Medicare
Provider Reimbursement Manual
Part 1, Chapter 23

Department of Health & Human Services (DHHS)
Centers for Medicare & Medicaid Services (CMS)

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HEADER SECTION NUMBERS	PAGES TO INSERT	PAGES TO DELETE
2305 - 2305.1	23-5 - 23-6 (2 pp.)	23-5 - 23-6 (2 pp.)

CLARIFIED/UPDATED MATERIAL--*EFFECTIVE DATE:* Cost reports beginning on or after October 1, 2011.

Section 2305.2 Application and Exceptions: Provider Reimbursement Manual Part 1, Chapter 21, section 2142.1 Defined Benefit Pension Plans section 2142.1 is an exception to the policy for liquidation of liabilities. The change in policy would basically only count pension costs for what they fund during the cost reporting year without the extra 1 year for the liquidation of liabilities. These changes to the pension rules are being made consistent with the policy set forth in the FY 2012 IPPS final rule (CMS-1518-F; 76 FR 51693 – 51697, August 18, 2011).

DISCLAIMER: The revision date and transmittal number apply to the red italicized material only. All other material was previously published and remains unchanged.

2302.16 Hospital-based Skilled Nursing Facility Cost Centers.--Cost centers established to accumulate the routine costs applicable to the care and treatment of those patients receiving skilled nursing services.

2302.17 Hospital- or SNF-based Home Health Agency Cost Centers.--Cost centers established to accumulate costs applicable to the care and treatment of those patients receiving home health agency services.

2304. ADEQUACY OF COST INFORMATION

Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records and original evidences of cost (purchase requisitions, purchase orders, vouchers, requisitions for materials, inventories, labor time cards, payrolls, bases for apportioning costs, etc.), which pertain to the determination of reasonable cost, capable of being audited.

Financial and statistical records should be maintained in a consistent manner from one period to another. However, a proper regard for consistency need not preclude a desirable change in accounting procedures, provided that full disclosure of significant change is made to the intermediary.

2304.1 Availability of Records of Providers.--A participating provider of services must make available to its intermediary its fiscal and other records for the purpose of determining its ongoing record keeping capability. The intermediary's examination of such records and documents are necessary to ascertain information pertinent to the determination of the proper amount of program payments due the provider. (See §2404ff.)

2305. LIQUIDATION OF LIABILITIES

A. General.--A short term liability must be liquidated within 1 year after the end of the cost reporting period in which the liability is incurred, subject to the exceptions specified in §§2305.1 and 2305.2. Liquidation must be made by check or other negotiable instrument, cash or legal transfer of assets such as stocks, bonds, real property, etc. Where liquidation is made by check or other negotiable instrument, these forms of payment must be redeemed through an actual transfer of the provider's assets within the time limits specified in this section. Where the liability (1) is not liquidated within the 1-year time limit, or (2) does not qualify under the exceptions specified in §§2305.1 and 2305.2, the cost incurred for the related goods and services is not allowable in the cost reporting period when the liability is incurred, but is allowable in the cost reporting period when the liquidation of the liability occurs.

B. Effective Date.--The policy for liquidation of short term liabilities as specified in §§2305-2305.2 is effective for costs incurred during cost reporting periods beginning on or after April 1, 1978. Any short term liabilities for costs that exist before this effective date must be liquidated by the end of the provider's first effective cost reporting period under this policy.

2305.1 Exception to 1-Year Time Limit.--If, within 1 year following the end of a provider's cost reporting period, the provider furnishes to the intermediary sufficient written justification (based upon documented evidence) for nonpayment of the liability, the intermediary may grant an extension for good cause. This extension must not extend beyond 3 years after the end of the cost reporting period in which the liability was incurred. Examples of valid justification, i.e., good cause, would include, but are not limited to, insufficient cash flow, or accounting error in the receipt and processing of bills for the cost of goods and services.

2305.2 Application and Exceptions.--The policy for liquidation of liabilities as specified in §2305ff applies to all costs except those described in the PRM sections listed below:

A. Section 220 - Interest paid to The Mother House or other governing body of a religious order;

B. Section 704.5 - Members of organizations having arrangements with provider;

C. Section 2146.2 - Reimbursement for costs of vacation;

D. Sections which mandate liquidation within 75 days after the end of the cost reporting period in which the liability was incurred.

E. Section 2142.1 – Qualified defined benefit pension plans, which are funded deferred compensation arrangements, shall be reported on a cash accounting basis in accordance with 42 CFR §413.100(c)(vii)(D).

2306. COST FINDING METHODS

Departments within a provider are usually divided into two types: 1) Those that produce patient care revenue (e.g., routine services, radiology), and 2) Those that do not directly generate patient care revenue but are utilized as a service by other departments (e.g., laundry and linen, dietary). The two types of departments are commonly referred to as "revenue-producing cost centers" and "nonrevenue-producing cost centers," respectively.

Although nonrevenue-producing cost centers do not directly produce patient care revenue, they contribute indirectly to patient care revenue generated by "serving" as a service to the revenue-producing centers and also to other nonrevenue-producing centers. Therefore, for the purpose of proper matching of revenue and expenses, the cost of the revenue-producing centers should include both its direct expenses and its proportionate share of the costs of each nonrevenue-producing center (indirect costs) based on the amount of services received. The process of allocating the cost of a particular nonrevenue-producing center to other nonrevenue-producing centers and revenue-producing centers is performed by utilizing a set of statistics (e.g., pounds of laundry for allocating "laundry and linen" costs, square feet for allocating "depreciation building" costs).

Every nonrevenue-producing cost center has the potential of being allocated to every other nonrevenue-producing cost center in addition to the revenue-producing cost centers. This precludes a simple allocation of the direct expense of the nonrevenue-producing cost center because the indirect costs derived from allocation of other nonrevenue-producing cost centers must be computed in determining the "full cost" (direct and indirect costs) of the nonrevenue-producing cost center being allocated. All cost finding methods employ this computation in determining the full costs of departments.