

# Non-Allowable Expenses on the Medicare Cost Report

**Presented by:**

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*Smart about revenue.  
Tenacious about results.*

# Jeff Wolf

Director of Reimbursement Services



Jeff Wolf is Director of Reimbursement Services at BESLER. Jeff possesses more than 30 years of health care industry specific experience as a regulatory compliance auditor, a hospital CFO, and a consultant to the industry.

Jeff is an Advanced Member of the Healthcare Financial Management Association and a frequent speaker on topical health care subjects including reimbursement planning and strategy, Medicare's APC payment system, and treatment program design and documentation.

Jeff graduated from Arizona State University with a Bachelors degree in Accounting.

# Agenda

- Define Costs related to Patient Care
- Define Costs not related to Patient Care
- Expenses not reimbursed through the Medicare Cost Report
- Revenue Offsets
- Non-Allowable vs. Non-Reimbursable
- GAAP vs. Medicare Accounting
- Regulatory Review

# Costs related and not related to Patient Care

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# Costs Related to Patient Care Definition

“...costs which are appropriate and helpful in developing and maintaining the operation of patient care facilities...”

“...do not exceed what a prudent and cost-conscious buyer pays...”

# Allowable Costs

- Necessary and proper in providing services
- Must be related to patient care
  - Administrative Functions
  - Diagnostics Services
  - Room & Board for Inpatients
  - Ancillary Services (actual treatments of conditions)

# Costs NOT Related to Patient Care Definition

“...costs which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities...”

# Expenses not related to Patient Care

- Examples of expenses not related to Patient Care
  - Gift Shop
  - Cost of Meals sold to Visitors
  - Drugs sold to other than patients
  - Alcohol
  - Entertainment
  - Fines/Penalties
  - Education expenses for spouses/dependents

# Expenses not related to Patient Care

- Sometimes there are costs that are incurred for Hospital and Non-Hospital related activities:
  - Billing
  - Payroll
  - Benefits
  - Telephones & Televisions
- In these cases, we must determine what portion of the cost relates to the Non-Patient Treatment activities and remove the expense from the cost report

# Polls & Questions



# Expenses not reimbursed through the Medicare Cost Report

# Expenses not Reimbursed through the Medicare Cost Report

- Medicare cost report calculates the Reimbursement for Part A (Inpatient Stays) and Part B (Outpatient Ancillary services).
- Services no reimbursed through the cost report are to be excluded from the cost report
  - MDs, CRNAs, PAs, NPs (Fee Schedules)
  - Research Activities (Grants)
  - Physician Office Visits (Fee Schedules)

# Expenses not Reimbursed through the Medicare Cost Report

- Related Party expenses
  - Common Ownership
  - Common Control
  - Expenses must be reduced to the actual cost of the related Party (WS A-8-1)
  - Expenses can not exceed reasonable and prudent principle

