



**North American Healthcare Management
Services**

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Advanced Rural Health Clinic Cost Reporting

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Advanced RHC Cost Reporting

1. RHC General Information
2. Cost Report Worksheets
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5. Operational Strategies
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RHC Reimbursement Rate

RHC Allowable Costs
Rural Health Clinic
Face to Face Encounters

= RHC Reimbursement Rate (up to the
reimbursement rate limit)

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Allowable Costs

Allowable RHC costs:

- Defined at 42 CFR 405 and 42 CFR 413
- Explained in the Provider Reimbursement Manual, pub. 15

“Allowable costs are the cost actually incurred by you which are reasonable in amount and necessary and proper to the efficient delivery of your services.” RHC manual, Ch. 501

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RHC Visits

“A visit is a face-to-face encounter between a clinic or center patient and a physician, physician assistant, nurse practitioner, nurse-midwife, or visiting nurse.”

42 CFR 405.2463

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RHC Reimbursement Rate

<u>Year</u>	<u>limit</u>	<u>% increase</u>
2011	\$78.07	0.4%
2010	\$77.76	1.2%
2009	\$76.84	1.6%
2008	\$75.63	1.8%
2007	\$74.29	2.1%

Every January 1 the RHC all-inclusive rate increases by the medical economic index. (MEI) typically 2% to 3%

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What are the two types of rural health clinics?

- Independent rural health clinic which are typically owned by physicians, mid-level practitioners, and not-for-profit entities.
- Provider-based rural health clinic which are owned by hospitals, skilled nursing homes, and home health agencies.

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Independent Vs. Provider Based

- Independent RHCs file cost reporting form CMS-222-92.
- Provider based RHCs are reported as a department of the hospital on the CMS-2552.

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RHC Cost Report Worksheets

Rural Health Clinic Cost Report Worksheet	Independent CMS 222-92	Provider-Based CMS 2552-96
RHC/FQHC Provider Statistics	S	S-8
Trial Balance of Costs	A	M-1
Reclassifications	A-1	A-6
Adjustments to Expenses	A-2	A-8
Productivity and Overhead Allocation	B	M-s
Pneumo/Flu Vaccine Costs	B-1	M-3
Determination of Medicare Reimbursement	C	M-4
Analysis of Payments	N/A (part of C)	M-5

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Worksheet S – Statistical Data

- Clinic Name
- Clinic Address
- County
- Reporting Period
- Type of Entity (Corp, Sole Prop, etc.)
- Other Operations (Private Practice, etc.)
- RHC Hours
- Non-RHC Hours
- No/Low Utilization
- Consolidated Cost Report

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Worksheet A – Trial Balance

- Trial Balance Information
 - Facility HC Staff Costs
 - Costs Under Agreement
 - Other Healthcare Costs
 - Facility Overhead Costs
 - Facility Administrative Costs
 - Cost Other Than RHC
 - Non-Reimbursable Costs

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Worksheet A – Trial Balance (Cont)

- Use Trial Balance to input data for Worksheet A (Balance to Trial Balance)
- Distribute costs to the appropriate cost center – direct entry or reclassifications
- Be sure to have appropriate amount of detail

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Worksheet A-1 (Reclassifications)

- Reclassifications are used to move costs to the appropriate cost center

- Common Reclassifications
 - Salaries, Benefits and Payroll Taxes
 - Medical Director/Administration Costs
 - Laboratory, Diagnostic Services, etc.

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Worksheet A-2 (Adjustments)

- Adjustments are used to remove non-allowable expenses or add allowable costs that were not included on the Trial Balance

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Worksheet A-2 (Adjustments)

- Common Adjustments
 - Investment Income/Commingled Funds
 - Rental of Building/Office Space
 - Related Party Transactions
 - Accrual Adjustments – Previous Period and Subsequent Period
 - Sole Proprietor/Partnership Owner's Compensation

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Worksheet A-2 (Adjustments)

- Common Adjustments (Cont.)
 - Non-allowable Expenses
 - Bad Debts
 - Non-Allowable Advertising
 - Hospital/Non-RHC Services
 - Outside Lab Fees

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Worksheet A-2-1 (Related Party)

- Identify whether a related party transaction exists.
- Related through ownership or control (physician owner, key employees)
- Related party transactions must be reduced to actual cost.

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Worksheet A-2-1 (Related Party)

- “The intent is to treat the costs incurred by the supplier as if they were incurred by the provider itself.” CMS Publication 15-1 (PRM)

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Related Party Transactions

- Rental of real estate is the most common example.
- Nothing prohibits these transactions.
- It is extremely important that you disclose this information.
- These transactions are reported on worksheet A-2-1 of the cost report and in the 339 questionnaire.

