



MEDICARE COST REPORT IMPLICATIONS OF COVID-19 RELIEF FUNDING

April 7, 2020

KHA has received a number of questions from our members regarding how relief provided by the various sources of COVID-19 funding could impact the Medicare Cost Report. Below is BKD's response to some commonly asked questions. **NOTE: The responses below are provided as a guide to understanding the potential impact to the Medicare Cost Report for the additional funds available in response to the COVID-19 crisis as of the date above. We recommend that you consult with your Medicare Cost Report Preparer, Hospital Accounting Firm and others to receive additional guidance and clarification based on your specific situation.**

Question 1: What is the impact of receipt of any of the COVID-19 stimulus funding sources available (Families First Coronavirus Response Act tax credits, FEMA, Paycheck Protection Program, etc.) on the Medicare Cost Report?

Response 1: Each of the stimulus funding programs could have the potential of impacting the CAH Medicare Cost Report, and hospitals should carefully evaluate each program. Consideration should be given in understanding not only the impact upon the Medicare Cost Report, but also the opportunity to take advantage of your hospital's need to address short-term cash flow. Below are comments regarding some of the funding programs, and the potential impact of each:

- **Medicare Accelerated Payment Program** – This program is simply an advance on future payments from the Medicare program and has no impact to the total reimbursement the hospital will receive from the Medicare program. The Accelerated Payment Program will provide cash to hospitals within 7 calendar days. A separate request must be made for each provider number for which the CAH wishes to receive an advance payment (hospital, skilled swing bed, RHC, HHA, etc.). Repayment will begin 120 days after the advanced payment. At the end of the 120-day period, 100% of every claim submitted by the hospital will be used to offset the outstanding balance of the accelerated payment. If this causes a hardship, the hospital may request a different withholding rate on claims payments directly from the MAC. Hospitals will have up to one year from the date of the accelerated payment was made to repay the balance to avoid interest.
- **SBA Paycheck Protection Program** – The following applies only to CAH as cost reductions typically will not impact PPS reimbursement. Under normal circumstances, loan forgiveness could result in a reduction of allowable expenses. CMS has not been clear with their guidance on the treatment of PPP loan forgiveness. In a best case scenario, any amounts forgiven would be treated as a grant with no reduction to expenses. In a worst case scenario, all amounts forgiven will be used to offset allowable costs. We believe that even in the "worst case" scenario a CAH will be better off. Note this works in the CAH's favor because it is cost, not reimbursement, that is offset. Since CAH's have less than 100% Medicare mix, an offset of cost is not a dollar-for-dollar reduction in reimbursement. As Medicare mix drops, a CAH would see an even larger benefit of participating in the SBA loan program.

- Deferral of payroll taxes - Similar to the Medicare Accelerated Payment Program, this program does not impact total expenses ultimately paid or Medicare reimbursement received. This program is a deferral of payment of the employer portion of social security taxes. The hospital will continue to record the expense associated with the employer portion of social security taxes, however, they will not remit payment. This is in effect a two-year 0% interest loan from the Treasury Department. Note that businesses who participate in the SBA Paycheck Protection Program's loan forgiveness are not eligible for the deferral of payroll taxes.
- FEMA – Typically, federal grants, as well as other contributions received by hospitals, do not require an offset on the Medicare Cost Report. We understand that funds received from FEMA will not impact allowable costs.

Question 2: What is the best way to track costs that are related to COVID-19?

Response 2: The key to tracking costs related to COVID-19 is finding something that works within your accounting system. Not all systems will have the same capabilities, so what works well in one system may not be the preferred method in another. One thing to keep in mind is that costs must still be tracked by home department for preparation of the Medicare cost report. Following are some suggestions on how to track these costs:

- Create a new expense account in each department for COVID-19 related expenses. This will allow the capture of total departmental expense for cost report preparation as well as the ability to easily extract the COVID-19 expenses.
- If creating new expense accounts is not a viable option, create a spreadsheet to manually track the COVID-19 expenses by department.
- Maintain copies of invoices for all COVID-19 related expenses.
- For salaries and wages, consider creating a time code within the payroll system to capture time spent related to COVID-19.
- If creating a time code, have employees track time spent related to COVID-19.