

COST ALLOCATION
HOSPITAL AND SKILLED NURSING FACILITY AUDIT PROGRAM (1999)

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COST ALLOCATION

Regulation Reference: 42 CFR 413.53

- OBJECTIVES:
1. To ensure a proper allocation of general service costs on Worksheet B through the use of correct cost allocation statistics on Worksheet B-1.
 2. To verify that the statistics used by the provider on Worksheet B-1 are accurate and consistently applied.
 3. To verify the reasonableness of statistical bases used in cost finding.
 4. To verify that the permitted bases and order of allocations are used. Where alternative allocation bases or order of allocation are used, ensure that the result is more accurate and appropriate, and that prior approval was obtained.
 5. To verify that any preallocations of cost on provider's records at the time of cost report preparation are proper.
 6. To verify that all cost centers receive proper cost allocation.
 7. To verify that any direct assignment of cost and unique cost centers on the provider's books are proper and have received the necessary intermediary approval.

OTHER REFERENCES:

PRM-I, §§2200, 2300

Cost Reporting Forms: Hospital:

HCFA-2552, Worksheet B, Parts I, II, and III
HCFA-2552, Worksheet B-1

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TOUR OF PROVIDER SITE

1. Based on discussion with appropriate provider personnel, observations during tour of facility (Exhibit 1, Step 2) and the facts that come to your attention during the course of the audit, determine if changes have been made in the provider's operation and/or plant layout that would require recognition in the cost allocation statistics.

REVIEW OF STATISTICAL BASES

2. If scoped for audit as a result of desk review, review the statistical bases reported on Worksheet B-1 to allocate the provider's general service costs. Determine:
 - A. If the bases used are the same as those recommended under the Medicare program.
 - B. Whether the statistical bases used match the appropriate heading on Worksheet B-1.

Note that sometimes the bases printed on the provider's cost report match the headings preprinted on Worksheet B-1 but the statistics used are accumulated using different bases.

- C. Whether the statistical bases are consistent with those of the prior year.
- D. Whether prior approval has been granted for use of alternate statistical bases, where applicable.
- E. The propriety and reasonableness of the statistical base used.

Document reasons for any exceptions to Steps 2A through 2E or propose an audit adjustment, where necessary. However, if the provider being audited is a PPS hospital reporting old capital costs, perform step 3A or 8B in Exhibit 6A before proposing any adjustments.

REVIEW OF STATISTIC ACCUMULATION

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PROCEDURES

3. Review the provider's written instructions, procedures and flow charts used for capturing and accumulating Worksheet B-1 cost allocation statistics. If written procedures are not available, discuss the procedures used for developing and reporting statistics with the appropriate provider personnel and prepare a written description. Place documentation in the permanent file.

REVIEW OF STATISTICS

4. Review the cost allocation statistics with supporting and source documentation.
 - A. If a comparison was made with prior year statistics, investigate any material variances. If the comparison indicates the statistics have not changed at all, this may be an indication that the provider is not using current statistics.
 - B. Determine that the statistics are reasonable and accurate and representative of the activity for the cost reporting period under review, by tracing from source documents and verifying math on a test basis.
 - C. Determine if weighting of statistics is necessary due to changes in the services rendered or in the number of beds during the period.
 - D. Determine if there are any illogical overhead allocations wherein the statistics do not seem to have a reasonable relationship to the incurrence of cost, for example, 50 percent of the medical records statistics reported on the clinic line.
 - E. Determine that the statistics would properly allocate costs between inpatient hospital services and other services rendered by the provider.
 - F. Pay particular attention to areas where cost shifting

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	could occur, such as: 1. Excluded units, 2. Nursing and Allied Health Education cost centers, 3. Outpatient areas, 4. Other cost-reimbursed components of the complex, such as hospital-based HHAs and SNF certified areas (distinct part), 5. Nonphysician anesthetist cost center, 6. The capital-related cost allocation to departments with high Medicare utilization versus nonreimbursable areas with low Medicare utilization, or underallocation to the Interns and Residents in Approved Programs cost center. G. Pay attention to nonreimbursable cost centers to ensure that proper allocations of all applicable overhead costs, especially capital-related costs, were made to nonreimbursable cost centers set up by the provider. Examples of such cost centers are: 1. Rental of hospital space, 2. Rental of quarters to other than employees, 3. Luxury room accommodations, 4. Gift shop, snack bar, coffee shop, etc., 5. Sisters' maintenance/nonpaid workers, 6. Idle facilities, 7. Research costs,		

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8. Physicians' private offices,
9. Meals-on wheels,
10. Any other nonpatient-care-related area, including hospital-based SNF noncertified areas.

Note: If a nonreimbursable cost center has been set up during the course of the audit, ensure that all appropriate cost allocation statistics have been set up for the cost center as well.

11. Propose an audit adjustment, if applicable.

ANCILLARY SERVICES FURNISHED UNDER
ARRANGEMENTS

5. Where the provider furnishes ancillary services under arrangements, review proper overhead allocation in accordance with PRM-I, §2314.
 - A. Where the provider does not pay for the non-Medicare portion of services furnished under arrangements, determine that no indirect (overhead) costs have been allocated.
 - B. The overhead allocation should be corrected by eliminating the statistics for the affected cost center from the basis of allocation.

RECLASSIFICATIONS OF COST

6. If any reclassifications of cost have been made, ensure that cost allocation statistics have been reclassified as necessary, for example, salary reclassifications. Propose an audit adjustment, where necessary.