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MEDICARE AND COST REPORTING 101
(A “HIGH-LEVEL” REVIEW)

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CONTENTS

- The A, B, C and D's of the Medicare Program
- How it's funded
- Premiums and Medicare Beneficiary eligibility
- Cost report history / purpose of the report
- Hospital Medicare cost report layout
- Medicare cost report worksheets

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THE MEDICARE PROGRAM

- Established by Title XVIII (18) of the Social Security Act on July 1, 1966 (Happy 50th Birthday)
 - The reason most hospitals' cost reports show date certified as July 1, 1966
- Consists of 4 parts:
 - Part A, Hospital Insurance (inpatient hospital, SNF, some HHA services and hospice)
 - Part B, Medical Insurance (outpatient hospital, clinic services, some HHA services)
 - Part C, Medicare Advantage (MA) and
 - Part D, Prescription Drug Plan

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MEDICARE ELIGIBILITY CRITERIA

- Individuals **65 and older**, if you or your spouse worked at least 10 years in Medicare-covered employment – can receive Medicare even if not eligible for Social Security benefits
- Qualify under age 65 if:
 - Certain **disabled individuals** whom have received disability benefits from Social Security or the Railroad Retirement Board for 24 months
 - People of all ages with **ESRD** (end stage renal disease), which is permanent failure requiring dialysis or kidney transplant
 - Individuals with **Lou Gehrig's Disease**

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MEDICARE – PART A

- Part A covers inpatient hospital, skilled nursing facility, home health and hospice care.
 - Funded by tax of 2.9% of earnings paid by employers and employees (1.45% each), no income limit
 - *Single w/income >\$200k*
 - *Joint w/income >\$250k pay an additional 0.9% in Medicare taxes*
 - 2016 hospital deductible for “spell of illness” is \$1,288
 - 2016 co-pay is \$322/day for hospital days 61-90;
 - \$644 co-pay for lifetime reserve days; bene has total of 60 reserve days available if in hospital over 90 days

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MEDICARE – PART B

- Part B (Supplemental) is voluntary and “helps pay” physician, outpatient, home health and preventive services
 - Funded by general revenues (authorized by Congress) and bene premiums \$121.80/month in 2016 for those with income below \$85k (\$170k/couple), deducted from Social Security payments
 - Gradual increase in premium based on income; tops out at \$389.80 for incomes for individuals of \$214,000 and joint of \$428,000
 - Premiums cover 25% of “revenue”
 - Annual deductible of \$166 in 2016
 - Co-pay of 20% of Medicare payment
- No co-pay for home health

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MEDICARE – PARTS C & D

- Part C is known as Medicare Advantage
 - Beneficiary can enroll in private plan (HMO, PPO or private FFS)
 - Plans receive payment from Medicare to cover beneficiaries
 - Not separately financed
- Part D is the outpatient prescription drug plan
 - Launched in 2006
 - Funded by general revenues, bene premiums, and state payments (78% from general revenues)
 - Not to be confused with drugs dispensed in facility setting (i.e. hospital)

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MEDICARE IP CARE - REIMBURSEMENT

- Requires admission by a physician with expectation of overnight stay in a hospital bed
- Overnight observation is not an inpatient service
- Reimbursement is based on a predetermined Diagnostic Related Group (DRG) case rate, based on ICD-10 diagnoses assigned patient's case
- Additional reimbursement above DRG payment may be made on high \$ cases
 - Outlier is determined based on charges above threshold set by CMS, \$22,544 for FFY 2016. Formula determines additional reimbursement for outlier case

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MEDICARE OP CARE - REIMBURSEMENT

- Services are grouped into classifications that are clinically similar and require similar resources
- Grouping of services into Ambulatory Payment Classification (APC) based on the Current Procedural Terminology (CPT) services provided
- Each APC has a separate weighting that is also adjusted by the providers geographic wage index
- Provider may be paid for more than one APC per encounter, however, incremental APCs are paid at a discount
- APC rates and weightings are updated annually based on provider cost report data
- Patient is responsible for a co-pay of the APC

