

CMS Manual System	Department of Health & Human Services (DHHS)
Pub 100-20 One-Time Notification	Centers for Medicare & Medicaid Services (CMS)
Transmittal 362	Date: August 1, 2008
	Change Request 6132

Subject: Requirement to Educate Providers Regarding CMS' Use of Medicare Cost Report Data

I. SUMMARY OF CHANGES: The purpose of this Change Request (CR) is to require Medicare contractors to educate Medicare providers regarding the specific way that CMS uses Medicare Cost Report (MCR) data. Medicare providers are statutorily required to submit cost reports annually. MCR data play a central role in the development of the input price indexes (market baskets) used to update PPS payments. Similarly, they are essential in evaluating Medicare payment adequacy. It is the responsibility of Medicare contractors to supply information to providers regarding how CMS uses the MCR data to update future Prospective Payment System (PPS) payments. It is crucial that Medicare providers fill out these reports with complete and valid data.

New / Revised Material

Effective Date: January 1, 2009

Implementation Date: January 5, 2009

Disclaimer for manual changes only: The revision date and transmittal number apply only to red italicized material. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

II. CHANGES IN MANUAL INSTRUCTIONS: (N/A if manual is not updated)

R=REVISED, N=NEW, D=DELETED-Only One Per Row.

R/N/D	Chapter / Section / Subsection / Title
N/A	

III. FUNDING:

SECTION A: For Fiscal Intermediaries and Carriers:

No additional funding will be provided by CMS; Contractor activities are to be carried out within their operating budgets.

SECTION B: For Medicare Administrative Contractors (MACs):

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

IV. ATTACHMENTS:

One-Time Notification

**Unless otherwise specified, the effective date is the date of service.*

Attachment – One-Time Notification

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SUBJECT: Requirement to Educate Providers Regarding CMS' Use of Medicare Cost Report Data

Effective Date: January 1, 2009

Implementation Date: January 5, 2009

I. GENERAL INFORMATION

A. Background: Most Medicare providers are statutorily required to submit annual Medicare Cost Reports (MCRs). The rules governing the submission of MCRs are set forth in title 42 of the Code of Federal Regulations 413.20 and 413.24. Under § 413.20(b) and § 413.24(f), providers are required to submit cost reports annually, with the reporting period based on the provider's accounting year. Additionally, under § 412.52, all hospitals participating in the Prospective Payment System (PPS) must meet cost reporting requirements set forth in § 413.20 and § 413.24.

In reviewing the MCR data submitted by providers, it appears that many are failing to completely fill out their MCR with valid data likely due to the misconception that the data submitted on the MCR do not impact their payments. To correct that misconception and to educate Medicare providers, this Change Request (CR) is intended to provide information regarding how the Centers for Medicare and Medicaid Services (CMS) uses the MCR data to update future PPS payments in aggregate as well as to derive subclasses of providers such as urban/rural.

B. Policy: It is crucial that Medicare providers learn how CMS uses the MCR data and that they understand the importance of filling out these reports with complete and valid data. The MCRs play a central role in CMS' development of the input price indexes (or market baskets) used to update PPS payments. Similarly, they are essential in evaluating Medicare payment adequacy in aggregate and for subclasses of providers.

Market baskets are used by CMS to annually update payments for the various providers paid via the PPSs. They are designed to measure the input price inflation that providers face in the provision of the medical care services they deliver. Specifically, MCR data are used to develop the major cost weights that are used in the market baskets. MCR data are also used to determine the labor-related share of a given market basket—that is, the proportion of costs that are related to, influenced by, or vary with the local labor markets. The labor-related share is used in conjunction with the area wage index to determine the geographic adjustment to Medicare payments. This adjustment can vary widely, thus individual hospitals' payment levels can be very sensitive to the changes, and errors, in measuring the labor-related share. For more information on Medicare's Market Baskets, visit: http://www.cms.hhs.gov/MedicareProgramRatesStats/04_MarketBasketData.asp.

