



Medicare EHR Payment Issues for Small Rural Hospitals

Rural Hospital Performance Improvement
(RHPI) Project

June 13, 2012



Agenda

- Electronic Health Record Incentive Payments
- New cost reporting forms 2552-10 – requirements related to EHR incentive
- Current reimbursement and operational topics



Electronic Health Record Incentive Payments



EHR Incentive Payments

- American Recovery and Reinvestment Act of 2009 (ARRA)
 - Final rule issued 7/28/10 (275 pages – small print)
 - Provides incentive payments from Medicare and Medicaid to encourage hospitals and physicians to implement EHR systems and technologies
 - Payments - available for 5 years beginning 2011
 - Unlike physicians, hospitals (including CAH) may be able to receive payments tied to both Medicare and Medicaid

EHR Medicare Payments - CAH



- CAH's - up to 4 payment years starting with cost report periods beginning in federal FY 2011.
- 2015 - the last payment year for which a CAH can receive incentive payments. Reduction in CAH reimbursement begins for Non-EHR hospitals by 2015.

EHR Medicare Payments - CAH



- Payment for reasonable capital costs incurred for EHR assets and technology
- Payment = reasonable capital costs for EHR times CAH Medicare share
 - Swing bed days are not in the calculation
 - Medicare share = sum of the Medicare fraction plus 20 percentage points
 - Not exceeding 100%

What is EHR Capital Cost



- Great question!
 - CMS definition – Federal Register 7/28/2010
 - CMS useful life definition
 - Financial statement definition
 - Practical thoughts
 - In the end - Subject to hospital decision and MAC interpretation

EHR Capital – HHS Final rule



- **Page 44573 – Section 495.106** *Reasonable costs incurred for the purchase of certified EHR technology for a qualifying CAH means the reasonable acquisition costs incurred for the purchase of depreciable assets as described in part 413 subpart G of this chapter, such as computers and associated hardware and software, necessary to administer certified EHR technology as defined in 495.4, excluding any depreciation and interest expenses associated with the acquisition.*
- **Page 44565 – Section 495.4** *Certified electronic health record technology has the same definition as this term is defined at 45 CFR 170.102.*

Certified EHR Technology



- **Federal Register – ONC - July 28, 2010, Page 44649**
- **170.102 Definitions.**
- *Certified EHR Technology means:*
 - (1) A Complete EHR that meets the requirements included in the definition of a Qualified EHR and has been tested and certified in accordance with the certification program established by the National Coordinator as having met all applicable certification criteria adopted by the Secretary; or
 - (2) A combination of EHR Modules in which each constituent EHR Module of the combination has been tested and certified in accordance with the certification program established by the National Coordinator as having met all applicable certification criteria adopted by the Secretary, and the resultant combination also meets the requirements included in the definition of a Qualified EHR.
 - *Complete EHR means EHR technology* that has been developed to meet, at a minimum, all applicable certification criteria adopted by the Secretary.
 - *Disclosure is defined as it is in 45 CFR 160.103.*



EHR Capital Cost - CMS

- Provider Reimbursement Manual (PRM 15-1) Section 104.17 – Useful life of Depreciable Assets:
- Purchased computer software purchased on or after August 1, 1988, is depreciated using the applicable edition of the useful life guidelines.
- The costs of initial customizing and/or modification of purchased computer software to function with the provider's computer hardware, or to put it into place for use, should be capitalized as part of the historical cost of the software. Such costs are analogous to installation costs of a moveable asset.

EHR Capital Cost – Financial Statements



- Costs of computer software developed or obtained for internal use that shall be capitalized include only the following:
 - a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software. Examples of those costs include but are not limited to the following:
 - 1. Fees paid to third parties for services provided to develop the software during the application development stage.
 - 2. Costs incurred to obtain computer software from third parties.
 - 3. Travel expenses incurred by employees in their duties directly associated with developing software.
 - b. Payroll and payroll-related costs (for example, costs of employee benefits) for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Examples of employee activities include but are not limited to coding and testing during the application development stage.
 - c. Interest costs incurred while developing internal-use computer software. Interest shall be capitalized in accordance with the provisions of Subtopic [835-20](#).
- General and administrative costs and overhead costs shall not be capitalized as costs of internal-use software.



