

Allocation of Shared Costs for Hospital-Related Nursing Facilities

This issuance supplements the instructions for completing the Cost Report Form and the Supporting Financial Documentation Form in Practice and Procedure (NF) Issuance 92-15 and describes the proper method of accounting for shared costs of hospital-related nursing facilities.

Findings:

1. Nursing facilities may share facilities and services (such as administration, maintenance, dietary, laundry, etc.) with other entities.
2. The preferred method of accounting for the costs of these services is by direct assignment.
3. Costs which cannot be directly assigned to the nursing facility must be allocated to the facility based on certain statistics. V.D.R.S.R. §2.3(g).
4. Pursuant to V.D.R.S.R. § 2.3(k), a good or service obtained from a related party or an unrelated party is considered to be partially comprised of a capital component. This capital component is not to be separated from the cost charged or allocated for that service but is to be considered a part of the cost of the good or service rendered. For example, if laundry service is provided to a nursing facility by a hospital laundry the capital component of the laundry costs allocated or charged to the nursing facility is considered to be a laundry expense. For shared costs in a cost center that are allocated to more than one cost category, the overhead is reported in the Indirect cost category. (See below, pages 93-1.2 to 93-1.3.)
5. Hospital-related nursing facilities often share costs with the hospital and/or other related enterprises. Such costs for hospital-related facilities are analogous to purchased services acquired by other nursing facilities, whether or not under contract, and should be treated similarly.
6. Hospital-related nursing facilities must file the hospital's Medicare cost report along with the nursing facility's Medicaid cost report.
7. From time to time the Health Care Financing Administration (HCFA) may modify the Medicare cost report to reflect changes in federal Medicare reimbursement methodology. Medicaid cost finding does not necessarily reflect changes in Medicare.

Allocation of Shared Costs for Hospital-Related Nursing Facilities (cont.)

INSTRUCTIONS

1. In accounting for the costs of shared services provided by related parties, hospital-related facilities must use the contract price less any markup included by the related organization or the costs of those services as stepped down/allocated to the nursing facility on the Medicare cost report, whichever is the lower.

2. For facilities using the Medicare cost report (Form HCFA-2552-92) to allocate the cost of shared services, only Worksheet B, Part I (Cost Allocation General Service Costs) and Worksheet B-1 (Statistics) may be used to calculate these costs. Medicare Worksheet B, Part II and Part III are not acceptable for use in determining Medicaid allowable amounts for reporting on the Division's Medicaid cost report for nursing facilities.

3. Certain cost centers contain costs which must be allocated to more than one cost category on the Medicaid cost report:

(a) Raw food costs must be separated from other dietary costs allocated to the nursing facility in the stepdown process.

(1) Determine the total raw food costs from the trial balance used for the Medicare cost report.

(2) After the stepdown has been performed, go to the top of the DIETARY column on Worksheet B Part I of the Medicare cost report. The number at the top of this column is the total direct dietary and cafeteria costs plus overhead from property, employee benefits, administrative and general costs, maintenance and repair, operation of plant, laundry and housekeeping.

(3) Calculate a ratio by dividing the total raw food costs by the total dietary amounts to be allocated (described in paragraph 3(a)(2) above).

(4) Refer back to the DIETARY column in the Medicare stepdown and find the costs allocated to the nursing facility.

(5) Multiply these allocated costs by the ratio calculated in paragraph 3(a)(3) above. The result is the allocated raw food cost to be reported at the nursing facility.

Allocation of Shared Costs for Hospital-Related Nursing Facilities (cont.)

(6) Pursuant to V.D.R.S.R. §6.3(a), raw food costs should be reported in the Resident Care cost category. All other dietary costs should be reported in the Indirect cost category.

(b) Utility costs must be separated from the amount allocated to the nursing facility for plant operations.

(1) Using the trial balance on which the hospital's Medicare cost report is based, calculate the total costs for water, sewer, electricity, all propane gas, fuel oil and ordinary garbage removal. (Utility cost should exclude disposal costs associated with medical waste requiring special handling. These costs should be charged directly to the entity generating the waste.)

(2) After the Medicare stepdown has been performed, go to the top of the PLANT OPERATIONS column of Worksheet B, Part I of the Medicare cost report. The number at the top of this column is the total operation of plant cost plus overhead from property, employee benefits, administrative and general and maintenance and repairs.

(3) Calculate a ratio using the total utility costs from paragraph 3(b)(1) divided by the entity's total plant operation costs to be allocated (determined in paragraph 3(b)(2) above).

(4) Refer back to the Plant Operations column in the Medicare stepdown to find the costs allocated to the nursing facility.

(5) Multiply these allocated costs by the ratio calculated in paragraph 3(b)(3) above. The result is the allocated utility cost to be reported at the nursing facility.

(6) Pursuant to V.D.R.S.R. §6.3(b), utility costs should be reported in the Resident Care cost category. All other plant operation costs should be reported in the Indirect cost category.

4. All allocated administrative and general costs must be included in the Indirect Cost category.

5. Allocated costs should be entered on the Supporting Financial Documentation Form on Schedule SFD2, Line 38. If there is more than one cost category affected by the allocation, an additional sheet, Form 93-1.5F, must be filed, breaking down the allocated costs by cost category.

Allocation of Shared Costs for Hospital-Related Nursing Facilities (cont.)

Providers should note that the Medicaid treatment of shared costs is not affected by changes to the Medicare cost report forms, even if the specific schedule references should no longer be correct. Any changes to the Medicaid methodology for the allocation of shared costs will be notified to providers by a Practice and Procedure Issuance.

Effective: May 20, 1993

s/Ruth Rivers
Ruth Rivers
Director

Hospital-Related Nursing Facilities - Supplemental Sheet for Schedule SFD 2, Line 38

Provider: _____
Report Period From _____ **to** _____

	Explanation	Amount	Cost Categories on <i>Schedule A</i> to which the amount is to be added.	
			Cost Category	Line No.
	1	2	3	4
38-A				
38-B				
38-C				
38-D				
38-E				
38-F				
38-G				
38-H				
38-I				
38-J				
38-K				
38-L				
38-M				
38-N				
38-O				
38-P				
38-Q				
38-R				
38-S				
38-T				
38-U				
38-V				
38-W				
38-X				
38-Y				
38-Z				