

**Home and Community Based Services
Cost Report
Preparation Training
Presented by P&N on behalf of DHH**

September 24, 2012



- Objectives
- Background
- Overview of Cost Report
- Required Attachments to the Cost Report
- Basic Cost Principles

- Understand need for reporting costs to DHH
- Understand the requirements of the Medicaid cost report reporting
- Explain Required Data Allocation / Central Offices
- General discussion of cost principles

- Act 299 committee
 - Need for information to support rate
 - Committee participation
 - DHH
 - Providers
- Input from providers
- Why do we have to prepare a cost report

- Records Needed to Complete the Cost Report
 - Trial Balance
 - Balance Sheet
 - Income Statement

- Act 299 Committee discussions
 - Create a Cost Report to develop a rate setting methodology
 - Cost reports will be required for participation in the specified HCBS program per rules published in July 2012
 - Future consideration
 - Develop a rate setting methodology
 - Possible regional modifiers
 - Possible size modifiers
 - Possible quality enhancement modifier

- Cost report form and instructions
 - <http://la.mslc.com/downloads.aspx>
- Correspondence & Frequently Asked Questions from DHH
 - <http://new.dhh.louisiana.gov/index.cfm/page/235>
- Medicare Provider Reimbursement Manual (PRM or HIM-15)
 - www.cms.hhs.gov/Manuals/PBM/list.asp Click on Pub 15-1
- Provider Manuals
 - www.lamedicaid.com/provweb1/Providermanuals/Intro_Page.aspx
- Emergency Rule – LAC 50:XIII.10301

- A document used to:
 - Report income and expenses by program
 - Allocation of Central office expense to the programs
 - Collect general information about the provider agency
 - Used to support rate changes

- For cost report year ending June 30, 2012
 - *The Department recognizes that some of the data required by this cost report may not have been gathered by providers and as such will not be able to be properly reported. The Department expects you to complete all information that you do have, and provide a detailed description of what you will do to make sure that you have all of the information, including the missing data elements for your 6/30/2013 cost reporting period.*

- Schedule A – Provider Information
- Schedule B – Owners/Board/Related Parties
- Schedule C – Staff and Other Information
- Schedule D – Staffing Pattern
- Schedule E – Balance Sheet
- Schedule F – Income Statement

- Schedule G – Statistics & Expenses by Program
 - Community Choice Waiver / Elderly and Disabled Adult Waiver
 - Long Term – Personal Care Services
 - Children’s Choice Waiver
 - Supports Waiver
 - New Opportunities Waiver
 - Residential Options Waiver
 - **Not included:** Adult Day Health Care
(ADHCs are already filing separate cost report)

- Schedule H – Central Office Expense
- Schedule I – Central Office Allocation
- Schedule J – Explanation for Adjustments
- Schedule K – Certification

- Electronic submission will be required
- Excel Cost Report Template must be downloaded from M&S
 - <http://la.mslc.com/downloads.aspx>
- Cost report due date: 11/30 following CRYE
- Use whole dollars only

- Accrual basis of accounting is required
 - If not used during the year, the information must be converted to accrual basis for cost report purposes
- All records must be kept for at least 5 years (MAPIL requirement)
- Complete all sections even if response is None, N/A, or \$0

- Trial Balance
 - June 30th year end (if provider financial records are on 12/31, you must reconcile to report the cost report on 6/30)
 - Accrual basis
 - All adjustments to Trail Balance made prior to cost report completion.
- Balance Sheet
- Income Statement
- Cost reporting is about information from your provider financial records

Sample Trial Balance

Adjusted Trial Balance December 31, 20X3		
	Debits	Credits
Assets	Cash	\$15,500
	Accounts receivable	4,500
	Equipment	45,000
	Accumulated depreciation	
Liabilities	Accounts payable	4,000
	Unearned revenue	1,200
	Salaries payable	2,000
	Interest payable	1,200
	Notes payable	20,000
	Capital stock	30,000
	Revenue	
	Salaries expense	17,000
	Advertising expense	5,000
	Fuel expense	2,000
	Depreciation expense	5,000
	Interest expense	1,200
	Dividends	1,000
	<u>\$96,200</u>	<u>\$96,200</u>

Balance Sheet

Income Statement

Schedule A – Provider Information

- Section A – Select one Type of Control only.

