



TOYON ASSOCIATES, INC.

FOCUSED FINANCIAL RESULTS



PRICING UNIFORMITY REQUIREMENTS FOR COST REPORTING

PREPARED BY
RON KNAPP



§2203 Provider Charge Structure as Basis for Apportionment

To assure that Medicare's share of the provider's costs equitably reflects the costs of services received by Medicare beneficiaries, the intermediary, in determining reasonable cost reimbursement, evaluates the charging practice of the provider to ascertain whether it results in an equitable basis for apportioning costs.



§2203 Provider Charge Structure as Basis for Apportionment

So that its charges may be allowable for use in apportioning costs under the program, each facility should have an established charge structure **which is applied uniformly** to each patient as services are furnished to the patient and which is reasonably and consistently related to the cost of providing the services.



Cost Apportionment Example

	Charges w/ Differentials	Charges Same Price	Difference
<u>Ancillary Department</u>			
IP Charge	\$ 500	\$ 500	
OP Charge	\$ 250	\$ 500	
Total Charges	\$ 750	\$ 1,000	
IP % of Total	67%	50%	
OP % of Total	33%	50%	
Total	100%	100%	
Total Ancillary Costs	\$ 500	\$ 500	
Cost to Charge Ratio	66.67%	50.00%	
<u>Ancillary Costing</u>			
IP Costs	\$ 333	\$ 250	\$ 83
OP Costs	\$ 167	\$ 250	\$ (83)
Total	\$ 500	\$ 500	\$ -

Questions about §2203

1. Does this matter now ? YES.
2. Is the Fiscal Intermediary doing anything to ensure compliance of this Medicare manual provision? NO.
3. Is there any focus from the provider community to ensure that charge differentials are appropriately handled in the cost report?



Cost Reports Impact

1. Medicare Outlier Payments
2. DRG Weight Development
3. APC Rate Development
4. Transplant Programs
5. Critical Access Hospitals
6. Medi-Cal Non-contracting Hospitals
7. Medi-Cal Waiver Hospitals
8. Sole Community – Volume Adjustment



Pricing Analysis Information Needed

1. Patient Revenue & Usage Report (Procedures, Units of Service, Patient Types, Departments)
2. Charge Description Master
3. Medicare/Medi-Cal Filed Cost Report
4. Worksheet C Patient Revenue Grouping WP
5. Medicare PS&R Detail Report



Pricing Analysis Process

1. Reconcile Patient Revenue Report to Cost Report Revenues
2. Align Data as Needed to perform comparison of pricing by procedure.
3. Identify pricing differential by calculating average charge/unit or linking CDM pricing information.
4. Where differentials are identified, calculate normalize charges.

Pricing Analysis Process

5. Summarize charge differential changes and group to cost report line.
6. Prepare cost report simulation including the charge differential changes.
7. Prepare comparison of the overall IP Medicare CCRs from filed to simulated.
8. Assess materiality of the change to determine if further analysis is needed.
9. If material, recalculate Medicare Outlier payments using simulated CCRs.



Outlier Impact Example

	Pricer	Filed CR	Corr CR
Charges	700,000	700,000	700,000
Outlier Payment	73,088	67,344	62,860
CCR	20.60%	19.32%	18.67%
<u>Outlier Payment Change</u>			
Change vs Pricer		\$ (5,744)	\$ (10,228)
Change vs Filed CR			\$ (4,484)
<u>CCR Change</u>			
Change vs Pricer		-1.28%	-1.93%
Change vs Filed CR			-0.65%



PPS Pricer CCR Timeframe

Fiscal Year	12/31/2007	12/31/2008
<u>Cost Report CCR by Month:</u>		
January	2005	2006
February	2005	2006
March	2005	2006
April	2005	2006
May	2005	2006
June	2005	2006
July	2005	2006
August	2006	2007
September	2006	2007
October	2006	2007
November	2006	2007
December	2006	2007

IP Medicare Outlier Reconciliation

(CMS Pub. 100-04 Section 20.1.2.5)

Under 42 CFR Section 412.84(i)(4), for discharges occurring on or after August 8, 2003, high cost outlier payments may be reconciled upon cost report settlement to account for differences between CCR used to pay the claim at its original submission by the provider, and the CCR determined at final settlement of the cost reporting period during which the discharge occurred.

OP Medicare Outlier Reconciliation

(CMS Pub. 100-04 Section 10.7.2.1)

Under Section 419.43(d)(6)(i), for hospital outpatient services furnished during cost report periods beginning on or after January 1, 2009, OPPS high cost outlier payments may be reconciled upon cost report settlement to account for differences between the overall ancillary CCR used to pay the claim at its original submission by the provider, and the CCR determined at final settlement of the cost reporting period during which the service was furnished.

Outlier Reconciliation Threshold (IP & OP)

Subject to approval of the CMS central office and regional office...

1. The actual overall ancillary CCR is found to be plus or minus 10 percentage points or more from the CCR used during that time period to make outlier payments, and
2. Total (hospital) outlier payments in that cost report period exceed \$500,000.

Pricing Analysis Process

10. Meet with appropriate department personnel to determine rationale for pricing differentials.
11. If pricing differentials are justified, develop appropriate documentation and a narrative to included in the cost report workpaper file.
12. If pricing differentials are not justified, size up all filed and finalized cost reports.
13. Meet with the appropriate Compliance personnel at your hospital to determine an action plan.
14. Develop a plan for future cost report filing.

Most Common Departments w/ Differentials

- Laboratory
- Imaging (Radiology, CT Scan, MRI)
- Nuclear Medicine
- Physical therapy
- Operating Room
- EKG

QUESTIONS?



TOYON ASSOCIATES, INC.

Ron Knapp
Executive Vice President

Toyon Associates, Inc.
1800 Sutter St. Suite 600
Concord, CA 94520-2546
Phone: 925-685-9312
E-Mail: Ron.Knapp@Toyonassociates.com