Follow the Money: Investing in the Success of Your CCBHC with Cost Reporting

The National Council for Behavioral Health

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HEALTH CARE FINANCIAL AND MANAGEMENT CONSULTANTS

McBee Associates, Inc.

Cost Report Fundamentals

- History of Cost Reports
  - Current cost accounting model, dating back to 1957, was developed by the American Hospital Association
  - With Medicare implementation in 1966, this model was used to pay healthcare providers the cost of services to program beneficiaries

Cost Report Fundamentals

- Who still completes cost reports and why with prospective payment systems implemented?
  - Hospitals
  - Nursing Homes
  - Home Health Agencies
  - Federally Qualified Health Centers

Cost Report Fundamentals

- What does CMS do with cost report data?
  - Comparative Analysis and review of profit / loss margins – Cost versus PPS
  - Development of major cost weights, e.g. labor versus non-labor cost components
  - Provide Congress or other payment stakeholders an evaluation of the current payment system

Cost Report Fundamentals

- Quantify whether the program is paying a fair amount for the health services it purchases for its beneficiaries

Cost Report Fundamentals

- Purpose – a collection of forms that gather statistical, financial and descriptive data to determine a providers cost of services
- Submitted Annually

Cost Report Fundamentals

- What can the provider community do with cost report data?
  - Use the data for management reporting
  - Use the data for market comparative purposes
  - Use the data to respond to Federal or State regulatory changes
  - Use the data to illustrate inequities in the current payment system – Prove financial harm, seek changes

Cost Report Fundamentals

- The basic cost report:
  - Reporting of expense, direct and overhead by department / service area
  - Remove non-allowable costs (defined by Regs)
  - Allocation of overhead cost to revenue producing or non-allowable departments
  - Apportionment of cost to the various payors
  - Provides for comparison of actual cost to fee payments

Cost Report's and Rate Setting

- Cost Based Rates should include all direct and indirect costs related to the delivery of the service by the provider:
  - Direct Costs- Those costs that can be assigned directly to the service
    - Salaries and material costs that can be assigned to the service are examples
  - Indirect Costs- Costs incurred for a common purpose…ie. Rent, utilities, administrative salaries

Rate Setting

- Goal of Rate Setting
  - Include all allowable costs and provide an avenue for the provider community to recover the full cost of the service provider.

The Cost Report

- What We Know
  - CMS has granted permission to states to use the FQHC cost report format
  - States can develop their own cost report template and instructions for CMS approval

"TITLE"

05-13 Form CMS-222-92 2990 (Cont.)

RECLASSIFICATION AND ADJUSTMENT OF TRIAL BALANCE OF EXPENSES	PROVIDER *CCN*:	PERIOD: FROM: TO:	WORKSHEET A Page 1

		COST CENTER	Compen-sation	Other	Total (Col. 1 + 2)	Reclassi-fications	Reclassified Trial Balance (Col. 3 +/- 4)	Adjustments Increases (Decreases)	Net Expenses (Col. 5 +/- 6)	
			1	2	3	4	5	6	7	
		FACILITY HEALTH CARE STAFF COSTS								
1	0100	Physician								1
2	0200	Physician Assistant								2
3	0300	Nurse Practitioner								3
4	0400	Visiting Nurse								4
5	0500	Other Nurse								5
6	0600	Clinical Psychologist								6
7	0700	Clinical Social Worker								7
8	0800	Laboratory Technician								8
9	0900	Other (Specify)								9
10	1000									10
11	1100									11
12		Subtotal-Facility Health Care Staff Costs								12
		COSTS UNDER AGREEMENT								
13	1300	Physician Services Under Agreement								13
14	1400	Physician Supervision Under Agreement								14
15	1500									15
16		Subtotal Under Agreement (Lines 13-15)								16
		OTHER HEALTH CARE COSTS								
17	1700	Medical Supplies								17
18	1800	Transportation (Health Care Staff)								18
19	1900	Depreciation-Medical Equipment								19
20	2000	Professional Liability Insurance								20
20.50	*2050*	*Allowable GME Pass Through Costs*								*20.50*
21	2100	Other (Specify)								21
22	2200									22
23	2300									23
24		Subtotal-Other Health Care Costs (Lines 17-23)								24
25		Total Cost of Services (Other Than Overhead And Other RHC/FQHC Services) Sum of Lines 12, 16, And 24								25
		FACILITY OVERHEAD-FACILITY COST								
26	2600	Rent								26
27	2700	Insurance								27
28	2800	Interest On Mortgage Or Loans								28
29	2900	Utilities								29

FORM CMS-222-92 *(05-2013)* (INSTRUCTIONS FOR THIS WORKSHEET ARE PUBLISHED IN CMS PUB. 15-2, SECTION 2904)

"TITLE"