TYPE OF CONTROL (Select only one)

Nonprofit

1. Church Related
2. Private
3. Other (specify)

Proprietary

1. Individual
2. Partnership
3. Corporation

Governmental

1. State
2. Parish
3. City
4. City-Parish
5. Other (specify)

- Line 1 - Related Party Disclosure
 - Should include information regarding owners, relatives, and/or key personnel
 - For non-profit providers, this means listing officers/board of directors/key personnel and relatives who work for the program (see PRM, Chapter 10)
 - Job descriptions and detailed written documentation of time worked for the persons listed on Schedule B are required as supporting documentation
 - All columns should be completed

- Line 3 – Lease information
 - Disclose all building and vehicle leases
 - Disclose if related party
- Line 4 – All related party transactions should be reported
 - Central Office Allocations
 - Other transactions
 - Leases
 - Purchase of supplies
 - Purchase of services

- Lines 1 -3 – Only include employees that actually worked at the provider
- Line 4 – Select 4i if no benefits are provided

- Staffing pattern for each program
- Actual salary for each position
- Should agree to Schedule G salaries, column (a)
- Salaries should be reported on the accrual basis
- Hours per week should correspond to the salaries by line
 - Example: Direct care supervisors (2)
 - 2 employees that work 35 hours per week
 - Avg hours/week = 70

- June 30th balances from trial balance/general ledger
 - Accrual basis
- May present consolidated balance sheet
- Attached balance sheets are also acceptable
 - Must refer to Attachment on Schedule E

Schedule F – Income Statement

- Column (a) should agree to trial balance/ general ledger
 - Accrual basis
- Column (b) is used to report cost report adjustments
- Use lines 3a and 3b for Medicaid income received from State
- Specify grants and other client related income on Lines 6 and 7
- All income offset should be reported in column (b), not net in column (a)

- Other income is required to be offset against the related expenses
 - Adjustment on Schedule F should equal related adjustment on Schedule G
- Must specify Lines 19a through 19e
 - May submit an attachment to specify if 5 lines is not enough

- Choose programs you are participating in on Index Page
- Allocate expenses to each program (expenses should be charged directly to the program whenever possible)
- Indicate Units of services provided
 - Number of Units
 - Payee (Medicaid, Private Pay, Other)
 - Average Rate (calculated for reasonableness)

Program Services - Statistics

Program	DHH Department (OAAS or OCDD)	Unit Period (1/4hr, 1/2hr, etc.)	Multiple Services (Yes or No)	Number of Different Services With Different Rates
Community Choice Waiver / Elderly and Disabled Adult Waiver	OAAS	¼Hr, Monthly, Service	Yes	22
Long Term Personal Care Service	OAAS	1/4Hr	No	1
Children's Choice Waiver	OCDD	Monthly, ¼Hr	Yes	6
Supports Waiver	OCDD	1Hr +, 5Hr +, 6Hr +	Yes	15
New Opportunities Waiver	OCDD	Item, Day, Night	Yes	31
Residential Options Waiver	OCDD	Item, Day, ½Day, ¼Hr	Yes	44

- Column (a) should agree to trial balance/
general ledger
 - Accrual basis
 - Report all costs even if non-allowable
- Column (b) is used to report adjustments
 - Software will post these from Schedule J
- Must specify all other and miscellaneous
accounts