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CMS COST REPORTING FORMS

- **CMS 2552-10 Hospital (PPS and CAH facilities)**
- CMS 2540-96 Skilled Nursing Facility
- CMS 1728-94 Home Health
- CMS 2088-92 (CORF)
- *CMS 222-92 RHC/FQHC (free standing)*
- CMS 216-94 Organ Procurement Org (OPO)
- CMS 265-94 Independent Renal Dialysis
- CMS 1984 -99 Hospice
- CMS 287-05 Home Office Cost Statement

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BRIEF HISTORY OF MEDICARE COST REPORTS

- 1966 – 1983 “Full” cost-based reimbursement
- 1984 – 2000 DRGs implemented for IP (OP cost-based reimbursed)
- 1997 – BBA enacted (*CAHs come into existence*)
- 2000 – APCs implemented – Hold Harmless payments needed to make providers whole
- 2008 – CMS modifies methodology for DRG weighting from “charge” to “cost” based

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PURPOSE OF MEDICARE COST REPORT

- Currently, the Medicare cost report is CMS' only standardized cost finding tool for Hospitals, SNFs, HHAs, etc.
- In lieu of "standard federal general ledger format," CMS believes cost report is reasonable / effective alternative

Three primary areas derived from cost report:

- Updated DRG & APC weights
- Market basket update for the CMS PPS
- Cost based reimbursement settlements

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HOSPITAL COST REPORT LAYOUT

Worksheet	Description / Purpose
S series	Hospital demographics, patient statistics, Wage Index survey
A	Operating Expenses
A-6	Reclassifications
A-7	Capital cost detail
A-8 series	Adjustments
B series	Allocation of overhead and capital costs
C	Patient care revenue
D series	Determination of Medicare's share of cost
E series	Settlements (DSH/UC, GME/IME, Medicare bad debts)
G series	"Financial Statements"
H & K	Home Health & Hospice
M	Provider-Based Rural Health Clinics

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WORKSHEET S SERIES

- Worksheet S-2 (Hospital Demographics)
- Worksheet S-3 part I (Patient Statistics)
- Worksheet S-3 part II, III and IV (Wage Index Survey)
- Worksheet S-4 (Home Health Statistics)
- Worksheet S-9 (Hospice Statistics)
- Worksheet S-10 (Uncompensated Care)

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WORKSHEET A

Cost Center Description		Salaries	Other
		1.00	2.00
GENERAL SERVICE COST CENTERS			
1.00	00100 CAP REL COSTS-BLDG & FIXT		0
2.00	00200 CAP REL COSTS-MVBLE EQUIP		0
3.00	00300 OTHER CAP REL COSTS		0
4.00	00400 EMPLOYEE BENEFITS DEPARTMENT	0	0
5.00	00500 ADMINISTRATIVE & GENERAL	0	0
6.00	00600 MAINTENANCE & REPAIRS	0	0
7.00	00700 OPERATION OF PLANT	0	0
8.00	00800 LAUNDRY & LINEN SERVICE	0	0
9.00	00900 HOUSEKEEPING	0	0
10.00	01000 DIETARY	0	0
11.00	01100 CAFETERIA	0	0
12.00	01200 MAINTENANCE OF PERSONNEL	0	0
13.00	01300 NURSING ADMINISTRATION	0	0
14.00	01400 CENTRAL SERVICES & SUPPLY	0	0
15.00	01500 PHARMACY	0	0
16.00	01600 MEDICAL RECORDS & LIBRARY	0	0
17.00	01700 SOCIAL SERVICE	0	0
18.00	01850 OTHER GENERAL SERVICE (SPECIFY)	0	0
19.00	01900 NONPHYSICIAN ANESTHETISTS	0	0
20.00	02000 NURSING SCHOOL	0	0
21.00	02100 I&R SERVICES-SALARY & FRINGES APPRVD	0	0
22.00	02200 I&R SERVICES-OTHER PRGM COSTS APPRVD	0	0
23.00	02300 PARAMED ED PRGM- (SPECIFY)	0	0
INPATIENT ROUTINE SERVICE COST CENTERS			
30.00	03000 ADULTS & PEDIATRICS	0	0
31.00	03100 INTENSIVE CARE UNIT	0	0
32.00	03200 CORONARY CARE UNIT	0	0
33.00	03300 BURN INTENSIVE CARE UNIT	0	0
34.00	03400 SURGICAL INTENSIVE CARE UNIT	0	0
40.00	04000 SUBPROVIDER - IPF	0	0
41.00	04100 SUBPROVIDER - IRF	0	0
42.00	04200 SUBPROVIDER	0	0
43.00	04300 NURSERY	0	0
44.00	04400 SKILLED NURSING FACILITY	0	0
45.00	04500 NURSING FACILITY	0	0
46.00	04600 OTHER LONG TERM CARE	0	0

