How To | Accounting and Financial Reporting

EXPERT REVIEWED

A checklist for successful hospital cost reporting in the time of COVID-19

Jan 31, 2022

By K. Michael Nichols, FHFMA, CPA

The pandemic will have long-term impacts on the operations of hospitals and on their costs. Hospitals should also be mindful of how those impacts extend to their cost report data, especially for those fiscal periods occurring within the time frame of the public health emergency (PHE).

The impacts of pandemic-related cost reporting changes recorded in providers' cost reports will be pervasive, affecting nearly every aspect of the reported data. In particular, hospital leaders should make sure they understand how to report costs associated with the treatment of COVID-19 patients, costs associated with staffing and other challenges resulting from the pandemic, and costs associated with the various public health initiatives hospitals engaged in during the public health emergency (PHE). How these expenses are reported in hospitals' cost reports today may affect what those hospitals are paid tomorrow.

Hospitals typically use checklists to ensure they complete their cost reports thoroughly and compliantly. If the COVID-19 pandemic and the PHE have taught us anything, however, it's that change is inevitable, and it can introduce factors that challenge basic assumptions and raise new or different concerns.

The checklists presented in this article raise key questions prompted by COVID-19 that should be addressed at various points in the worksheets of a hospital cost report. More specifically, the first checklist presents entries from the 2552-10 cost reporting forms Worksheet S, and the second presents entries from Worksheets A through G. The individual responsible for signing the cost report should be made aware of these questions and be comfortable with the answers provided by the cost report preparers.

The utility of checklists

Use of checklists such as these can serve to boost the confidence of those approving their entities' cost reports, ensuring the reports were prepared and reviewed with appropriate diligence.

At the end of the day, the process of cost reporting is all about matching. It therefore is important for hospitals to address three overarching questions:

- Are the reported costs properly aligned with the related statistics and total charges?
- Do the costs, charges and statistics reflect the actual activity within the same cost reporting period?
- Are the program charges properly aligned with the total charges so the cost report can be used to apportion costs to the Medicare program?

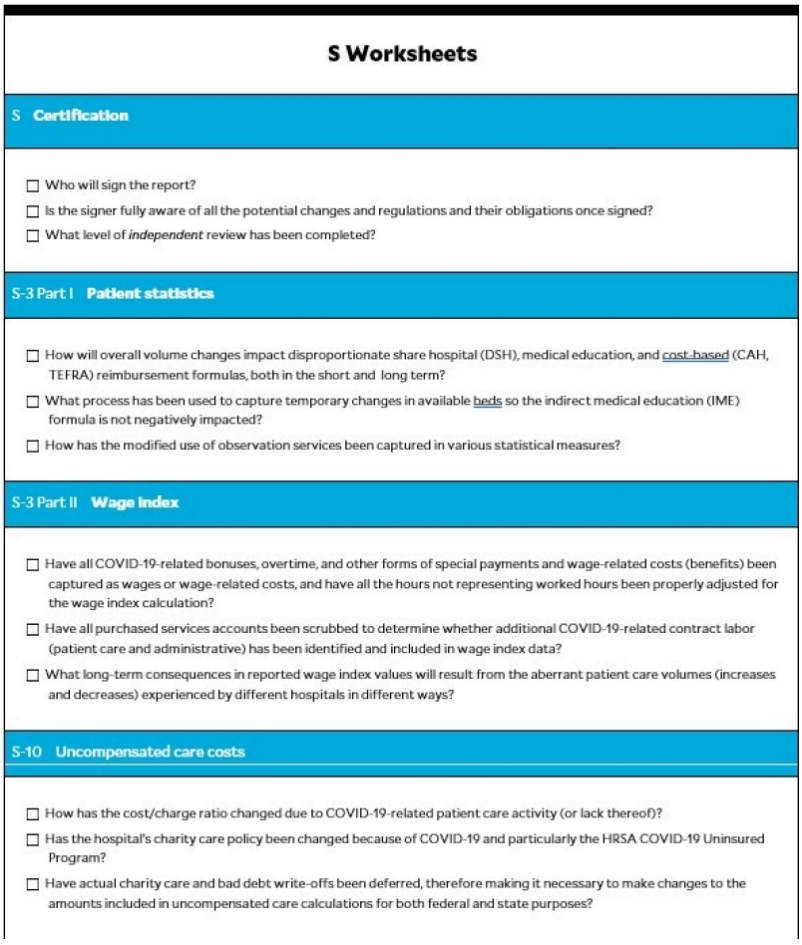
Although the checklists provided below consider some of the current and long-term issues associated with COVID-19, many of the items presented should be considered for non-COVID-19 situations as well. These checklists certainly should be expanded to meet the specific needs of a particular organization. In fact, a comprehensive process map or audit trail is needed to properly execute such a review program.