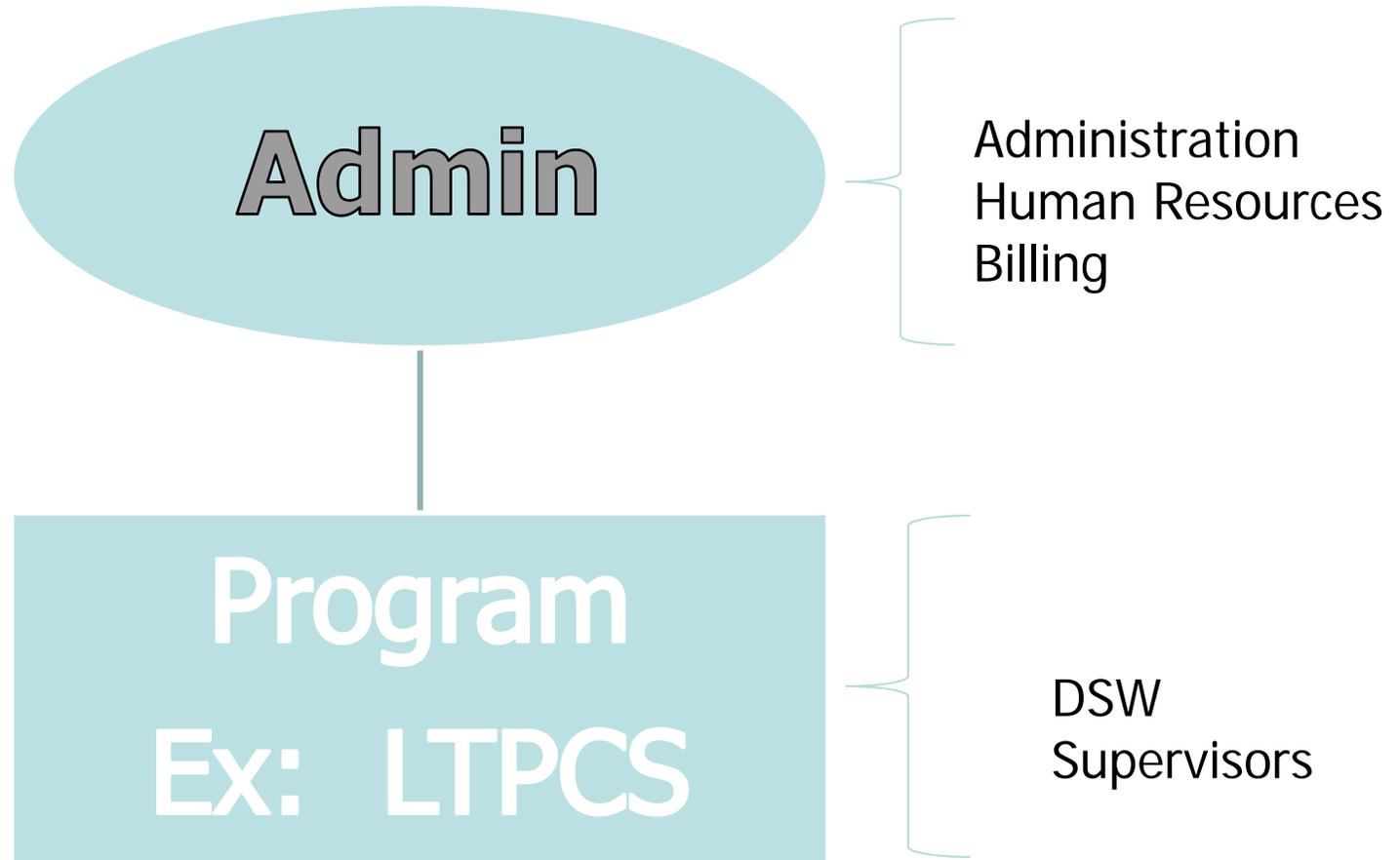
- Part A – Direct Care
- Part B – Care Related
- Part C – Administrative and Operating
- Part D – Capital

- Part A – Direct Care costs
 - Medical
 - Therapeutic
 - Shared costs – 3 lines, in case of multiple central offices