Practical Thoughts

- Section 495.106 includes “necessary to administer certified EHR technology”
 - May expand the definition beyond the “certified” modules

Practical Thoughts



- Include:
 - Hardware and software costs
 - Training & implementation costs paid to outside vendor
 - Cost of outside vendors or contractors for functions directly related to the conversion & implementation (example: scanning or digitizing prior medical records)

Practical Thoughts



- Include:
 - Costs that the CAH would normally capitalize
 - if no incentive payment were in play
 - Costs in accordance with the CAH capitalization policy for Medicare



Practical Thoughts

- Include – **maybe**:
 - Hospital staff salaries, benefits and expenses for training & implementation time while at the vendor's office or location outside the hospital
 - if it is documented
 - Cost of upgrades to financial accounting and related systems if necessary for the administration of the certified EHR



Practical Thoughts

- Include – **maybe**:
 - Cost of upgrades or new software to hospital-based clinics, and home health, nursing facility, etc. and related systems if necessary for the administration of the certified EHR by the CAH.
 - Interest during development – if any is capitalized

Practical Thoughts



- Include – **maybe**:
 - Cost of hospital staff during the “development” stage: i.e. travel to look at other systems, consultant costs in evaluating needs, costs of developing an RFP – if it can be documented

Practical Thoughts



- Do not Include:
 - Software maintenance service charges
 - Hardware maintenance
 - Hospital staff salaries & benefits while at the hospital
 - Normal operating costs



EHR Incentive Pmts – CAH

- Annual amount based on Medicare & Medicaid percentage
 - Medicare % impacted by MA days and charity care charges (greater charity care charges yield a greater Medicare percentage)
 - Excluded unit days such as Nursery, Rehab or Psych days not included
 - MA days from the cost report
 - Medicaid includes HMO days
 - Initial amounts based on most recent 12-month cost report
 - Final amounts based on actual cost report

Cost Reporting After Incentive



- Depreciation is no longer allowable cost
- Financing cost:
 - During period of development (before active use) capitalize as cost of system
 - After meaningful use – not allowable & excluded from future cost reports



EHR Incentive Payments

- Challenges & open issues
 - CAHs must spend money or incur cost before they are entitled
 - CAHs related interest is not allowable cost
 - Financing may be on different basis than incentive payments
 - Cash flow of implementation costs



EHR Incentive Payments

- CMS FAQ – July 2011
 - #110: include only the portion that pertains to certified EHR technology (what is required to achieve meaningful use)
 - Specifically excludes “payroll or other non-EHR module”
 - #111: Include only the portion of the hardware that pertains to certified EHR technology
 - Example of a server – must apportion



EHR Incentive Payments

- CMS FAQ – July 2011
 - #114: Rent/lease cost are not included – operating or capital
- Rural HIT Coalition (through NRHA) has requested clarification of these FAQ and other unknown or undefined circumstances
- Watch FAQ and contact your auditor/consultant



EHR Incentive Payments

- Challenges & open issues:
 - What costs can be included
 - Purchase cost of clinic, nursing facility, home health and other systems
 - Subject to final audit and settlement
 - Creation of different accounting and reimbursement depreciation schedules

EHR Incentive Payments



- CMS reaffirmed some of these issues in:
 - Medicare EHR Incentive Program – Tip Sheet for Critical Access Hospital (CAH) Payments
 - Updated March 2012

What if you miss some costs?



- Potential impact:
 - Still get “regular 101% cost” – either depreciation, imputed interest or operating cost
 - Medicare share (including 20%) may be higher than “regular” reimbursement after allocation – including Medicaid in cost-based states

EHR Incentive Payments - EP



- Physicians in hospital settings
 - Provider-based are eligible
 - **Ineligible** if 90% or more are inpatient or ED
 - Plus a 10% HPSA bonus
 - Rural health clinics
 - Medicaid only – if more than 30% Medicaid and needy
 - Physician payments made to the physician but can assign to employer