The real benefit of using such checklists is they can help create dialogue about the many ways COVID-19 continues to impact hospital operations and — a very important aspect of operations — the annual Medicare cost report process. Each question can contribute to a discussion that affects the strategic direction of the organization.

The existence of the COVID-19 PHE does not make the cost report less important; rather, it potentially increases in importance, which means it requires additional due diligence in its preparation and review.

A larger objective for leaders

It is clear that the COVID-19 PHE will impact current cost reporting and influence future Medicare payments in many ways. To prepare for these consequences, hospitals should thoroughly assess their payment environment and model ranges of potential outcomes. Hospital leaders can use the results of these assessments to better inform themselves about their costs so they can then apply that knowledge for educational and advocacy purposes.



S Worksheets

S Certification

- ☐ Who will sign the report?
- ☐ Is the signer fully aware of all the potential changes and regulations and their obligations once signed?
- ☐ What level of *independent* review has been completed?

S-3 Part I Patient statistics

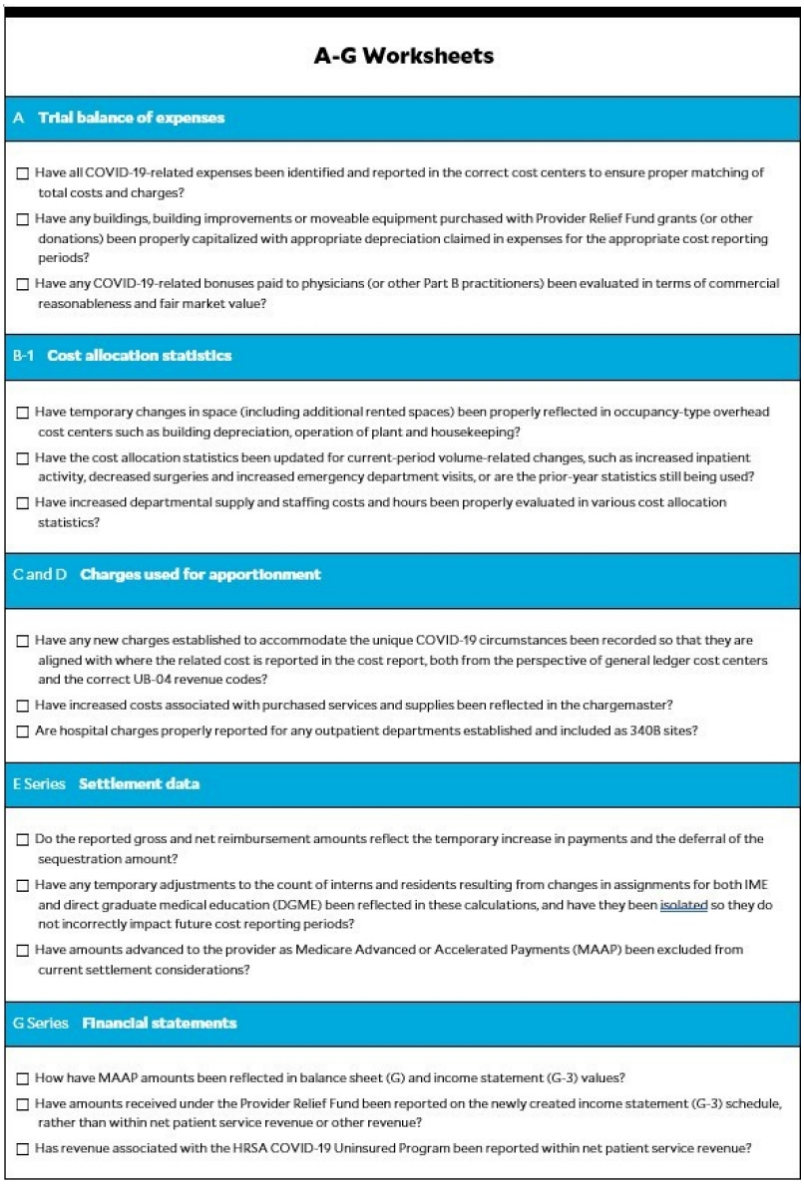
- ☐ How will overall volume changes impact disproportionate share hospital (DSH), medical education, and cost-based (CAH, TEFRA) reimbursement formulas, both in the short and long term?
- ☐ What process has been used to capture temporary changes in available beds so the indirect medical education (IME) formula is not negatively impacted?
- ☐ How has the modified use of observation services been captured in various statistical measures?