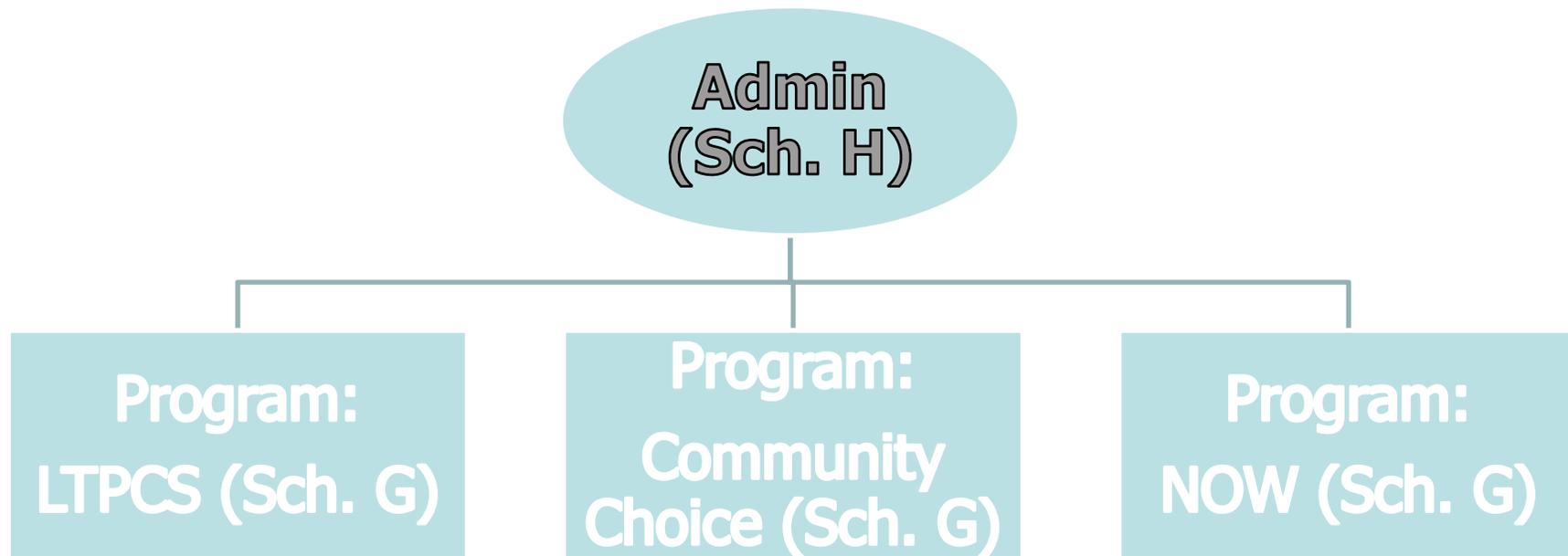
- Part B – Care Related costs
 - Dietary costs
 - Activities director
 - Personal client needs
 - Consultant Fees
 - Shared costs – 3 lines, in case of multiple central offices

- Part C – Administrative & Operating
 - Administrative
 - Plant Maintenance
 - Laundry
 - Housekeeping
 - Shared costs – 3 lines, in case of multiple central offices

