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FREQUENTLY ASKED QUESTIONS



Key Tips for Success Regarding the Medicare Cost Report

March 31, 2021

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Key Tips for Success Regarding the Medicare Cost Report

There are numerous, significant changes that home health agencies must address to properly complete the Medicare Cost Report (MCR) for CY2020.

In this session, John Reisinger, CPA with Innovative Financial Solutions (IFS) for Home Health, provided in-depth coverage of the changes as well as key tips on how to be successful.

This document is to provide the answers to the many great questions asked.

POLL QUESTION 1:

Is the Medicare Home Health Cost Report important?

1. No. It's just a regulatory hoop we must jump through annually
2. No. It provides no value to the agency or the program
3. Yes. But the reasons why are unclear
4. Yes. It is used to set annual payment rates for the industry

Answer is D

POLL QUESTION 2:

What basis of accounting is acceptable for preparing the Cost Report?

5. The Cash-basis
6. The Accrual-basis
7. A Cash-hybrid basis (*if prior approval received by MAC*), or
8. All the above

Answer is B

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QUESTION 1: If the Cost Report has to be prepared on the Accrual-basis of Accounting, why did my accountant (a CPA) recommend that we keep our financial records under the Cash-basis?

Answer: Because the accountant/CPA does not know or understand the home health industry and likely helped create your Chart of Accounts (aka General Ledger) and recommended the Cash-Basis of Accounting from a Tax preparer's perspective. That is, they made the recommendations that they did based primarily, if not solely on what would be needed to prepare the business's annual tax return. However, this generally, actually does your business a disservice as your financials are likely not detailed enough for you to be able to analyze and manage your operational results at the detail you will need to survive long-term in this industry; let alone enable you to prepare your annual Cost Report easily.

QUESTION 2: How can we prepare our Cost Report by the Accrual-basis when we keep our books under the Cash-basis of Accounting?

Answer: Not that there is anything necessarily wrong with maintaining your books on the Cash-basis of Accounting, but I would not recommend it for an industry as complex as home health. However, I do have plenty of clients that still do maintain their financials based on the Cash-basis of Accounting. The simple response to your question is: convert your financials to the Accrual-basis of Accounting for preparing your annual Medicare Cost Report. I will say converting from the Accrual-basis to the Cash-basis is generally easier, converting from Cash to Accrual is not rocket science; but there are nuances that if you do not understand the industry, will probably preclude you from doing the conversion properly.

QUESTION 3: We keep our financials on the Cash-basis. Our preparer prepares the Cost Report based on the financials we send them (i.e., cash-based). Are we in trouble with Medicare? Can we get in trouble with Medicare?

Answer: Well, you are out of compliance with the Cost Reporting instructions that dictate that all agencies are required to prepare their Medicare Cost Report based on the Accrual-basis of Accounting (*w/very limited exceptions*). Therefore, yes, you could get into trouble with Medicare.

First, let me state that I have never heard of a FI/MAC rejecting a Cost Report for being prepared under the Cash-basis of Accounting; hence, why many Cost Report preparers will prepare a Cost Report under the Cash-Basis of Accounting even though they should know

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that that is not compliant with the instructions/regulations! But, let me caveat that by saying that I don't think that they have ever been taught to look for that, and if they ever do, all agencies that had their Medicare Cost Reports prepared under the Cash-basis of Accounting (*w/very limited exceptions*) will likely find a number of their Cost Reports being rejected by their FI/MAC and their Medicare cash-flows being immediately turned off and not re-started until the financials have been converted and the corrected Cost Report has been received, reviewed and approved by the FI/MAC. And there is nothing to prevent the FI/MAC from asking for support to verify the accuracy and reasonableness of the conversion. But what's even worse is that in this challenging time, you have just made your agency stand out from the crowd.

QUESTION 4: When are our Cost Reports due?

Answer: Cost Reports are due on or before that last day of the fifth month covering the reporting period of the agency. Therefore, the Medicare Cost Report of an agency with a FYE of 12/31/20 would be due on 5/31/20. However, Cost Reports with FYEs ranging from 8/31/20 through 12/31/20 have had the due date pushed back an additional two-months because of the PHE. Therefore, the agency with a FYE of 12/31/20, whose Cost Report was originally due 5/31/21, now has a due date of 8/02/21 (*because July 31st is on a Saturday*).

QUESTION 5: Every year we have a devil of a time getting the information (primarily our financial information) pulled and organized for our Cost Report. It looks like it's going to get even more complicated this year. What can we do to minimize this task each year to save time and effort?

Answer: First, it would depend on the quality of the detail in your Chart of Accounts. If your Chart of Accounts is too general (*e.g., only 1 line for Salaries & Wages as opposed to having Salaries & Wages for every discipline/Cost Center*), this process will always be more complicated than what it needs to be.

Next, it would benefit all agencies to have a standardized template that identifies the operational information required to prepare the Cost Report each year. I find that after a year or two working with such a template, my clients all have an easier time pulling the requisite Cost Report information together in a timelier fashion, even helping some clients reduce the cost because they now qualify for early filing discounts.

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Your Cost Report preparer should be an asset in this area and not a detriment to helping you comply with this requirement. Therefore, your Cost Report preparer should be able to help you with both aspects noted above:

- Help ensure that your Chart of Accounts is detailed enough to prepare your Cost Report as well as to better help analyze and manage your financial and operational results, and
- Provide you with a template annually which identifies all the other requisite information not already identified in an adequate Chart of Accounts

QUESTION 6: Can I, as the signer of the Cost Report, actually be put in jail/prison because of issues with the Cost Report?