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Related Party Transactions on A-2-1 of Form 222

Rental expense 60,000

Compared to:

Depreciation expense 20,000

Interest expense 25,000

Property taxes 2,000

Total allowable expense 47,000

Adjust Wkst A-2 Line 6 (13,000)

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Worksheet B – Visits

- FTE Calculations – Physician, PA, NP, etc.
- Total Visits – All Patients
- Minimum Calculated Visits
- Information from internal records

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Productivity Screens

RHCs have an annual productivity screen per provider which must be met.

- Physicians (1 FTE) 4,200 visits
- Mid-Level Practitioners (1 FTE) 2,100 visits

Use the greater of the actual visits or the calculated minimum visits.

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Full Time Equivalent Calculation

Report only time provider is available to see patients in the FTE calculation.

Physician Hours Avail. 1,820
 Full Time Hours 2,080

 Calculated Physician FTE .875

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Time Studies Required – Sample

Rural Health Clinic Physician Time Study

Physician Name: _____ Date: _____

Physician Signature: _____

To complete, place an "X" in the appropriate box for each 15-minute increment to identify the activities performed.

	Part A - Provider Component					RHC Component	
	Supervision	Committee Work	Administration of Department	Quality Control	Emergency Room Availability	Patient Services	Documentation
0:00 - 0:15							
0:15 - 0:30							
0:30 - 0:45							
0:45 - 1:00							
1:00 - 1:15							
1:15 - 1:30							
1:30 - 1:45							
1:45 - 2:00							
2:00 - 2:15							

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Visit Calculation Example

	FTE	Actual Visits	Min Productivity
Physician	0.87	5,600	3,654
PA	1.20	3,200	2,520
NP	0.90	2,700	1,890
Total	2.97	11,500	8,064

In this example, the 11,500 actual visits would be used to calculate the cost report.

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Visit Calculation Example

Physician	2.00	5,600	8,400
PA	2.00	3,200	4,200
NP	1.00	2,700	2,100
Total	5.00	11,500	14,700

In this example, total visits would default to the minimum productivity of 14,700.

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Visit Calculation Example (Cont)

	Actual Visits	Min Productivity
Total Allowable Costs	\$ 900,000	\$ 900,000
Total Adjusted Visits	11,500	14,700
Adjusted Cost Per Visit	\$ 78.26	\$ 61.22

By using the minimum calculated visits, the Adjusted Cost Per Visit will decrease.

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Worksheet B-1 Pneumo and Influenza

- ➔ Staffing Ratio – Pneumococcal and Influenza Time
- ➔ Vaccine Costs
- ➔ Total Number of Injections – All Patients
- ➔ Total Number of Injections – Medicare Patients Only (do not include Medicare Advantage)

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How do you compute the time spent in providing Flu shots on the cost report?

Number of Flu Shots	90
Time Spent per shot	10 minutes
Hours spent	15 hours

Time providing flu shots 15 hours

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How do you compute the time spent providing Flu shots on the cost report?

<u>Calculate Healthcare FTEs</u>	
Number of FTE Physicians	2
Number of FTE Mid-Levels	1
Number of FTE Nurses	<u>2</u>
Total Healthcare FTE's	5

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How do you compute the time spent providing Flu shots on the cost report?

Calculate Healthcare Hours

Total Healthcare FTE's	5
Hours per FTE	2,080
Total Healthcare Hours	10,400

Calculate Ratio of Flu Hours to Healthcare Hours

Percentage of Flu Time $15/10,400 = .001442$

Input calculated ratio on Worksheet B-1 along with number of injections and total vaccine supply costs.

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Worksheet B-1 Vaccine Costs

- Vaccine Costs – Direct costs from pneumococcal and influenza invoices
- Can use average cost per injection
- Be consistent with methodology
- Have supporting documentation

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Worksheet B-1 Number of Injections

- Include total number of injections for all patients.
- Do not include Vaccine For Children injections – including these no cost vaccines will dilute your cost per injection

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Worksheet B-1 Injection Logs

Complete pneumococcal and influenza injection logs for Medicare Patients to include:

- Beneficiaries Name.
- Beneficiaries HIC Number.
- Date Injection was given.

Do not include Medicare Advantage !!