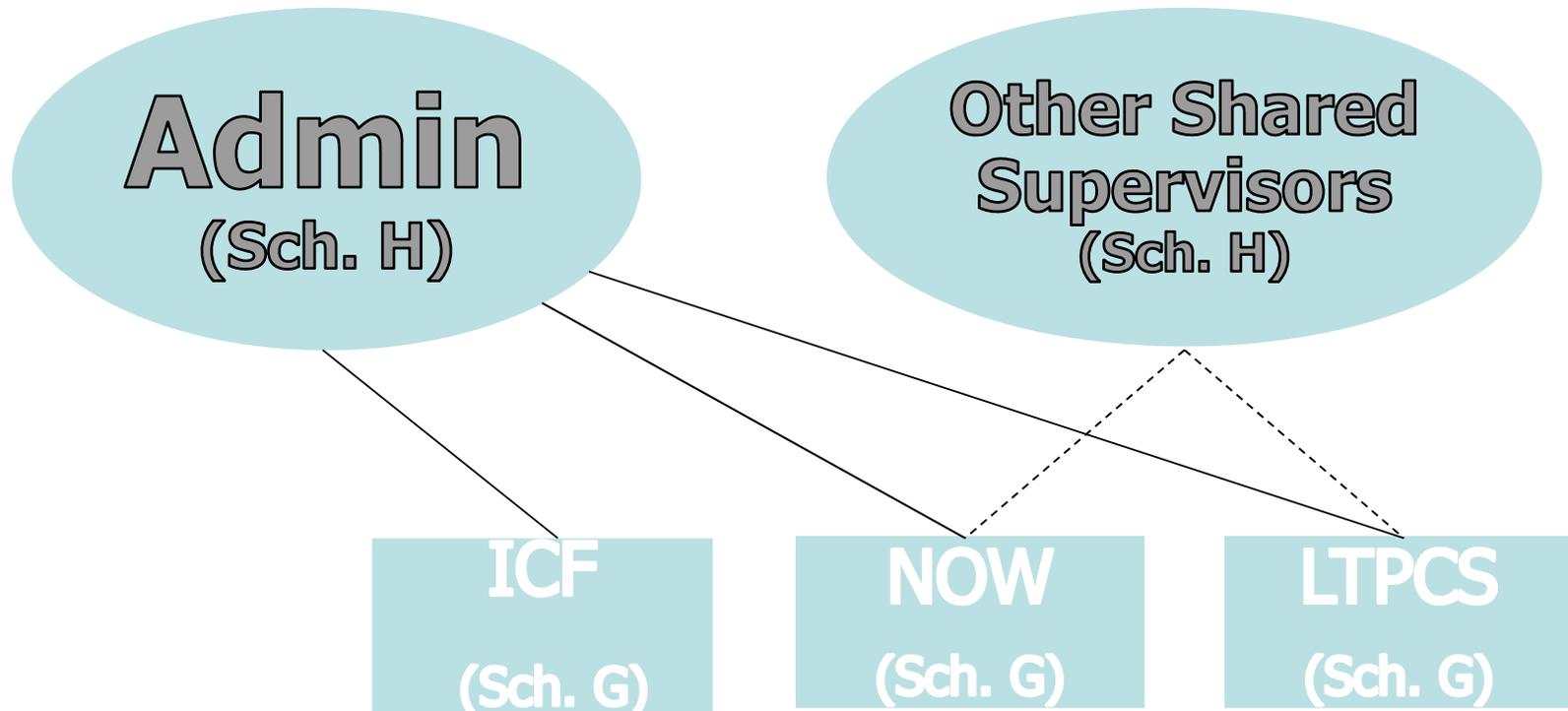
- Part D – Capital Costs
 - Depreciation
 - Interest
 - Leases
 - Property insurance
 - Motor vehicle insurance
 - Property taxes
 - Shared costs – 3 lines, in case of multiple central offices



No Allocation Needed – All cost reported on LT-PCS - Schedule H not needed



Allocation Of Central Office Expenses Required



Allocation made based on Costs

Central Office Allocation Based on Costs

Vendor Number	Facility/Program Name	Allocation Basis (cost or units)	Allocation %	Direct Care Allocation Amount	Care Related Allocation Amount	Admin & Operating Allocation Amount	Capital Assets Allocation Amount
99996	ABC Provider – PCS	350,000	34.15%	17,073	10,244	34,146	3,415
99997	ABC Provider – CC	275,000	26.83%	13,415	8,049	26,829	2,683
99998	ABC Provider – NOW	400,000	39.02%	19,512	11,707	39,025	3,902
	Total	1,025,000	100.00%	50,000	30,000	100,000	10,000

Note: Allocation Basis: Costs per Program Trial Balances

Schedule H – Central Office Expenses

- Include all cost associated with the central office and overhead.

- Central Office Allocation
 - Should include all programs managed by the central office/shared cost center
 - Vendor number not required for non-Medicaid programs
 - Not only programs on the HCBS Cost Report
 - Direct program costs should be used as the basis to allocate central office costs to each program

- If provider created allocation schedule is submitted in lieu of Schedule I, the provider schedule must include all of the same elements as Schedule I
 - Units or costs used as the basis
 - Percentage calculation
 - Calculation of amounts by Parts A, B, C and D
- Do not allocate by line item – allocate total central office costs

- An agency or group may need to file multiple central office/shared costs cost reports in order to properly allocate shared costs
 - Depends on use of resources and org structure
 - Two examples:
 - Regional - The central office may provide services to all programs run by an agency but the regional office may only provide services to a subset of program in a certain geographical region
 - Functional - The central office is comprised of certain units that provide services to only a subset of programs
 - Executive office, accounting, HR – all programs
 - Nursing administration – only ICF facilities
 - Waiver administration – only waiver programs