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WORKSHEET A

ANCILLARY SERVICE COST CENTERS				
50.00	D5000	OPERATING ROOM	0	0
51.00	D5100	RECOVERY ROOM	0	0
52.00	D5200	DELIVERY ROOM & LABOR ROOM	0	0
53.00	D5300	ANESTHESIOLOGY	0	0
54.00	D5400	RADIOLOGY-DIAGNOSTIC	0	0
55.00	D5500	RADIOLOGY-THERAPEUTIC	0	0
56.00	D5600	RADIOISOTOPE	0	0
57.00	D5700	CT SCAN	0	0
58.00	D5800	MAGNETIC RESONANCE IMAGING (MRI)	0	0
59.00	D5900	CARDIAC CATHETERIZATION	0	0
60.00	D6000	LABORATORY	0	0
60.01	D6001	BLOOD LABORATORY	0	0
61.00	D6100	PBP CLINICAL LAB SERVICES-PRGM ONLY	0	0
62.00	D6200	WHOLE BLOOD & PACKED RED BLOOD CELLS	0	0
63.00	D6300	BLOOD STORING, PROCESSING & TRANS.	0	0
64.00	D6400	INTRAVENOUS THERAPY	0	0
65.00	D6500	RESPIRATORY THERAPY	0	0
66.00	D6600	PHYSICAL THERAPY	0	0
67.00	D6700	OCCUPATIONAL THERAPY	0	0
68.00	D6800	SPEECH PATHOLOGY	0	0
69.00	D6900	ELECTROCARDIOLOGY	0	0
70.00	D7000	ELECTROENCEPHALOGRAPHY	0	0
71.00	D7100	MEDICAL SUPPLIES CHARGED TO PATIENTS	0	0
72.00	D7200	IMPL. DEV. CHARGED TO PATIENTS	0	0
73.00	D7300	DRUGS CHARGED TO PATIENTS	0	0
74.00	D7400	RENAL DIALYSIS	0	0
75.00	D7500	ASC (NON-DISTINCT PART)	0	0
OUTPATIENT SERVICE COST CENTERS			0	0
88.00	D8800	RURAL HEALTH CLINIC	0	0
89.00	D8900	FEDERALLY QUALIFIED HEALTH CENTER	0	0
90.00	D9000	CLINIC	0	0
91.00	D9100	EMERGENCY	0	0
92.00	D9200	OBSERVATION BEDS (NON-DISTINCT PART)	0	0

WORKSHEET A-6 (RECLASS OF EXPENSES)

- Examples of Reclassifications:
 - Medical supplies charged to patients
 - Interest expense to capital cost centers
 - Drug costs
 - Nursery or labor/delivery costs
 - Cafeteria costs

WORKSHEET A-7 (CAPITAL COSTS)

- Purpose:
 - Fixed Asset Rollforward
 - Breakdown of capital costs
 - Depreciation
 - Leases
 - Interest
 - Insurance
 - Other
 - Often overlooked worksheet – Affects capital PPS rate setting

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WORKSHEET A-8 (ADJUSTMENTS)

- Worksheet used to add and/or offset expenses from the cost report
- Examples of adjustments:
 - Medicare Part B related costs (worksheet A-8-2)
 - Related party activity (worksheet A-8-1)
 - Cafeteria revenue
 - Interest revenue
 - Patient related finance charges

