

Cost Report Changes to Improve Accuracy of “Cost-Based” DRG Weights

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Presentation Overview

- Background
- Issues
- Guidance
- Suggested Topics for next Roundtable

Background

- August 18, 2006: CMS publishes final rule for IPPS “cost-based” DRG weights
- Modifies previous DRG weighting system which used only hospital charges
- CMS attempts to create DRG weights to more accurately reflect “relative resource use” by DRG

Background

- Three-year transition: blend of charge-based and cost-based DRG weight methods for first two years
- Two data sources used to develop hybrid system:
 - MedPAR files (hospital specific Medicare claims)
 - Hospital Medicare Cost Reports
- Major financial impact for some acute care hospitals-positive and negative

Background

- Cost report lines grouped into 13 categories and reduced to cost using national cost-to-charge ratios for each category.
 - Calculated for each DRG.
1. Routine
 2. Intensive
 3. Drugs
 4. Supplies/equipment
 5. Therapy services
 6. Inhalation therapy
 7. Operating room
 8. Labor & delivery
 9. Anesthesia
 10. Cardiology
 11. Laboratory
 12. Radiology
 13. Other

Background

- Final Rule Inpatient Hospital Rule for Fiscal Year 2008 expanded cost report line groupings into 15 categories.
- Two additional groupings are “Emergency Room and Blood and Blood Products.”

Background

- Final Rule Inpatient Hospital Rule for Fiscal Year 2008 changed classifications of two cost centers.
 - EEG moved from Cardiology Category to Laboratory Category (Consistent with MedPAR Category)
 - Radioisotope moved from Other Category to Radiology Services.

Background

- Cost-based weight methodology concerns:
 - MedPAR data groups do not match cost report 13* categories of Medicare charges.
 - Hospitals group charges and costs in different departments and different lines for various reasons.
 - CMS allows hospitals to report Medicare charges on cost reports three different ways.
 - The 13* CMS category groups may not yield the most appropriate cost-to-charge ratio for each cost category resulting in “charge compression”.

Background

- Identified methodology problems:
 - Mismatched Medicare charges, Total Charges and Costs result in cost-to-charge ratios that may distort resulting DRG weights
 - Medicare cost reports were not designed to support cost estimation at the DRG level

Background

- Reporting of cost, total charges, and Medicare charges to allow for consistency with the 15 categories utilized in developing the DRG weights.
 - Initial focus on medical supplies category.
 - Hospitals should evaluate their current internal data capabilities for completing the cost report in a manner to achieve such consistency.

Issues

1. Hospitals are not consistent in the grouping of Medicare charges, total charges and total costs into departments on the Medicare cost report.
 - May result in a mismatch within the cost-charge ratio, or
 - May result in a mismatch between the cost-charge ratio and Medicare charges
2. A significant number of hospitals do not categorize Medicare charges, total charges and total costs on the cost report in the same manner as CMS categorizes Medicare charges in the MedPAR file

Issues

- Align Medicare charges on C/R Worksheet D-4, with overall cost and charges reported on Worksheets A and C
 - Using PS&R for department totals, then allocating based on hospital records.

Issues

- Medical supplies cost and charges represent the most significant problem area of mismatch
- Other departments, such as drugs and cardiac cath are also potential areas of concern

Issues

- Hospitals frequently include supply charges in different ancillary departments
 - Operating room, Emergency, ICU, etc.
- Supply charges are billed on the UB using revenue code 27X
- Medical supply charges may be mapped on the Medicare C/R to line 55 or allocated to various departments where the supplies are used

Issues

- Charges with the 27X revenue code should be reported on line 55
- Although most hospitals have the ability to report charges by revenue summary code, some hospitals may need to create special reports from their revenue management systems

Issues

- Hospitals are being asked to report all separately billable medical supplies on line 55 of the cost report – Medicare charges, total charges and costs
- If the costs cannot be determined within the hospital's accounting system, it should be done through an A-6 reclassification
- Such a reclassification may require the use of revenue department mark-up formulas that were used to establish charges for each cost item

Example # 1

UNDERSTATED SUPPLY CCR				
	Cost	Charges	RCC	Medicare Total Cost
Worksheet C				
OR	12,000,000	22,000,000	0.545455	
OR Billable Supplies	1,500,000	2,000,000	0.750000	
Total OR - Line 37	13,500,000	24,000,000	0.562500	
Supplies - Line 55				
	2,000,000	7,500,000	0.026667	
Worksheet D's				
274 Prosht/Ortho Dev		100,000	0.562500	56,250
275 Pace Maker		270,000	0.562500	151,875
276 Intr Ocul Lens		30,000	0.562500	16,875
278 Other Implants		200,000	0.562500	112,500
360 Oper Room - Gen		3,400,000	0.562500	1,912,500
490 ASC Gen		1,200,000	0.562500	675,000
710 Recovery Rm Gen		1,020,000	0.562500	573,750
Total OR - Line 37		6,220,000		3,498,750
270 Med surg sup - Gen'l		300,000	0.266667	80,000
217 Non Sterile Supps		700,000	0.266667	186,667
272 Med surg supplies		900,000	0.266667	240,000
Supplies - Line 55		1,900,000		506,667
Summary				
Total OR	13,500,000	24,000,000	0.562500	3,498,750
Total Supplies	2,000,000	7,500,000	0.266667	506,667
	15,500,000	31,500,000	0.492063	4,005,417

