Opportunities may arise when there are contracted staff
 - Include contracted staff onsite



Nursing Administration

- Opportunities may arise when the current organizational chart has non-reimbursable cost centers reporting to Nursing Administration or the DON is acting in a CNO role
 - Home Health
 - Hospice



Nursing Administration

- Changes in reimbursement can occur when there are changes in the organizational structure
 - Must be actual changes in reporting and operations



Nursing Administration

Example – Fragmented A&G – Time Records

Category	DON w/ HH and H	DON	CNO
Overhead	0%	0%	0%
Med/Surg	41%	50%	27%
Ancillaries	40%	49%	72%
Non-Reimbursable	19%	1%	1%

Example Impact = \$41,000 moving HH and Hospice to CEO

Example Impact = \$47,000 moving HH and Hospice to CEO and adopting CNO role



Medical Records

- Time Studies are often used
 - Difficult to maintain
 - Impact of non-reimbursable cost centers
 - Nursing Homes



Medical Records

- Allocation methodologies
 - Gross Revenues versus Time Studies
 - May benefit from subscribing Medical Records into departments
 - Hospital
 - Nursing Home
 - Wrap together with Business Office and Registration



Social Services

- Verify costs not buried in Nursing Home
 - Provides support to Hospital and Nursing Home
- Allocation methodologies
 - Patient Days



Impact of Pricing on Allocations

- Pricing changes typically have a minor impact on Medicare reimbursement, except:
 - Allocations of statistics on cost report by gross revenue
 - Most providers could benefit from consistent markup through out organization
 - Minimal or lack of mark up on room costs
 - Larger mark ups on services with lower Medicare utilization
 - Overly aggressive pricing may impact beneficiary responsibility



Impact of Pricing on Allocations

- Charges reported on Worksheet C of cost report are used to calculate cost to charge ratio which is used to calculate Medicare share of costs
 - Inappropriate reporting of charges will result in inappropriate reimbursement
 - Overstatement of revenues common
 - Results in lost reimbursement



Impact of Pricing on Allocations

- Professional Charges
 - Verify all professional costs/charges removed from cost report as appropriate
 - Operating Room
 - Radiology
 - Emergency Room
 - Clinics



Impact of Pricing on Allocations

- Provider Based Clinics
 - Be sure provider and preparer both understand make up of revenue in Provider Based Clinic
 - Professional revenue in clinic (all payors)
 - Technical revenue in clinic (Medicare and possibly Medicaid)
 - Professional revenue provided outside clinic



Impact of Pricing on Allocations

- Provider Based Clinics
 - Worksheet C
 - Must include the technical revenue that would have been generated for services **in the clinic** if all payors would have been billed in same manner as Medicare
 - Frequently overstated



Impact of Pricing on Allocations

- Provider Based Clinics
 - Cause of overstatement
 - Technical fees are calculated for all services regardless of where they were provided.
 - Average error costs provider \$150,000 - \$250,000 per year.



Questions??