2990 (Cont.) Form CMS-222-92 05-13

RECLASSIFICATION AND ADJUSTMENT OF TRIAL BALANCE OF EXPENSES | PROVIDER *CCN*: | PERIOD: FROM: TO: | WORKSHEET A Page 2

		COST CENTER	Compen-sation	Other	Total (Col. 1 + 2)	Reclassi-fications	Reclassified Trial Balance (Col. 3 +/- 4)	Adjustments Increases (Decreases)	Net Expenses (Col. 5 +/- 6)	
			1	2	3	4	5	6	7	
30	3000	Depreciation-Buildings And Fixtures								30
31	3100	Depreciation-Equipment								31
32	3200	Housekeeping And Maintenance								32
33	3300	Property Tax								33
34	3400	Other(Specify)								34
35	3500									35
36	3600									36
37		Subtotal-Facility Costs (Lines 26-36)								37
		FACILITY OVERHEAD-ADMINISTRATIVE COSTS								
38	3800	Office Salaries								38
39	3900	Depreciation-Office Equipment								39
40	4000	Office Supplies								40
41	4100	Legal								41
42	4200	Accounting								42
43	4300	Insurance								43
44	4400	Telephone								44
45	4500	Fringe Benefits And Payroll Taxes								45
46	4600	Other (Specify)								46
47	4700									47
48	4800									48
49		Subtotal-Administrative Cost (Lines 38-48)								49
50		Total Overhead (Lines 37 And 49)								50
		COST OTHER THAN RHC/FQHC SERVICES								
51	5100	Pharmacy								51
52	5200	Dental								52
53	5300	Optometry								53
53.50	*5350*	*Non-allowable GME Pass Through Costs*								*53.50*
54	5400	Other (Specify)								54
55	5500									55
56	5600									56
57		Subtotal-Cost Other Than RHC/FQHC (Lines 51-56)								57
		NON-REIMBURSABLE COSTS (Specify)								
58	5800									58
59	5900									59
60	6000									60
61		Subtotal Non-Reimbursable Costs (Lines 58-60)								61
62		TOTAL COSTS (Sum Of Lines 25, 50, 57, And 61)				-0-				62

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FQHC PPS Standards

1. PPS pays a single per-visit rate.
2. PPS is based on the average cost of all allowed services provided by all allowable providers.
3. PPS supports comprehensive FQHC/RHC services.

FQHC PPS Standards (cont.)

1. PPS rates are determined separately for each individual FQHC or RHC.
2. States using Medicaid managed care organizations (MCOs) must make up the difference between what the MCO pays and the PPS rate.

Preparing for the Cost Report

- Assemble your team
- Develop a plan and timetable
- Know the regulations (go to trainings)
- Compile all required records
- Keep in mind the cost data is based on accrual accounting
- Keep and provide all backup supporting statistical records

Getting it Right the First Time

- Why Get it Right?
  - You may have to live with the rate you establish
- When setting your rate consider:
  - Budgeting for growth
  - Potential new staffing requirements
  - New documentation or collaboration requirements

Getting it Right the First Time

- Be aware of cost ceilings:
  - Not allowed if it excludes reasonable and related costs
- Baseline PPS rates:
  - Improperly calculated the first time will never catch up to your actual cost even with inflation factors in place

Allowable vs. Unallowable Costs

- What does your state consider an allowable cost?
  - Medical Director
  - Direct Care staff
  - Rent
  - Insurance
- Unallowable Cost
  - Advertising
  - Fund Raising

Administrative Costs

- What does your state allow for administrative cost ceilings?
- What is the potential impact of your administrative rate?

Time Studies and the Cost Report

- Why do a time study?
  - Allows you to accurately attribute costs to the correct cost center
  - Identifies how much administrative time is dedicated to those duties versus directly program related duties
  - Reduces your administrative costs

Square Footage and the Cost Report

- Allows you to accurately attribute costs to the correct cost center based on the amount of square footage is in a particular building.
- Rent and Utilities costs are most commonly distributed this way in a shared building
- Example: Building Square Footage: 1,000sqft

  Outpatient department = 600sqft of building

  Partial Program=400sqft of building

  The result is a 60/40 split of costs of rent and utilities

Direct and Indirect Costs

- What is a direct cost?
  - They can be traced directly to a department. I.e. outpatient staff that only work in that department. This allows that cost to only be used in determining the cost of outpatient services.
- What is indirect cost?
  - Costs that can't be directly traced to a department. (i.e. Rent)

Cost Allocation Plans

- Why have a cost allocation plan?
  - Allows you to assign costs to cost centers based on the following examples:
    - Number of Active Employees;
    - Number of Visits;
    - Square Footage Occupied;
    - Salaries and Wages of Units Supervised;
    - Direct Assignment

Interest Expense

- Allowable if:
  - Supported by evidence of an agreement that funds were borrowed and the payment interest and repayment of the funds are required
  - Indentified in your accounting records
  - Related to the reporting period in which the costs are incurred.
  - Necessary and proper for the operation, maintenance, or acquisition of your facilities

Interest Expense (cont)

- Non-Allowable if incurred as a result of:
  - A judicial review
  - Interest assessment on a determined Medicare overpayment
  - Interest on funds borrowed to repay an overpayment

Depreciation

- Depreciation is that amount which represents a portion of the depreciable asset's cost or other basis which is allocable to a period of operation
- Depreciation on buildings and equipment is an allowable cost.

Depreciation (cont.)

- Depreciation must be:
  - Identifiable and recorded in accounting records
  - Based on the historical cost of the asset as defined by 104.10, or in the case of donated asset, the lesser of the fair market value or net book value at the time of donation

Depreciable Assets

- Buildings – Defined in 104.2
- Building Equipment – Defined in 104.3
- Major Moveable Equipment – Defined in 104.4
- Minor Equipment – Defined in 104.5
- Land Improvements – Defined in 104.7
- Leasehold Improvements – Defined in 104.8

Still want to learn more?

- Join the National Council at one of our upcoming Members Only regional meetings!

Tuesday, August 25	San Diego, California
Thursday, August 27	New York, New York
Thursday, September 10	Kansas City, Missouri
Wednesday, September 23	Atlanta, Georgia
Thursday, September 24	Detroit, Michigan

Questions? Email us at michaelp@thenationalcouncil.org

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- For more information on the Excellence in Mental Health Act, check out the National Council website here.