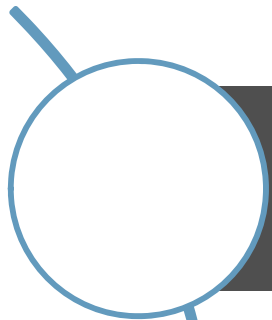


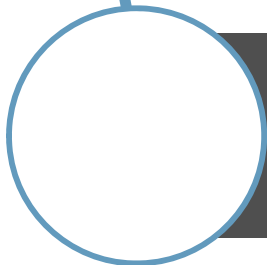
# USING THE COST REPORT AS A DECISION MAKING TOOL



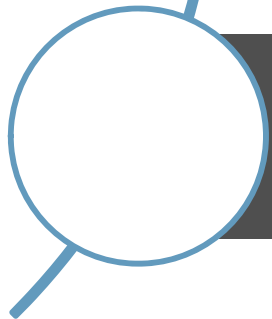
# Agenda



The basic cost report as you file it



Manipulation of the filed cost report



Service Line Analysis



**THE BASIC COST  
REPORT AS YOU FILE IT:  
BASED ON MEDICARE'S  
DEFINITION OF COST  
PER THE PRINCIPLES OF  
REIMBURSEMENT**

- Part A or facility costs only
- Eliminates Part B or professional costs
- Eliminates miscellaneous income
- Eliminates investment income
- Eliminates non-allowable costs

What will you find if you read  
your cost report?



# WHAT WILL YOU FIND IF YOU READ YOUR COST REPORT?

- Cost of professional services (A-8-2)
- Cost of overhead services (B-1 Unit Cost Multiplier)
- Ratio of cost to charges - ancillary care (C)
- Cost per day - routine care (D-1)
- Cost per encounter – RHC (M-3)





## WHAT DO YOU DO WITH THE INFO YOU FOUND?

- Determine trends and operational issues
- Identify cost centers with high cost and low charges
- Estimate cost of renting space to others
- Identify cost being allocated to non-reimbursable cost centers
- Identify opportunities to allocate costs more advantageously

# Manipulation of the filed cost report

## **THE COST REPORT SOFTWARE CAN BE USED FOR OTHER THAN FILING THE COST REPORT.**

- Evaluating operational or environmental changes and the impact on reimbursement
- Get back to the basics (ignoring Medicare's Principles of Reimbursement)





## WHAT IFs:

- Patient days increase by 200
- Nursery and labor & delivery services are eliminated
- Cuts of \$500,000 of expenses are needed to balance the budget

**ALL CUTS ARE NOT CREATED EQUAL!!!**

- A physician retires and offers to sell the practice
- A reduction in force of 40 employees is needed to balance the budget





# FORGET THE MEDICARE PRINCIPLES OF REIMBURSEMENT

- Results in fully allocated cost by cost center compared to total charges
  - What is your cost per day?
  - Are any RCCs greater than 1?
  - What is the true cost per encounter in your RHC?
- Refer to “What to do with the info you found”





## **SERVICE LINE ANALYSIS: CALCULATES CONTRIBUTION AND OPERATING MARGINS BY SERVICE LINE**

- Identifies service lines
- Calculates the cost of providing those services
- Assigns direct costs and allocates overhead
- Identifies who pays you what for those services
- Results in the contribution and operating margins



## WHAT ROLE DOES THE MEDICARE COST REPORT PLAY IN A SERVICE LINE ANALYSIS?

The Medicare cost report is the starting point to help define:

- Service line groupings
- Allocation of overhead cost
- Medicare deduction rates
- Adjustments to the GL that may be required (A-6)



## PLEASE ...

- Don't just throw the as-filed cost report in your drawer until you are ready to file next year's cost report.
- There is valuable information in the cost report if you know where to look.
- You can work with this information to assist you in your continuing operations.

# Interested in more?

We are always available for your questions



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