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WORKSHEET B SERIES

Cost Center Description	Net Expenses For Cost Allocation (From Wkst A col. 7)	CAPITAL RELATED COSTS		EMPLOYEE BENEFITS DEPARTMENT
		BLDG & FIXT	MBLE EQUIP	
	0	1.00	2.00	4.00
GENERAL SERVICE COST CENTERS				
1.00 00100 CAP REL COSTS-BLDG & FIXT	0	0	0	0
2.00 00200 CAP REL COSTS-MVBLE EQUIP	0	0	0	0
4.00 00400 EMPLOYEE BENEFITS DEPARTMENT	0	0	0	0
5.00 00500 ADMINISTRATIVE & GENERAL	0	0	0	0
6.00 00600 MAINTENANCE & REPAIRS	0	0	0	0
7.00 00700 OPERATION OF PLANT	0	0	0	0
8.00 00800 LAUNDRY & LINEN SERVICE	0	0	0	0
9.00 00900 HOUSEKEEPING	0	0	0	0
10.00 01000 DIETARY	0	0	0	0
11.00 01100 CAFETERIA	0	0	0	0
12.00 01200 MAINTENANCE OF PERSONNEL	0	0	0	0
13.00 01300 NURSING ADMINISTRATION	0	0	0	0
14.00 01400 CENTRAL SERVICES & SUPPLY	0	0	0	0
15.00 01500 PHARMACY	0	0	0	0
16.00 01600 MEDICAL RECORDS & LIBRARY	0	0	0	0
17.00 01700 SOCIAL SERVICE	0	0	0	0
18.00 01850 OTHER GENERAL SERVICE (SPECIFY)	0	0	0	0
19.00 01900 NONPHYSICIAN ANESTHETISTS	0	0	0	0
20.00 02000 NURSING SCHOOL	0	0	0	0
21.00 02100 I&R SERVICES-SALARY & FRINGES APPRVD	0	0	0	0
22.00 02200 I&R SERVICES-OTHER PRGM COSTS APPRVD	0	0	0	0
23.00 02300 PARAMED ED PRGM-(SPECIFY)	0	0	0	0

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WORKSHEET C (MATCHING PRINCIPLE)

ANCILLARY SERVICE COST CENTERS						
50.00	05000	OPERATING ROOM	0	0	0	0.000000
51.00	05100	RECOVERY ROOM	0	0	0	0.000000
52.00	05200	DELIVERY ROOM & LABOR ROOM	0	0	0	0.000000
53.00	05300	ANESTHESIOLOGY	0	0	0	0.000000
54.00	05400	RADIOLOGY-DIAGNOSTIC	0	0	0	0.000000
55.00	05500	RADIOLOGY-THERAPEUTIC	0	0	0	0.000000
56.00	05600	RADIOISOTOPE	0	0	0	0.000000
57.00	05700	CT SCAN	0	0	0	0.000000
58.00	05800	MAGNETIC RESONANCE IMAGING (MRI)	0	0	0	0.000000
59.00	05900	CARDIAC CATHETERIZATION	0	0	0	0.000000
60.00	06000	LABORATORY	0	0	0	0.000000
60.01	06001	BLOOD LABORATORY	0	0	0	0.000000
61.00	06100	PBP CLINICAL LAB SERVICES-PRGM ONLY	0	0	0	0.000000
62.00	06200	WHOLE BLOOD & PACKED RED BLOOD CELLS	0	0	0	0.000000
63.00	06300	BLOOD STORING, PROCESSING & TRANS.	0	0	0	0.000000
64.00	06400	INTRAVENOUS THERAPY	0	0	0	0.000000
65.00	06500	RESPIRATORY THERAPY	0	0	0	0.000000
66.00	06600	PHYSICAL THERAPY	0	0	0	0.000000
67.00	06700	OCCUPATIONAL THERAPY	0	0	0	0.000000
68.00	06800	SPEECH PATHOLOGY	0	0	0	0.000000
69.00	06900	ELECTROCARDIOLOGY	0	0	0	0.000000
70.00	07000	ELECTROENCEPHALOGRAPHY	0	0	0	0.000000
71.00	07100	MEDICAL SUPPLIES CHARGED TO PATIENTS	0	0	0	0.000000
72.00	07200	IMPL. DEV. CHARGED TO PATIENTS	0	0	0	0.000000
73.00	07300	DRUGS CHARGED TO PATIENTS	0	0	0	0.000000
74.00	07400	RENAL DIALYSIS	0	0	0	0.000000
75.00	07500	ASC (NON-DISTINCT PART)	0	0	0	0.000000
OUTPATIENT SERVICE COST CENTERS						
88.00	08800	RURAL HEALTH CLINIC	0	0	0	0.000000
89.00	08900	FEDERALLY QUALIFIED HEALTH CENTER	0	0	0	0.000000
90.00	09000	CLINIC	0	0	0	0.000000
91.00	09100	EMERGENCY	0	0	0	0.000000
92.00	09200	OBSERVATION BEDS (NON-DISTINCT PART)	0	0	0	0.000000