# Revenue Offsets



# Revenue Offsets

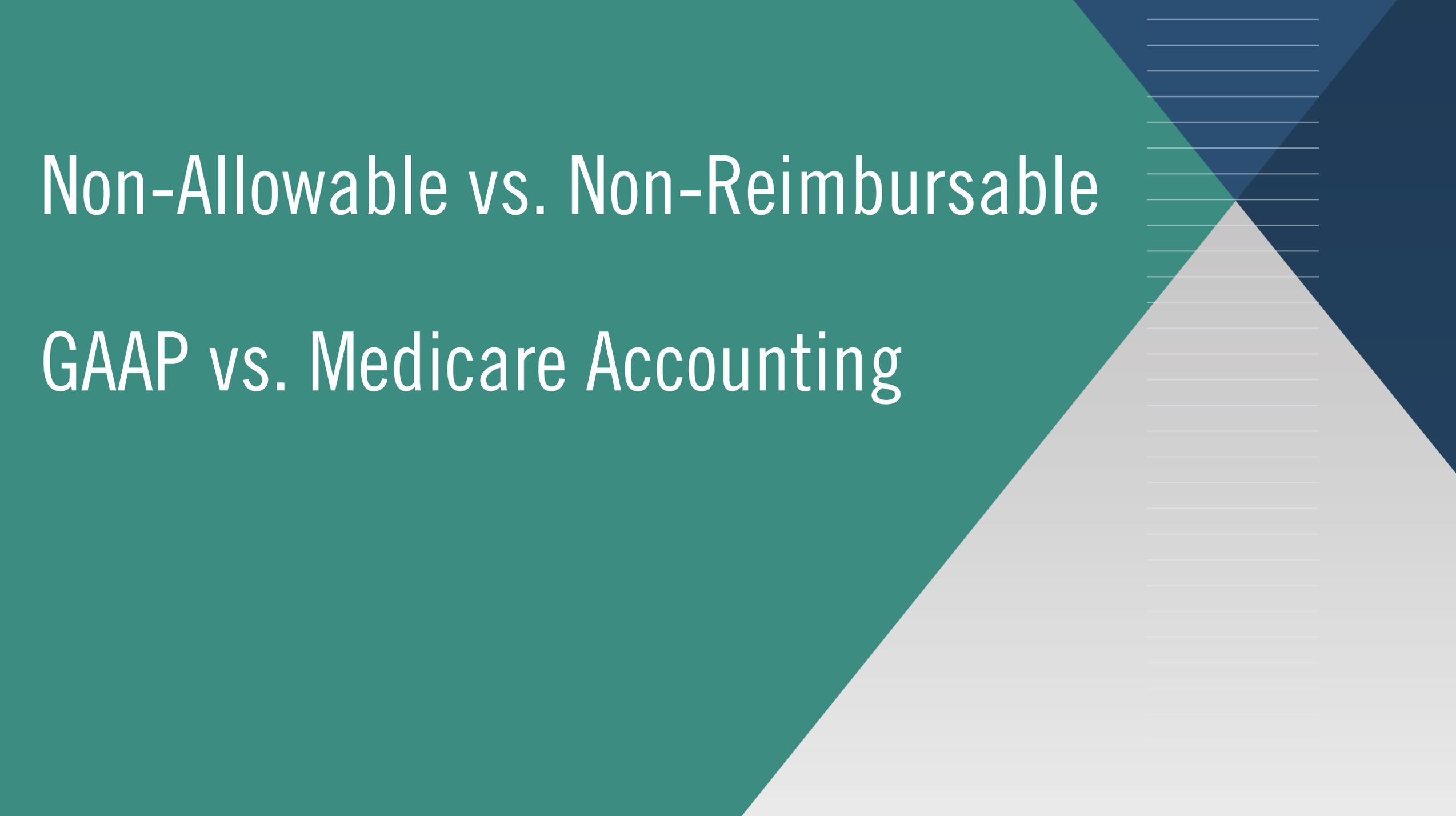
- Hospital Activities sometimes generate Income other than from Patient Care. In Accounting we generally refer to these as “Other Operating” and “Other Non-Operating” Revenues.
  - Other Operating/Non-Operating revenues must be “offset” (reduce) the related expenses on the Medicare Cost Report.
    - Cafeteria
    - Education Revenue
    - Parking Revenue
    - Miscellaneous Revenue

# Revenue Offsets

- Some Revenues are not offsetable based on specific regulations
  - Grant Revenues
  - Gains/Losses
  - Donations
- Revenue offsets are made up to the related expense.
  - Interest vs. Investment
- Matching Principle

# Polls & Questions





Non-Allowable vs. Non-Reimbursable

GAAP vs. Medicare Accounting

# Non-Allowable vs. Non-Reimbursable

## What's the difference ?

- Non-Allowable are expenses incurred that Medicare does not consider “necessary”, “appropriate”, or “Prudent” for the operation of the facility.
- Non-Reimbursable are expenses incurred that are not related to Patient Treatment activities
- Is there overlap?
- How do you define the treatment on the items that overlap?
  - Test – Consumption of Administrative Resources

# GAAP vs. Medicare Accounting

Medicare follows GAAP accounting rules for Accrual Accounting.

However, Medicare accounting is also affected by:

- Cost Accounting Principles
- Reimbursement Principles
- Congressional rulemaking

Medicare principles do differ from GAAP in some respects

- Bad Debts
- Courtesy Allowances
- Historical costs of assets

# Polls & Questions



# Regulatory Review

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# Reference Regulations

Code of Federal Regulations (Federal Laws passed by Congress)

- Cost Reimbursed (Reasonable Cost Reimbursement) – CFR 42.413

Provider Reimbursement Manual (Medicare Interpretation of CFR)

- PRM 15-1 section 2102.2 Costs Related to Patient Care – “...costs which are appropriate and helpful in developing and maintaining the operation of patient care facilities...” (Related to Patient Care)
- PRM 15-1 section 2102.3 Costs Not Related to Patient Care – “...costs which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities...”
- PRM 15-1 section 2102.1 Reasonable Costs – “...do not exceed what a prudent and cost-conscious buyer pays...” (Reasonable and Prudent)

# Reference Regulations

## Provider Reimbursement Manual (Medicare Interpretation of CFR)

- PRM 15-1 section 300 Bad Debts and Courtesy Allowances – “...are deductions from revenue and are not to be included in allowable costs...”
- PRM 15-1 section 100.4 Historical costs of Assets
- PRM 15-1 section 200 Interest Expense
- PRM 15-1 section 2110.4 Physician Billing Costs

## Provider Reimbursement Manual 15-2 (Cost Report Instructions)

# Regulations Links

- Cost Reimbursed (Reasonable Cost Reimbursement) – CFR 42.413
  - <https://www.ecfr.gov/current/title-42/chapter-IV/subchapter-B/part-413>
- Provider Reimbursement Manual (PRM 15-1)
  - [The Provider Reimbursement Manual - Part 1 | CMS](#)

Questions?



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