EHR CAH Timeline



SEPTEMBER 30 CAH YEAR-END										
9/30/2011		9/30/2012			9/30/2013			9/30/2014		9/30/2015
Year 1		Year 2			Year 3			Year 4		
7/1/2012 - last date to begin attestation period										



Request Timeline

- Complete 90-day attestation period and attest on CMS website
- MAC requests data from hospital – CAH cost
- MAC verifies and enters data into CMS
- CMS pays hospital in 2-3 months
- Medicaid varies by state

Sample EHR Information Request - CAH



Information Needed for the Initial EHR Incentive Payment Review

- Detailed listing of items and costs for which you are requesting the EHR Technology incentive. If a summary schedule is submitted, identify what items are included in each summary amount so as to trace to support.
- Copies of invoices for all assets and expenses relating to the EHR Technology being claimed. Identify the nature of the item. For instance, it should not say “software system.” It should explain what the software is used for, what department in which it is used, etc.
- Copies of invoices and detailed explanation for consulting services eligible for capitalization relating to the EHR Technology being claimed.
- Copy of your fixed asset register showing asset description, vendor, purchase date, date the asset was placed in service, estimated useful life and accumulated depreciation for the EHR assets. Identify the EHR purpose for each asset. Also specify the vendor name and product description for the certified EHR software program.
- Any additional documentation to support the costs of certified EHR Technology.
- For all of these items, identify each item that is not solely related to EHR at your facility. If shared with another provider or another department at your facility, support what percentage of ownership and time relates to EHR at your facility.
- Identification of amount and cost center location of EHR-related costs claimed in your most recently filed Medicare cost report, including depreciation and interest associated with EHR asset acquisition.

Lingering EHR Issues



- EP payments for Option II billing
- Allowable capital cost issues
- Future audit settlement of EHR payments
- Others ??



Key Changes in 2552-10 Related to EHR



Key Changes in 2552-10

History and Development of 2552-10

- CMS published a new draft 2552-10 in April 2010, and extended the implementation to cost report periods beginning on or after 5/1/2010
- The final 2552-10 was not published until December 30, 2010 (Transmittal 1)
- 2552-10 is required for all hospital cost reports for years beginning on or after 5/1/10
- Transmittal 2 issued August 30, 2011

Worksheet S-2, Part I



Health Information Technology (HIT) incentive in the American Recovery and Reinvestment Act

167	Is this provider a meaningful user under § 1886 (n)? Enter "Y" for yes or "N" for no.
168	If this provider is a CAH (line 105 is "Y") and is a meaningful user (line 167 is "Y"), enter the reasonable cost incurred for the HIT assets. (see instructions)
169	If this provider is a meaningful user (line 167 is "Y") and is not a CAH (line 105 is "N"), enter the transition factor. (see instructions)

Worksheet A-7



PART I - ANALYSIS OF CHANGES IN CAPITAL ASSET BALANCES

Description	
1	Land
2	Land Improvements
3	Buildings and Fixtures
4	Building Improvements
5	Fixed Equipment
6	Movable Equipment
7	HIF-designated Assets
8	Subtotal (sum of lines 1-7)
9	Reconciling Items
10	Total (line 7 minus line 9)

Worksheet A-8



32	CAHHT Adjustment for Depreciation and Interest
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Worksheet E-1, Part II



08-11

FORM CMS-2552-10

4090 (Cont.)

CALCULATION OF REIMBURSEMENT SETTLEMENT FOR HIT		PROVIDER <i>CCN</i> : _____	PERIOD: FROM _____	WORKSHEET E-1, PART II
		COMPONENT <i>CCN</i> : _____	TO _____	
Check applicable box:	<input type="checkbox"/> Hospital	<input type="checkbox"/> CAH		

HEALTH INFORMATION TECHNOLOGY DATA COLLECTION AND CALCULATION

1	Total hospital discharges as defined in AARA § 4102 from Wkst S-3, Part I <i>line 14, column 15</i>		1
2	Medicare days from Wkst S-3, Part I column 6 sum of lines 1, 8-12		2
3	Medicare HMO days from Wkst S-3, Part I, column 6, line 2		3
4	Total inpatient bed days from S-3, Part I column 8 sum of lines 1, 8-12		4
5	Total hospital charges from Wkst C, Part I column 8 line 200		5
6	Total hospital charity care charges from Wkst S-10, column 3 line 20		6
7	CAH only - The reasonable cost incurred for the purchase of certified HIT technology <i>from</i> Worksheet S-2, Part I line <i>168</i>		7
8	Calculation of the HIT incentive payment (see instructions)		8