Answer: Yes, and you would not be the first. However, I would think that most all of those that received significant financial fines as well as jail time were clearly perpetrating some significant fraud or abuse of the program. I do not think that anyone would go to jail because of a simple mistake; but they identify that as a possibility on the Certification Statements as a detriment to those that would consider scamming the Medicare program. But there is no question that your Cost Report preparer can help form a line of protection (*at least to a limited extent*) between you and jail.

QUESTION 7: Should I be concerned if my Cost Report preparer puts my name as Administrator in as the person that prepared the Cost Report?

Answer: Yes. If your Cost Report preparer attempts to do this, then you should immediately fire that person, find another preparer and report that person to your MAC and to the Medicare hotline. Someone that does this is doing this knowing full well that they are misrepresenting what the instructions are requesting, and in my mind, and by definition is committing fraud!

QUESTION 8: How are we supposed to come-up with the hours worked by employee and employee category when over half of our employees work in the field and we don't have a time clock for everyone in the office to punch at the start and end of the day?

Answer: This is a challenge in Home Health. Most of our staff work in the field, with no timeclock and therefore, identifying the hours worked with a high degree of accuracy is

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challenging, at best; and very few offices have timeclocks for their office staff. All I can say, without knowing more specifics, is do the best that you can. This should be easier for office staff, as supervisors should have a very good idea of the hours worked by their staff. However, it's much more challenging for field staff because of the variability of their workday. But again, do the best that you can. There historically has been one-hour estimated for each visit (*and that should include charting, travel, etc....*), and if in discussions with your staff that seems reasonable, then you would use 1 hour for every visit. However, if you feel that is not going to accurately identify the hours worked within a reasonable range, I recommend discussing this with your staff and coming up with what you feel is the average time worked on a per visits basis (*document how you came up with this estimate*) and use that to try to estimate hours worked (*by cost center*) for the year. Something else to consider with your field-staff is calculating your Avg Visits per FTE per week to also help you to reasonably estimate this. I've been doing this with my clients for a # of years now and it really seems to help. Again, this is an area that your Cost Report preparer should be able to assist you.

QUESTION 9: How do I determine whether specific costs (e.g., Advertising) are allowable costs, non-allowable costs or costs that should be included in a non-reimbursable cost center?

Answer: The Provider Reimbursement Manual Part I, would be the authoritative guide, although too often even this is not very clear or detailed. You could also contact someone that's quite knowledgeable of the Medicare Rules and Regulations (*either on your staff or outsourced*), or perhaps even your Cost Report preparer. Just be careful here, as there are plenty of individuals that worked a long time either with the FI/MACs and/or with an agency that I would not trust to understand what you may be asking them to opine on.

QUESTION 10: How do I determine whether certain costs incurred should be considered Related Party costs and is there any potential liability if not properly reported? And do Related Party costs put a target on your agency, as I have heard others say?

Answer: This is one area where the Cost Report instructions (*Provider Reimbursement Manual (PRM) Chapter 10*) and the Cost Report itself are fairly helpful. Of course, having access to someone that's truly knowledgeable of this issue is best, but the instructions are helpful. Not reporting related party costs could prove catastrophic for an agency. Improperly reporting related party costs could be problematic, but rarely would it rise to a catastrophic level for the agency.

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Related Party costs are not a problem for an agency (*if reported properly*), nor do I believe that they, in and of themselves put a target on an agency's back. I'd be willing to bet more than 10-20% of all Home Health Cost Reports include related party costs. Related Party costs could likely become an item of review should the agency be selected for Desk Review and/or Audit, but I don't think that having Related Party Costs would necessarily trigger that selection. Again, the big issue here is reporting related party costs when related party transactions exist, and reporting that information properly. Again, when I worked in the industry at a multi-state chain, I was a proponent of establishing related party relationships for the benefit of both ownership and the agencies. You Cost Report preparer should be able to help.

QUESTION 11: You've mentioned Medicare Margins a couple of times, and I've heard the term before, but I've never really understood what that represented. Please explain.

Answer: Medicare Margins are the same thing as Medicare Profits; but they are Medicare Profits as they are calculated by the Medicare Cost Report, and I would argue that the mechanics of the Cost Report almost automatically cause Medicare Profits to be higher than what they would be where they calculated by any other business metric/approach besides the Cost Report.

Everyone sees what their Profit Margin is. An agency's profit is its revenues minus its costs. The Profit Margin is the agency's profit divided by the agency's revenue. Same concept for Medicare Margin: Medicare Profits divided by Medicare Revenues. I am not going to go into the questionable mechanics of how Medicare costs are determined via the Cost Report—that's a topic for another day. However, I will point out where Medicare Revenues and Medicare Costs are identified on the Cost Report—see the following (*per the new MCR*):

- Medicare Revenues are identified on W/S D, part II, Line 36 (*and Line 1, Col 2 on W/S D-1*), and
- Medicare Costs are identified by adding the amounts as W/S C:
 - Line 10, Col 6 to
 - Lines 11 thru 14 under the columns titled: Costs of Medicare Services

QUESTION 12: Subtract Medicare Costs from Medicare Revenues and you have Medicare Profits. Divide Medicare Profits by Medicare Revenues and you have Medicare Margins.

Answer: Compare your Medicare Margins to your overall Profit Margins and see what you think!