S-3 Part II Wage Index

- ☐ Have all COVID-19-related bonuses, overtime, and other forms of special payments and wage-related costs (benefits) been captured as wages or wage-related costs, and have all the hours not representing worked hours been properly adjusted for the wage index calculation?
- ☐ Have all purchased services accounts been scrubbed to determine whether additional COVID-19-related contract labor (patient care and administrative) has been identified and included in wage index data?
- ☐ What long-term consequences in reported wage index values will result from the aberrant patient care volumes (increases and decreases) experienced by different hospitals in different ways?

S-10 Uncompensated care costs

- ☐ How has the cost/charge ratio changed due to COVID-19-related patient care activity (or lack thereof)?
- ☐ Has the hospital's charity care policy been changed because of COVID-19 and particularly the HRSA COVID-19 Uninsured Program?
- ☐ Have actual charity care and bad debt write-offs been deferred, therefore making it necessary to make changes to the amounts included in uncompensated care calculations for both federal and state purposes?



A-G Worksheets

A Trial balance of expenses

- ☐ Have all COVID-19-related expenses been identified and reported in the correct cost centers to ensure proper matching of total costs and charges?
- ☐ Have any buildings, building improvements or moveable equipment purchased with Provider Relief Fund grants (or other donations) been properly capitalized with appropriate depreciation claimed in expenses for the appropriate cost reporting periods?
- ☐ Have any COVID-19-related bonuses paid to physicians (or other Part B practitioners) been evaluated in terms of commercial reasonableness and fair market value?

B-1 Cost allocation statistics

- ☐ Have temporary changes in space (including additional rented spaces) been properly reflected in occupancy-type overhead cost centers such as building depreciation, operation of plant and housekeeping?
- ☐ Have the cost allocation statistics been updated for current-period volume-related changes, such as increased inpatient activity, decreased surgeries and increased emergency department visits, or are the prior-year statistics still being used?
- ☐ Have increased departmental supply and staffing costs and hours been properly evaluated in various cost allocation statistics?

C and D Charges used for apportionment

- ☐ Have any new charges established to accommodate the unique COVID-19 circumstances been recorded so that they are aligned with where the related cost is reported in the cost report, both from the perspective of general ledger cost centers and the correct UB-04 revenue codes?
- ☐ Have increased costs associated with purchased services and supplies been reflected in the chargemaster?
- ☐ Are hospital charges properly reported for any outpatient departments established and included as 340B sites?

E Series Settlement data

- ☐ Do the reported gross and net reimbursement amounts reflect the temporary increase in payments and the deferral of the sequestration amount?
- ☐ Have any temporary adjustments to the count of interns and residents resulting from changes in assignments for both IME and direct graduate medical education (DGME) been reflected in these calculations, and have they been isolated so they do not incorrectly impact future cost reporting periods?
- ☐ Have amounts advanced to the provider as Medicare Advanced or Accelerated Payments (MAAP) been excluded from current settlement considerations?