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WORKSHEET D SERIES (D-3)

Cost Center Description	Ratio of Cost	Inpatient
	To Charges	Program
	1.00	2.00
INPATIENT ROUTINE SERVICE COST CENTERS		
30.00 03000 ADULTS & PEDIATRICS		0
31.00 03100 INTENSIVE CARE UNIT		0
32.00 03200 CORONARY CARE UNIT		0
33.00 03300 BURN INTENSIVE CARE UNIT		0
34.00 03400 SURGICAL INTENSIVE CARE UNIT		0
40.00 04000 SUBPROVIDER - IPF		0
41.00 04100 SUBPROVIDER - IRF		0
42.00 04200 SUBPROVIDER		0
43.00 04300 NURSERY		0
ANCILLARY SERVICE COST CENTERS		
50.00 05000 OPERATING ROOM	0.000000	0
51.00 05100 RECOVERY ROOM	0.000000	0
52.00 05200 DELIVERY ROOM & LABOR ROOM	0.000000	0
53.00 05300 ANESTHESIOLOGY	0.000000	0
54.00 05400 RADIOLOGY-DIAGNOSTIC	0.000000	0
55.00 05500 RADIOLOGY-THERAPEUTIC	0.000000	0
56.00 05600 RADIOISOTOPE	0.000000	0
57.00 05700 CT SCAN	0.000000	0
58.00 05800 MAGNETIC RESONANCE IMAGING (MRI)	0.000000	0
59.00 05900 CARDIAC CATHETERIZATION	0.000000	0
60.00 06000 LABORATORY	0.000000	0
60.01 06001 BLOOD LABORATORY	0.000000	0
61.00 06100 FBP CLINICAL LAB SERVICES-PRGM ONLY	0.000000	0
62.00 06200 WHOLE BLOOD & PACKED RED BLOOD CELLS	0.000000	0
63.00 06300 BLOOD STORING, PROCESSING & TRANS.	0.000000	0
64.00 06400 INTRAVENOUS THERAPY	0.000000	0
65.00 06500 RESPIRATORY THERAPY	0.000000	0
66.00 06600 PHYSICAL THERAPY	0.000000	0
67.00 06700 OCCUPATIONAL THERAPY	0.000000	0
68.00 06800 SPEECH PATHOLOGY	0.000000	0
69.00 06900 ELECTROCARDIOLOGY	0.000000	0
70.00 07000 ELECTROENCEPHALOGRAPHY	0.000000	0
71.00 07100 MEDICAL SUPPLIES CHARGED TO PATIENTS	0.000000	0
72.00 07200 IMPL. DEV. CHARGED TO PATIENTS	0.000000	0
73.00 07300 DRUGS CHARGED TO PATIENTS	0.000000	0
74.00 07400 RENAL DIALYSIS	0.000000	0
75.00 07500 ASC (NON-DISTINCT PART)	0.000000	0

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WORKSHEET D SERIES (D PART V)