- Other items may require functional allocation
 - Interest expense
 - Interest income offset

- Adjustment to Schedules F and G should be reported on Schedule J
- Explanation should be in enough detail to describe the reason for the adjustment
 - Example (be specific):
 - To adjust administrator salary to the DHH limit

- Must be signed by authorized provider representative
- Signed and dated hard copy of this schedule must be submitted with the excel version
- Check figures on hard copy must agree to electronic file submitted

- Required attachments to the cost report
 - Must be submitted before the cost report is considered filed
 - Mail hard copies to DHH or scan and email to DHH
 - Copies must be legible
 - Highlighted or color documents often appear “blacked out” on black & white copies or scanned documents

- Signed and dated certification page
- Working trial balance that agrees to line items reported on the cost report
- Depreciation schedule that agrees to Lines 2a through 2d on Schedule G, Part D
 - Depreciation Schedule must be segregated by program.
- Leases and loan agreements, if applicable, and related amortization schedules

- Provider Reimbursement Manual (PRM) – HIM-15
- Allowable cost
 - Reasonable
 - Expectation is that the provider seeks to minimize costs
 - Costs do not exceed what a prudent and cost conscious buyer would pay
 - Related to client care
 - Necessary and Proper
 - Costs to develop and maintain the operation of client care program and activities
 - Costs which are common and accepted occurrences in field

- Generally accepted accounting principles (GAAP) are required (i.e., accrual basis of accounting)
 - Information sources are general ledger/financial statements and Service Unit records

- Non allowable costs
 - taxes (income, franchise, taxes related to financing and certain other taxes)
 - bad debts
 - appraisal costs
 - collection costs
 - capital expenditures
 - directors fees (expenses may be reimbursed)

- Non allowable costs, continued
 - fines, penalties and judgments or settlements of any kind
 - payments made as gifts, etc. to parent organization
 - any cost not related to client care
 - any expense reimbursed by another program
 - vending machine expenses
 - gifts, flower and coffee shop expenses
 - donations/contributions of any nature

- Other costs (Allowable and Non allowable)
 - advertising is not allowable except for:
 - Employee recruiting or to solicit bids
 - Yellow pages excluding promotional ads
 - Limited to 1" by 1" size
 - interest is allowable if it is:
 - necessary for the operation of the program & reasonably related to client care
 - proper - reasonable rate
 - interest should be reduced by interest income
 - related party interest is limited to underlying cost incurred by related party

- Other costs (Allowable and Non allowable)
 - interest is not allowable if it is related to:
 - Unnecessary borrowing – PRM Section 202.2
 - Financial need
 - Transfer of excess cash to other entities
 - Significant related party receivables/non-allowable assets

- Other costs (Allowable and Non allowable)
 - Attorney's fees are allowable only if costs are directly related to client care and not related to litigation
 - Retainers are not allowable
 - Depreciation is allowable under the following rules:
 - straight-line only
 - must capitalize all items with a cost of \$5000 and a useful life of at least two years

- Other costs (Allowable and Non allowable) (cont'd)
 - Salary is allowable if supported by written documentation
 - Up to limits (see DHH letter)
 - DHH limits also apply to all central office as well as all owners
 - In-kind contributions
 - Value of volunteer services
 - Value of donated equipment, buildings

- Other costs (Allowable and Non allowable)
 - Related party
 - Owner's salary
 - See later slide
 - Salaries of other related parties
 - Must meet the same standards discussed on the later slide
 - Rent/lease expense
 - Allowable to the extent of the underlying cost to the related party. Costs should be properly classified (i.e., depreciation should be reported on the depreciation line, interest on the interest line of the cost report, etc.)