Worksheet G

FIXED ASSETS	
12	Land
13	Land improvements
14	Accumulated depreciation
15	Buildings
16	Accumulated depreciation
17	Leasehold improvements
18	Accumulated depreciation
19	Fixed equipment
20	Accumulated depreciation
21	Automobiles and trucks
22	Accumulated depreciation
23	Major movable equipment
24	Accumulated depreciation
25	Minor equipment depreciable
26	Accumulated depreciation
27	HIT designated Assets
28	Accumulated depreciation
29	Minor equipment-nondepreciable
30	Total fixed assets (sum of lines 12-29)



Worksheet S-10 and Charity Care



Worksheet S-10 and Charity Care

- Worksheet S-10
 - Completely revised – will probably be the most significant change from 2552-10 for most hospitals
 - Impacts EHR incentive payment calculation
 - **Is now required by CAHs**
 - Data should exclude physician/professional services



Worksheet S-10 and Charity Care

Uncompensated care

*Defined as charity care and bad debt which includes non-Medicare bad debt and non-reimbursable Medicare bad debt. **Uncompensated care does not include courtesy allowances or discounts given to patients.***

Charity care

Health services for which a hospital demonstrates that the patient is unable to pay. Charity care results from a hospital's policy to provide all or a portion of services free of charge to patients who meet certain financial criteria.

Worksheet S-10 and Charity Care



- “Net Revenue” for Medicaid, SCHIP, and other indigent care programs defined as:

Actual payments received or expected to be received from a payer (including co-insurance payments from the patient) for services delivered during this cost reporting period. Net revenue will typically be charges (gross revenue) less contractual allowance.



Worksheet S-10 and Charity Care

Medicaid (see instructions for each line)	
2	Net revenue from Medicaid
3	Did you receive DSH or supplemental payments from Medicaid?
4	If line 3 is yes, does line 2 include all DSH or supplemental payments from Medicaid?
5	If line 4 is no, enter DSH or supplemental payments from Medicaid
6	Medicaid charges
7	Medicaid cost (line 1 times line 6)
8	Difference between net revenue and costs for Medicaid program (line 2 plus line 5 minus line 7)

If not separately identifiable, disproportionate share (DSH) and supplemental payments should be included in (Line 2). For these payments, report the amount received or expected for the cost reporting period, net of associated provider taxes or assessments.



Worksheet S-10 and Charity Care

State Children's Health Insurance Program (SCHIP) (see instructions for each line)	
9	Net revenue from stand-alone SCHIP
10	Stand-alone SCHIP charges
11	Stand-alone SCHIP cost (line 1 times line 10)
12	Difference between net revenue and costs for stand-alone SCHIP (line 9 minus line 11)



Worksheet S-10 and Charity Care

Other state or local government indigent care program (see instructions for each line)	
13	Net revenue from state or local indigent care program (not included on lines 2, 5 or 9)
14	Charges for patients covered under state or local indigent care program (not included in lines 6 or 10)
15	State or local indigent care program cost (line 1 times line 14)
16	Difference between net revenue and costs for state or local indigent care program (line 13 minus line 15)



Worksheet S-10 and Charity Care

Uncompensated Care:

Line 17

Enter the value of all non-government grants, gifts and investment income received during this cost reporting period that were restricted to funding uncompensated or indigent care. Include interest or other income earned from any endowment fund for which the income is restricted to funding uncompensated or indigent care.



Worksheet S-10 and Charity Care

- Uncompensated Care:

Line 18

Enter all grants, appropriations or transfers received or expected from government entities for this cost reporting period for purposes related to operation of the hospital, including funds for general operating support as well as for special purposes (including but not limited to funding uncompensated care)..... If applicable, report amounts received from charity care pools net of related provider taxes or assessments. Do not include funds from government entities designated for non-operating purposes, such as research or capital projects.