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Worksheet C – Rate and Payment

- Always use PS&R data; information is not derived from internal records
- Total Medicare Visits
- Total Medicare Mental Health Visits

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Worksheet C – Rate and Payment

- Beneficiary Deductible
- Net Reimbursement
- Medicare Bad Debts

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Reclassifications - Examples

- Salaries – Physician, PA, NP, Nursing, Etc.
- Laboratory Expenses
- Medical Director

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Reclassification - Salaries

- The clinic’s Trial Balance will typically include a single category for Office Salaries
- Salaries will need to be reclassified to the appropriate cost center
- Use Payroll Records to determine reclassification

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Reclassification - Salaries

Reclassification of Salaries			Reclassification
Increase Line 1	Physician		\$ 250,000
Increase Line 3	Nurse Practitioner		\$ 125,000
Increase Line 5	Other Nurse		\$ 100,000
Decrease Line 38	Office Salaries		\$ (400,000)
Decrease Line 45	Fringe Bene and P/R Taxes		\$ (75,000)
Please note: Salaries, Payroll Taxes and Fringe Benefits were adjusted to the appropriate cost center.			

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Reclassification - Laboratory

→ All laboratory services including the six basic lab tests are billed to part B and therefore these costs are excluded from the cost report.

- Laboratory salaries taxes and benefits.
- Laboratory supplies.
- Equipment costs & depreciation.
- Laboratory space and associated overhead. (Carved out automatically within the cost report).

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Reclassification - Laboratory

Reclassification of Laboratory			Reclassification
Increase Line 54	Laboratory		\$ 5,000
Increase Line 54	Laboratory		\$ 1,250
Increase Line 54	Laboratory		\$ 6,250
Decrease Line 5	Other Nurse		\$ (5,000)
Decrease Line 5	Other Nurse		\$ (1,250)
Decrease Line 17	Medical Supplies		\$ (6,250)

Please note: Laboratory expenses were adjusted to the appropriate cost center.

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Reclassification – Medical Director

- Medical Director expenses are normally classified on the Trial Balance as Physician compensation.
- The two main components of the Medical Director expense are Administration and Mid-Level Supervision.
- Reclassify Medical Director Expenses to the appropriate cost centers

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Reclassification – Medical Director

Reclassification of Medical Director			Reclassification
Increase Line 15	Mid-Level Supervision	\$	31,500
Increase Line 38	Office Salaries	\$	23,400
Decrease Line 1	Physician	\$	(31,500)
Decrease Line 1	Physician	\$	(23,400)
Please note: Medical Director expenses were adjusted to the appropriate cost center.			

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Adjustments - Examples

- Advertising
- Depreciation
- Non-RHC Hospital Services

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Adjustments - Examples

- Advertising
- Depreciation
- Non-RHC Hospital Services

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Adjustments - Advertising

- Advertising is in most cases non-allowable. Normal sized yellow pages ads are allowable and recruiting personnel is allowable.

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Adjustments - Advertising

Adjustment of Advertising			
Yellow Pages Advertising		\$ 3,000	Allowable
Newspaper Advertising - Promotion		\$ 1,500	Non-Allowable
Billboard Advertising		\$ 5,000	Non-Allowable
Total Advertising		\$ 9,500	
Decrease Line 48 Advertising		\$ (6,500)	
Please note: Non-Allowable Advertising was adjusted out of the cost report.			

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Adjustments - Depreciation

- Medicare requires assets be depreciated on a straight-line basis.
- The assets estimated useful life is established by Medicare – AHA (American Hospital Association) guidelines. Can be different than tax basis.
- Accelerated depreciation methods and section 179 expense deductions are not allowed.

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Adjustments - Depreciation

Asset	Date Purchase	Life	Cost	Depreciation
Building	9/1/1990	25	\$ 250,000	\$ 10,000
			\$ 250,000	\$ 10,000
Computer	1/1/2009	5	\$ 6,000	\$ 1,200
Office Picture	1/1/2009	3	\$ 1,000	\$ 333
Telephone System	1/1/2009	3	\$ 3,000	\$ 1,000
			\$ 10,000	\$ 2,533
Coutery Equipment	1/1/2009	3	\$ 1,000	\$ 333
Centrifuge	1/1/2009	3	\$ 1,000	\$ 333
			\$ 2,000	\$ 667
			\$ 262,000	\$ 13,200

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Adjustments - Depreciation

Adjustment of Depreciation			
Depreciation Worksheet A Column 2 Line 30		\$ 25,000	
Straight Line Depreciation			
Building		\$ 10,000	
Office Equipment		\$ 2,533	
Medical Equipment		\$ 667	
Total Depreciation		\$ 13,200	
Decrease Line 30	Depreciation - Building	\$ (15,000)	
Increase Line 39	Depreciation - Office	\$ 2,533	
Increase Line 19	Depreciation - Medical	\$ 667	
Please note: Depreciation was adjusted to reflect Straight Line Depreciation.			