Example # 2

UNDERSTATED SUPPLY CCR				
	Cost	Charges	RCC	Medicare Total Cost
Worksheet C				
OR	12,000,000	22,000,000	0.545455	
OR Billable Supplies	1,500,000	2,000,000	0.750000	
Total OR - Line 37	13,500,000	24,000,000	0.562500	
Supplies - Line 55				
	2,000,000	7,500,000	0.026667	
Worksheet D's				
360 Oper Room - Gen		3,400,000	0.562500	1,912,500
490 ASC Gen		1,200,000	0.562500	675,000
710 Recovery Rm Gen		1,020,000	0.562500	573,750
Total OR - Line 37		5,620,000		3,161,250
270 Med surg sup - Gen'l		300,000	0.266667	80,000
217 Non Sterile Supps		700,000	0.266667	186,667
272 Med surg supplies		900,000	0.266667	240,000
274 Prosht/Ortho Dev		100,000	0.266667	26,667
275 Pace Maker		270,000	0.266667	72,000
276 Intr Ocul Lens		30,000	0.266667	8,000
278 Other Implants		200,000	0.266667	53,333
Supplies - Line 55		2,500,000		666,667
Summary				
Total OR	13,500,000	24,000,000	0.562500	3,161,250
Total Supplies	2,000,000	7,500,000	0.266667	666,667
	15,500,000	31,500,000	0.492063	3,827,917

Example # 3

ACCURATE SUPPLY CCR, MATCHED CCR AND CHARGES				
	Cost	Charges	RCC	Medicare Total Cost
Worksheet C				
Total OR - Line 37	12,000,000	22,000,000	0.545455	
Supplies	2,000,000	7,500,000	0.266667	
OR Billable Supplies	1,500,000	2,000,000	0.750000	
Supplies - Line 55	3,500,000	9,500,000	0.368421	
Worksheet D's				
360 Oper Room - Gen		3,400,000	0.562500	1,854,545
490 ASC Gen		1,200,000	0.562500	654,545
710 Recovery Rm Gen		1,020,000	0.562500	556,364
Total OR - Line 37		5,620,000		3,065,454
270 Med surg sup - Gen'l		300,000	0.266667	110,526
271 Non Sterile Supps		700,000	0.266667	257,895
272 Med surg supplies		900,000	0.266667	331,579
274 Prosht/Ortho Dev		100,000	0.266667	36,842
275 Pace Maker		270,000	0.266667	99,474
276 Intr Ocul Lens		30,000	0.266667	11,053
278 Other Implants		200,000	0.266667	73,684
Supplies - Line 55		2,500,000		921,053
Summary				
Total OR	12,000,000	22,000,000	0.545455	3,065,454
Total Supplies	3,500,000	9,500,000	0.368421	921,053
	15,500,000	31,500,000	0.492063	3,986,507

Guidance

- Cost reporting practices must continue to follow cost apportionment rules – PRM-1 Section 2203
 - Hospital charging practices need to result in an equitable basis for apportioning costs
 - Charge structure must be applied uniformly
 - The program will determine if the charges are allowable for use in apportioning costs
 - “Like” charges for “like” services must be maintained on the cost report

Guidance

- Hospitals should examine Medicare C/R filing methods and adopt the approach of classifying all separately billable medical supply charges to line 55 of the C/R
- Hospitals should also map all 27X revenue from the PS&R to only line 55 of the C/R
- Costs for *billable* medical supplies should also be reported on, or reclassified to line 55 if they have been mapped to C/R lines other than line 55

Guidance

- Adoption of the proposed approach is on a voluntary basis, but it is in the Provider's best interest to improve the accuracy and consistency of reporting for hospital Medical Supply costs and charges
- Hospitals should set up their accounting systems to allow their cost report to be completed as described
- If internal recordkeeping/accounting systems cannot be modified, hospitals should design an estimation approach for FI approval

Suggested Topics for Next Roundtable

- Medicare Bad Debt Write Offs
- Recovery Audit Contracts (RACs)
- Fair Value Financial Reporting (FASB 159)
- Health Safety Net Trust Fund Update