Cost Center Description	Cost to Charge Ratio From Worksheet C, Part I, col. 9	Charges			
		PPS Reimbursed Services (see Inst.)	Cost Reimbursed Services Subject To Ded. & Coins. (see Inst.)	Cost Reimbursed Services Not Subject To Ded. & Coins. (see Inst.)	
	1.00	2.00	3.00	4.00	
ANCILLARY SERVICE COST CENTERS					
50.00 05000 OPERATING ROOM	0.000000	0	0	0	0
51.00 05100 RECOVERY ROOM	0.000000	0	0	0	0
52.00 05200 DELIVERY ROOM & LABOR ROOM	0.000000	0	0	0	0
53.00 05300 ANESTHESIOLOGY	0.000000	0	0	0	0
54.00 05400 RADIOLOGY-DIAGNOSTIC	0.000000	0	0	0	0
55.00 05500 RADIOLOGY-THERAPEUTIC	0.000000	0	0	0	0
56.00 05600 RADIOISOTOPE	0.000000	0	0	0	0
57.00 05700 CT SCAN	0.000000	0	0	0	0
58.00 05800 MAGNETIC RESONANCE IMAGING (MRI)	0.000000	0	0	0	0
59.00 05900 CARDIAC CATHETERIZATION	0.000000	0	0	0	0
60.00 06000 LABORATORY	0.000000	0	0	0	0
60.01 06001 BLOOD LABORATORY	0.000000	0	0	0	0
61.00 06100 FBP CLINICAL LAB SERVICES-PRGM ONLY	0.000000	0	0	0	0
62.00 06200 WHOLE BLOOD & PACKED RED BLOOD CELLS	0.000000	0	0	0	0
63.00 06300 BLOOD STORING, PROCESSING & TRANS.	0.000000	0	0	0	0
64.00 06400 INTRAVENOUS THERAPY	0.000000	0	0	0	0
65.00 06500 RESPIRATORY THERAPY	0.000000	0	0	0	0
66.00 06600 PHYSICAL THERAPY	0.000000	0	0	0	0
67.00 06700 OCCUPATIONAL THERAPY	0.000000	0	0	0	0
68.00 06800 SPEECH PATHOLOGY	0.000000	0	0	0	0
69.00 06900 ELECTROCARDIOLOGY	0.000000	0	0	0	0
70.00 07000 ELECTROENCEPHALOGRAPHY	0.000000	0	0	0	0
71.00 07100 MEDICAL SUPPLIES CHARGED TO PATIENTS	0.000000	0	0	0	0
72.00 07200 IMPL. DEV. CHARGED TO PATIENTS	0.000000	0	0	0	0
73.00 07300 DRUGS CHARGED TO PATIENTS	0.000000	0	0	0	0
74.00 07400 RENAL DIALYSIS	0.000000	0	0	0	0
75.00 07500 ASC (NON-DISTINCT PART)	0.000000	0	0	0	0

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WORKSHEET E SERIES (SETTLEMENTS)

- E part A - PPS
 - Capital
 - IME/GME
 - DSH/UC
 - Low volume adjustments (if applicable)
 - Quality related adjustments
 - Medicare bad debts
 - Sequestration
- E part B – PPS
 - GME
 - Medicare bad debts
 - Sequestration

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WORKSHEET E SERIES (SETTLEMENTS)

- E-3 Part V – CAH Inpatient Services
 - Settlement of inpatient cost + 1%
 - Medicare bad debts
 - Sequestration
- E part B – CAH Outpatient Services
 - Settlement of outpatient cost + 1%
 - Medicare bad debts
 - Sequestration
- E-2– CAH Swing Bed Services
 - Settlement of swing bed cost + 1%
 - Medicare bad debts
 - Sequestration

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WORKSHEET G SERIES

- Worksheet G – Balance Sheet
- Worksheet G-1 – Equity Rollforward
- Worksheet G-2 – Gross Revenue Detail
 - Detail can be important part of rate setting in certain states
- Worksheet G-3 – Income Statement

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WORKSHEET H & K

- Worksheet H – Home Health
 - Often overlooked worksheets
 - Patient detail must correlated to worksheet S-4
 - Used by CMS for rate setting & other adjustments
- Worksheet K – Hospice
 - Often overlooked worksheets
 - Patient detail must correlated to worksheet S-9
 - Used by CMS for rate setting & other adjustments

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WORKSHEET M

- **Provider-based Rural Health Clinics**
 - Significant detail required
 - Measures productivity of providers to CMS thresholds
 - Vaccination information key to cost based reimbursement
 - Physician related activity allowed (i.e. recruiting, compensation)
 - Offsets required if physicians round in the hospital
 - Cost based settlement can create issues if PFS is not charging appropriately
 - Medicare bad debts in RHCs often overlooked

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Questions?

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Thank you!

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