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Adjustments – Non-RHC Hospital

- Costs related to services not provided in the Rural Health Clinic setting are Non-Allowable on the RHC cost report.
- A common example is hospital services. These services are provided outside of the RHC setting and are billable directly to Medicare Part B.
- Costs related to the provision of these services and the cost involved in billing for these services will be adjusted out of the cost report.

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Adjustments – Non-RHC Hospital

Adjustment of Non-RHC Hospital Services			
Physician Salary (Hospital)		\$	25,000
Physician P/R Taxes and Benefits (Hospital)		\$	6,250
Billing Staff Salary (Hospital)		\$	2,500
Billing Staff P/R Taxes and Benefits (Hospital)		\$	625
Decrease Line 1	Physician	\$	(31,250)
Decrease Line 38	Office Salaries	\$	(2,500)
Decrease Line 45	Fringe Benefits and P/R Taxes	\$	(625)

Please note: Non-RHC expenses were adjusted out of the cost report.

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Operational Strategies

- Shared Office Space
- Non-RHC Carve-Outs

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Shared Office Space

- Specialist from nearby community approaches RHC to rent space 2 days per month
- Specialist's staff will schedule appointments, room patients and provide billing
- Specialist is not considered part of RHC Staff

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Shared Office Space

- Under proposed rule:
 - CMS prohibits an RHC and a Medicare fee-for-service practice from operating simultaneously to prevent shared practices from selecting patient encounters for enhanced Medicare Part B billing.
 - Operation of multipurpose facility is acceptable, but any shared staff, space, or other resources must be allocated appropriately between the RHC and non-RHC usage to avoid duplicate reimbursement

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Shared Office Space

- Specialist must be charged fair market value (FMV) rent
 - What is FMV rent for furnished exam rooms, use of waiting room and parking?
 - What factor is used to compute the rental amount (i.e., hourly rate, daily rate, monthly rate)?
 - RHC cost report must be adjusted to reflect use of resources by non-RHC provider.

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Shared Office Space

	Reclass	Reclassified Trial Balance	Adjust	Net Expenses
	4	5	6	7
Facility Overhead-Facility Cost				
26 Rent		\$ 24,000	\$ (4,300)	\$ 19,700
27 Insurance				
28 Interest on Mortgage or Loans				
29 Utilities		\$ 6,000	\$ (1,100)	\$ 4,900
30 Depreciation - Building				
31 Depreciation - Equipment				
32 Housekeeping and Maintenance		\$ 3,600	\$ (600)	\$ 3,000

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Non-RHC Carve-Out

- RHC determines that physical therapy services are needed in the community
- RHC hires physical therapist, buys equipment and then learns that PT visits are not RHC face-to-face billable encounters.
- RHC wants to provide PT services outside of RHC hours of operations and bill Medicare Part B

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Non-RHC Carve-Out

- Avoid Commingling:
 - Maintain cost records for each facility or department – if operating specialty clinic next to RHC, need to maintain time studies for staff sharing between departments
 - Do not use same staff simultaneously
 - Separate certification may be necessary
 - Establish separate hours of operation (Post these hours)

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Non-RHC Carve-Out

- Independent RHC cost report must reflect use of resources for non-RHC services
- Total of all direct costs should be reported as “Costs Other than RHC Services”.
- Indirect cost allocation will be done on Worksheet B.

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Non-RHC Carve-Out

	Compensation	Other Costs	Total
	1	2	3
Cost Other Than RHC Services			
51 Pharmacy			
52 Dental			
53 Optometry			
54 Other - Laboratory			
55 Other - Physical Therapy	\$60,000	\$ 30,000	\$ 90,000
56			
57 Subtotal - Cost Other than RHC	\$60,000	\$ 30,000	\$ 90,000

→ Overhead costs are automatically allocated to non-RHC services on Worksheet B.

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Non-RHC Carve-Out

→ PT services in provider-based setting would typically be considered part of hospital physical therapy department.

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Audit Issues

- Pneumococcal and Influenza Vaccines
- Medicare Bad Debt
- Reasonable Salaries

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Audit Issues – Pneumo and Influenza

- Injection Logs - Complete and legible
- Injection Costs – Backup Documentation
- Staffing Ratio – 10 minutes per injection

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Medicare Bad Debts

On the cost report, Medicare will reimburse RHCs for all uncollectible Medicare deductibles and coinsurance.

