

**DEPARTMENT OF HEALTH SERVICES
COUNTY OF LOS ANGELES****SUBJECT:** COST REPORTS**POLICY NO.** 542

PURPOSE:: To establish guiding principles for the preparation and submission of annual cost reports as required by 42 CFR 413.20(b).

POLICY:: The Medicare, Medi-Cal, and other programs (Short-Doyle, CHAMPUS, etc.) require participants in those programs to file an annual report, commonly referred to as a "cost report." The cost report is used to determine allowable costs for purposes of retrospective reimbursement, and in some cases, used to set prospective payments. The requirements for filing cost reports are set forth in statutes, regulations, instructions, bulletins and manuals.

The Department of Health Services (DHS) has established specific policies, procedures and guidelines that seek to ensure the fullest possible compliance with applicable statutes, regulations and other requirements with respect to the preparation and submission of cost reports. The guiding principles underlying those policies and procedures are set forth below:

- Cost and statistical data and the allocation of costs should be based on actual, accurate and auditable documentation whenever possible. However, when actual or accurate documentation is not available, the use of estimates or prior year data may be substituted, but must be disclosed at the time of filing the cost reports.
- Where costs are shared among two or more cost reporting entities, such as a hospital and a health center, allocations of costs among the facilities should be accurate and supported by verifiable and auditable data.
- Apportionment of cost among the programs within each facility should be accurate and supported by verifiable and auditable data.
- The basis for allocating cost must be approved by the programs, and changes in the methods of allocation must receive prior approval by the program, if required, before implementation.
- When general ledger accounts contain both allowable and non-allowable costs, these accounts should be analyzed to determine the allowable amount that should be claimed for reimbursement. Supporting documentation justifying the calculation must be maintained by the facilities.
- Estimates must be determined using a reasonable methodology, and supporting documentation justifying the calculation of the estimate must be maintained.
- Non-allowable costs should not be claimed for purposes of reimbursement. When required, the non-allowable cost should be reported in the non-reimbursable section of the cost report or eliminated, whichever method is appropriate.
- Costs, revenue, and statistics should be properly classified.
- Non-patient care revenue, except for the revenue applicable to the non-

reimbursable cost centers, should be reported in a manner that reduces the cost and is offset against the comparable expense.

- Prior year audit adjustments made by the programs should not be claimed for reimbursement, or where the adjustments are disputed, claimed for reimbursement but clearly identified as protested amounts.
- When required, all related parties should be identified and all related party charges reduced to cost using the most current Countywide Cost Allocation Plan (CCAP) report.
- Regarding Medicare cost reports, all requests for exceptions, such as TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) limits should be properly documented and supported by verifiable and auditable data.
- Disclosure statements must accompany a filed cost report when there is information that should be brought to the program's attention. The disclosure statement must clearly identify each area that does not strictly conform to program regulations and instructions, such as the use of estimates. Moreover, material changes from the prior year, changes in methodologies, etc. must be disclosed.
- Cost reports must be submitted/filed within the required legal time frame to avoid late charges/penalties/sanctions.
- The applicable program should be notified of any material errors discovered after the submission of cost reports within a reasonable time based on the nature of the error.
- The Chief Financial Officer or Hospital Administrator are the only authorized personnel allowed to sign the cost reports and the related disclosure statement.

AUTHORITY:: 42 Code of Federal Regulations (CFR) 413.20

EFFECTIVE DATE: Mar 09, 2004 **SUPERCEDES:** DHS Policy 542, "External Fiscal Reports" 5/8/78

APPROVED: Signature on File