CMS, as well as the Medicare Payment Advisory Commission (MedPAC), rely heavily on complete, valid, and up-to-date MCR data to evaluate the adequacy of PPS payments—i.e., determining whether Medicare is paying its "fair share" to providers' in aggregate and in a variety of subclasses (urban/rural, hospital-based/freestanding, etc.). Policymakers and program administrators, as stewards of the public trust, require the ability to validly quantify whether Medicare is paying a fair amount for the health services it purchases for its beneficiaries. The information submitted on the MCRs represents the only nationally-available data on which these statutorily-required payment updates in aggregate and by subclass can be appropriately based.

To carry out the tasks described above, CMS typically uses cost data from Worksheets A, B, D, and G of the cost report, provider characteristics and salary data from the S worksheets, and payment data from Worksheet E and other cost report worksheets (the location of which varies by provider-type).

II. BUSINESS REQUIREMENTS TABLE

Number	Requirement	Responsibility (place an "X" in each applicable column)									
		A / B M A C	D M E M A C	F I M A C	C A R I E R	R H I S S	Shared-System Maintainers				OTH ER
						F I S S	M C S	V M S	C W F		
6132.1	Medicare contractors shall educate providers with specific information regarding how CMS uses MCR data.	x		x		x					
6132.1.1	Medicare contractors shall inform providers that CMS uses MCR data to derive the major cost weights for its market baskets, which annually update payment rates.	x		x		x					
6132.1.2	Medicare contractors shall inform providers that CMS uses MCR data to derive the labor-related share, which is used in conjunction with the area wage index to determine the geographic adjustment to Medicare payments.	x		x		x					
6132.1.3	Medicare contractors shall inform providers that CMS, as well as other stakeholders, use MCR data to evaluate the adequacy of PPS payments.	x		x		x					
6132.1.4	Medicare contractors shall inform providers that CMS typically uses cost data from Worksheets A, B, D, and G of the MCR.	x		x		x					
6132.1.5	Medicare contractors shall inform providers that CMS typically uses provider characteristics and salary data from the S worksheets of the MCR.	x		x		x					
6132.1.6	Medicare contractors shall inform providers that CMS typically uses payment data from Worksheet E and other cost report worksheets.	x		x		x					
6132.2	Medicare contractors shall reiterate to providers the importance of filling out the MCR with complete and valid data.	x		x		x					

III. PROVIDER EDUCATION TABLE

Number	Requirement	Responsibility (place an "X" in each applicable column)									
		A / B M A C	D M E M A C	F I M A C	C A R R I E R	R H H I S S	Shared-System Maintainers				OTH ER
						F I S	M C S	V M S	C W F		
6132.3	<p>A provider education article related to this instruction will be available at http://www.cms.hhs.gov/MLNMattersArticles/ shortly after the CR is released. You will receive notification of the article release via the established "MLN Matters" listserv.</p> <p>Contractors shall post this article, or a direct link to this article, on their Web site and include information about it in a listserv message within one week of the availability of the provider education article. In addition, the provider education article shall be included in your next regularly scheduled bulletin. Contractors are free to supplement MLN Matters articles with localized information that would benefit their provider community in billing and administering the Medicare program correctly.</p>	x		x		x					

IV. SUPPORTING INFORMATION

Section A: For any recommendations and supporting information associated with listed requirements, use the box below:N/A

Use "Should" to denote a recommendation.

X-Ref Requirement Number	Recommendations or other supporting information:

Section B: For all other recommendations and supporting information, use this space: N/A

V. CONTACTS

Pre-Implementation Contact(s): John Poisal (410) 786-6397; Mark Freeland (410) 786-7952

Post-Implementation Contact(s): John Poisal (410) 786-6397; Mark Freeland (410) 786-7952

VI. FUNDING

Section A: For *Fiscal Intermediaries (FIs), Carriers and Regional Home Health Carriers (RHHs)*:

No additional funding will be provided by CMS; contractor activities are to be carried out within their operating budgets.

Section B: For *Medicare Administrative Contractors (MACs)*:

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.