These bad debts have to follow a number of requirements to qualify.

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Medicare Bad Debts

- Debt must be related to covered services and derived from deductible and coinsurance amounts.
- Provider must be able to establish that reasonable collection efforts were made.

42 C.F.R. Section 413.80(e)

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Medicare Bad Debts

- The Debt was actually uncollectible when claimed as worthless.
- Sound business judgment established that there was no likelihood of recovery at any time in the future.

42 C.F.R. Section 413.80(e)

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Medicare Bad Debts

To be considered a reasonable collection effort a provider must:

- Have a similar collection effort for Non-Medicare Patients.
- Issue a bill to beneficiary or responsible party.
- Cannot Write-Off before 120 days from the date the first bill is sent to the beneficiary.

CMS Pub. 15-1 Section 310

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Medicare Bad Debts (Dual Eligible)

Beneficiary is eligible for Medicare and Medicaid:

- If Medicaid is obligated either by statute or by plan to pay all or part of the coinsurance or deductible, cannot claim to Medicare.
- Any portion which Medicaid is not obligated to pay can be included as bad debt for Medicare.
- Must bill Medicaid and receive a denial.

CMS pub. 15-1 section 322

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Medicare Bad Debts (Indigent Patients)

- Provider can claim bad debt before 120-day period if it is determined patient is indigent.
- Determination of indigence must be documented in patient's file.
- Must determine that no other party is legally responsible for payment.

CMS pub. 15-1 section 312

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Medicare Bad Debts

- Any recoveries of bad debts written off in prior cost reporting periods are offset against those written off in the current cost reporting period.
- Write-off of bad debt has to occur in the current cost reporting period
- Any bad debt that has been sent to collections must be removed from collections prior to claiming on the cost report.

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Audit Issues – Medicare Bad Debt

- Complete and legible Medicare Bad Debt Log
- Auditors will sample bad debts claimed on the log – have backup documentation
- 120 Day rule – be sure to provide enough time for patient to pay bill or that they are indigent

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Audit Issues – Medicare Bad Debt

- Patient Name
- HIC Number
- Dates of Service
- Indigence and/or Medicaid Number
- Date of First Bill – will determine 120 Day
- Medicare Paid Date
- Write Off Date
- Deductible

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Audit Issues – Medicare Bad Debt

- Co-Insurance
- Medicaid Paid Amount
- Patient Payments Received
- Total Medicare Bad Debt

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Audit Issues – Reasonable Salary

- Physician Owner Compensation
- Mid-Level Owner Compensation
- Mid-Level Supervision Compensation
- Administrative Compensation

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Audit Issues – Reasonable Salary

“Reasonableness requires that the compensation allowance be such an amount as would ordinarily be paid for comparable service by comparable institutions depending on the facts and circumstances of each case” (PRM 9-3)

- Some Medicare FIs use a reimbursable cost per visit computation.
- The 2011 reasonable reimbursement rate per patient is between \$40-\$50.

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Audit Issues – Reasonable Salary

- MGMA Standards – Physician Compensation and Production Survey
 - Compensation by Specialty, Region, etc.
 - Encounters by provider, by specialty
- MAC trying to use RCE Reasonable Compensation Equivalent; RHCs are specifically excluded from RCEs

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Audit Issues – Reasonable Salary

- MAC trying to limit compensation regardless of productivity
- NAHMS and NARHC are currently working with the MAC to resolve these issues

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Cost Report Due Dates

- The Medicare Cost report is due five months after the end of the fiscal year-end.
- December 31 year-end cost reports are due on May 31.
- Terminating cost reports or change of ownership cost reports are due 150 days after the change or termination.

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Medicare Cost Report Tips

- Collect as much data as possible on an ongoing basis.
- Set up accounting procedures to collect as much financial data in the form and level of detail required for year end reporting. Use the cost report forms for reference.

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Medicare Cost Report Tips

- Determine early if the clinic will need to collect special data for the cost report.(i.e. related party expense)
- Check the cost report for mathematical accuracy.
- Be consistent from year to year.

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Medicare Cost Report Tips

- Complete the entire cost report.
- Use the PS&R report provided by the intermediary to report Medicare visits, deductibles and payments.
- Use correct and current forms.

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Medicare Cost Report Tips

- Send adequate documentation to support information on the cost report.
 - Injection logs
 - Bad debt logs
 - Working Trial Balance
 - CMS 339 Questionnaire
 - Work papers to explain reclasses on W/S A-1 and adjustments on W/S A-2

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Thank You!!

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