- Other costs (Allowable and Non allowable)
 - Related party
 - Management fees
 - Related party management fees must be supported by a Medicaid cost report filed by the related party management company, accompanied by an allocation schedule. All related party management companies are subject to a Medicaid audit.
 - Interest
 - Related party interest is allowable to the extent of underlying interest expense incurred by the related party, and is subject to the rules regarding allowability of interest expense outlined previously.
 - Other

Owner's Compensation

- The Medicare Provider Reimbursement Manual (HIM-15), Chapter 9 addresses compensation of owners. The following briefly summarizes some HIM-15 principles for owner's compensation:
 - Owner's compensation means the total benefit received by the owner including salary, amounts paid for the owner's benefit by the program, the cost of assets and services received from the program by the owner, and deferred compensation.
 - Reasonableness requires that the owner's compensation be such an amount as would ordinarily be paid for comparable services and must be supported by sufficient documentation such as job descriptions and time sheets to be verifiable and auditable.

Owner's Compensation (cont'd)

- Necessary requires that had the owner not furnished the services, the institution would have had to employ another person to perform the services.
- §904.2(D)(1) states, *"Presumably, where an owner performs services for several institutions, he spends less than full time with each institution. In such cases, allowable cost shall reflect an amount proportionate to a full-time basis."* Therefore, owners' compensation is limited to one full time equivalent position in the Louisiana Medical Assistance Program, no matter how many participating programs/entities the owner may have.
- In addition, owner's compensation is limited by DHH to the compensation of administrators.

- Summary
- Questions
 - Frequently Asked Questions:
<http://new.dhh.louisiana.gov/index.cfm/page/235>
 - For questions/clarification, email:
hcbcostreport@la.gov

HCBS Cost Report Glossary

Accrual Basis - An accounting method, which reports income when earned and expenses when incurred.

Administration and Operating Cost – Administrative, housekeeping, Laundry, maintenance and drivers costs.

Allocation – Assignment of indirect costs to a cost center (a job or task) with an approved method.
Example Methods: Total cost by program or units.

Amortization – The reduction of the value of an asset by prorating its cost over a period of years.

Balance Sheet – A statement of the assets, liabilities, and capital of a business or other organization at a particular point in time.

Capital Expenditures – Payments by a business for fixed assets, like buildings and equipment

Care Related Costs – Cost of dietary, activities director, personal client supplies and consultant fees.

Cash Basis – An accounting method that recognizes revenues and expenses at the time cash is actually received or paid out.

Central Office – The office that serves as the administrative center of a business that benefits more than one line of business.

CMS – Centers for Medicare and Medicaid Services; the federal funding agency

Consolidated – multiple related reporting entities combined into one large reporting entity.

Cost Report – An annual report that reflects costs, statistics and other provider information.

Deferred Compensation – An amount of income earned that is payable at a later date.

Depreciation – A reduction in the value of an asset with the passage of time, due in particular to wear and tear.

Direct Care Costs – Cost of medical and therapeutic services.

GAAP – Generally Accepted Accounting Principles as promulgated by the American Institute of CPAs.

General Ledger – A book of entries summarizing all of a company's financial transactions, through offsetting debit and credit accounts.

HIM-15 – Medicare Provider Reimbursement Manual - Provides guidance to providers participating in Programs.

Income Statement – A financial statement that reflects a company's income and expenses for a specific period.

MAPIL – Medical Assistance Program Integrity Law; rules that providers are required to follow.

M&S – Myers & Stauffer; provider of cost reporting software.

Modifiers – Variables that may be used to adjust cost for the rate setting process.

PRM – Provider Reimbursement Manual - Provides guidance to providers participating in Programs.

Property and Equipment Costs – Amortization, depreciation, mortgage, interest expense, property insurance, property tax and rent.

Related Party - Interaction between two parties, one of whom can exercise control or significant influence over the operating policies of the other.

Staffing Pattern – A listing of the staff positions of the provider and the corresponding salaries.

Statistics – Units of services provided

Trail Balance – A list of the debit and credit balances of accounts in a double-entry ledger at a given date.

Underlying Costs – The actual cost for the related party; i.e. actual depreciation and interest related to a building as opposed to rent charged by related party.

Useful Life – Period during which an asset or property is expected to be usable for the purpose it was acquired. It may or may not correspond with the item's actual physical life or economic life.