G Series Financial statements

- ☐ How have MAAP amounts been reflected in balance sheet (G) and income statement (G-3) values?
- ☐ Have amounts received under the Provider Relief Fund been reported on the newly created income statement (G-3) schedule, rather than within net patient service revenue or other revenue?
- ☐ Has revenue associated with the HRSA COVID-19 Uninsured Program been reported within net patient service revenue?

Editor's note

For additional detail on accounting for the costs associated with COVID-19 in a hospital's cost report, see the article "Cost reporting in the time of COVID-19 could have an impact on hospital payment," (/topics/financial-sustainability/article/cost-reporting-in-the-time-of-covid-19-could-have-an-impact-on-h.html) August 2021, at hfma.org (search under the topic "Cost Effectiveness of Health").

About the Author

K. Michael Nichols, FHFMA, CPA, is a consulting principal with PYA, PC, Knoxville, Tenn. He is a current member and past chapter president of the First Illinois HFMA Chapter and a recipient of the HFMA Medal of Honor.

Advertisements

RELATED TAGS

Related Articles | Accounting and Financial Reporting

How To | Cost Effectiveness of Health

Cost Effectiveness of Health Report, February 2022

(/topics/cost-effectiveness-of-health/article/cost-effectiveness-of-health-report--february-2022.html)

The January 2022 edition of HFMA's Cost Effectiveness of Health Report, sponsored by Kaufman Hall, explores key tactics successful independent community hospitals use to help them sustain their mission to the communities they serve. Also included is a preview of the first of a series of columns by hfm columnist David Johnson addressing the need for nonprofit health systems to address 5 structural defects that keep them from delivering truly high-quality care to patients.

JANUARY 24, 2022

How To | Capital Finance

Healthcare providers face a growing risk of violating debt covenants

(/topics/hfm/2022/february/healthcare-providers-face-a-growing-risk-of-violating-debt-coven.html)

COVID-19 has increased the financial strain on healthcare providers that puts them at risk of being noncompliant with lending covenants. They should be taking proactive steps now to avoid or mitigate the potentially severe adverse financial consequence of such an occurrence.

JANUARY 21, 2022

By Steven Shill, CPA

News | Financial Leadership

HFMA's Annual Conference showcased a healthcare industry working to innovate and thrive amid the COVID-19 pandemic and other challenges

(/topics/leadership/article/hfma-s-annual-conference-showcased-a-healthcare-industry-working.html)

HFMA's 2021 Annual Conference underscored a healthcare industry at a crossroads amid the lingering COVID-19 pandemic and daunting financial trends.

NOVEMBER 15, 2021

By Nick Hut

Column | Cost of Care

Healthcare's top area of vulnerability: cost effectiveness

(/topics/hfm/2021/november/healthcare-s-top-area-of--vulnerability--cost-effectiveness.html)

HFMA President and CEO Joe Fifer discusses some of the ways that healthcare provider organizations are vulnerable to disruption.

OCTOBER 30, 2021

By Joseph J. Fifer, FHFMA, CPA

Related Content

Live Webinar | Denials Management

Jan 25: Denial Reduction via Benefit Management - Revenue Cycle Focus

(/events/jan-25--denial-reduction-via-benefit-management---revenue-cycle-.html)

Live Webinar | Benchmarking and Forecasting

Feb 15: Successful Strategies for Implementing a Rolling Forecast

(/events/feb-15--successful-strategies-for-implementing-a-rolling-forecas.html)

Live Webinar | Finance and Business Strategy

Feb 17: How AP Automation Drives Savings and Generates Revenue

(/events/feb-17--how-ap-automation-drives-savings-and-generates-revenue.html)

Live Webinar | Revenue Cycle

March 3: The Benefits of Electronic Prior Authorization Automation

(/events/march-3--the-benefits-of-electronic-prior-authorization-automati.html)