Worksheet S-10 and Charity Care

		Uninsured	Insured	Total
		patients	patients	(col. 1 + col. 2)
		1	2	3
20	Total initial obligation of patients approved for charity care (at full charges excluding non-reimbursable cost centers) for the entire facility			
21	Cost of initial obligation of patients approved for charity care (line 1 times line 20)			
22	Partial payment by patients approved for charity care			
23	Cost of charity care (line 21 minus line 22)			



Worksheet S-10 and Charity Care

- Line 20 :
 - *Enter the total initial payment obligation of patients who are given a full or partial discount based on the hospital's charity care criteria (measured at full charges), for care delivered during this cost reporting period for the entire facility.*
 - *For uninsured patients, including patients with coverage from an entity that does not have a contractual relationship with the provider (column 1), this is the patient's total charges.*
 - *For patients covered by a public program or private insurer with which the provider has a contractual relationship (column 2), these are the deductible and coinsurance payments required by the payer.*



Worksheet S-10 and Charity Care

- Line 20 :
 - *Do not include charges for either uninsured patients given discounts without meeting the hospital's charity care criteria or patients given courtesy discounts. Charges for non-covered services provided to patients eligible for Medicaid or other indigent care program (including charges for days exceeding a length of stay limit) can be included, if such inclusion is specified in the hospital's charity care policy and the patient meets the hospital's charity care criteria.*
 - **Line 20 is used in the EHR incentive payment calculation – the higher the number, the higher the calculated payment**



Worksheet S-10 and Charity Care

- Line 22 :
 - *Enter payments received or expected from patients who have been approved for partial charity care for services delivered during this cost reporting period. Include such payments for all services except physician or other professional services. Payments from payers should not be included on this line.*



Worksheet S-10 and Charity Care

- Line 24 :
 - Enter “Y” for yes if any charges for patient days beyond a length-of-stay limit imposed on patients covered by Medicaid or other indigent care program are included in the amount reported in line 20, column 2, and complete line 25. Otherwise enter “N” for no.
- Line 25 :
 - If you answered yes to question 24, enter charges for patient days beyond a length-of-stay limit imposed on patients covered by Medicaid or other indigent care program for services delivered during this cost reporting period. The amount must match the amount of such charges included in line 20, column 2.



Worksheet S-10 and Charity Care

26	Total bad debt expense for the entire hospital complex (see instructions)
27	Medicare bad debts for the entire hospital complex (see instructions)
28	Non-Medicare and non-reimbursable bad debt expense (line 26 minus line 27)
29	Cost of non-Medicare bad debt expense (line 1 times line 28)



Worksheet S-10 and Charity Care

- Line 26 :
 - *Enter the total facility (entire hospital complex) charges for bad debts (bad debt expense) written off or expected to be written off on balances owed by patients for services delivered during this cost reporting period. Include such charges for all services except physician and other professional services. Include the sum of all Medicare allowable bad debts appearing in the (Various Worksheets before reduction). For privately insured patients, do not include bad debts that were the obligation of the insurer rather than the patient.*



Worksheet S-10 and Charity Care

- Line 27 :
 - *Enter the total facility (entire hospital complex) Medicare reimbursable (also referred to adjusted – after reduction) bad debts as the sum of all Worksheets.*



OTHER MEDICARE PAYMENT ISSUES



Middle Class Tax Relief and Job Creation Act

- Passed in February 2012
- Medicare bad debt reductions
- Outpatient therapy limits apply to hospital OP services – PPS only
 - CMS transmittal 2457 – 4/27/12

Medicare bad debts



- Bad debt changes
 - Conference Report to HR 3630
 - PPS hospitals reduction from 30% to 35% beginning in FY 2013
 - CAH & RHC Reduction of allowable bad debts (cost report periods BEGINNING):
 - 10/1/12 – 9/30/13 = 12%
 - 10/1/13 – 9/30/14 = 24%
 - 10/1/14 – AFTER = 35%



Miscellaneous

- 3-day bundling window – PPS hospitals
 - Federal Register 11/28/11 (physician payments)
 - Applies to ALL entities owned or controlled by hospital

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