



CPAs & BUSINESS ADVISORS

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# **AUDIT AND REIMBURSEMENT HOT TOPICS**

# AGENDA

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- Reimbursement Hot Topics
- Past, Current and Future Pronouncement  
Reminders
- Medicaid Directed Payment Program



# **RURAL HEALTH CLINIC - REIMBURSEMENT**

# RHC REIMBURSEMENT

- Passage of Consolidated Appropriations Act of 2021:
  - Included comprehensive payment reforms for all RHCs
  - Established reimbursement caps for all RHCs (freestanding and provider based):
    - Existing provider based RHCs at 12/31/20 assigned grandfathered base rate calculated from 2020 cost report:
      - Base rate updated annually by Medicare economic index (MEI).
        - 3.8% effective 1/1/2023
        - 4.6% effective 1/1/2024
        - 3.5% effective 1/1/2025

# RHC REIMBURSEMENT

- Passage of Consolidated Appropriations Act of 2021:
  - Included comprehensive payment reforms for all RHCs
  - Established reimbursement caps for all RHCs (freestanding and provider based):
    - New provider based RHCs after 12/31/20 and freestanding RHCs
      - \$100 Base rate, increased \$13 per year through 2028
    - RHCs will receive the lesser of the cap rate or the actual rate per visit from the cost report.

Calendar Year	Rate
2021	\$100
2022	\$113
2023	\$126
2024	\$139
2025	\$152
2026	\$165
2027	\$178
2028	\$190
2029	\$190 + MEI



## OPPORTUNITIES IN DEALING WITH NEW CAP LIMITS

- Add Visits -
  - New services
- Lower Costs -
  - Lower Labor/Overhead
  - Change provider mix

# MANAGING COST STRATEGIES

- Review the types of providers in the RHC setting:
  - Add low-cost providers:
    - Nurse practitioner and physician assistant wages lower than primary care physician wages.
    - Nurse practitioner and physician assistant with higher visits and lower cost will dilute cost per visit.
  - Opportunity:
    - Consider adding nurse practitioners or physician assistants to the RHC when existing cost per visit exceeds reimbursement cap.
  - Add low-cost services:
    - Mental health provider wages lower than primary care clinician wages.
    - Mental health providers with higher visits and lower cost will dilute cost per visit.
  - Opportunity:
    - Consider adding lower cost per visit services to the RHC when existing cost per visit exceeds reimbursement cap.

# MANAGING COST STRATEGIES

- Review the types of overhead costs being allocated to the RHC on Medicare cost report B Series:
  - Depreciation
  - Employee benefits
  - Administrative and general (fragment?)
  - Plant / maintenance
  - Laundry
  - Housekeeping
  - Cafeteria
  - Medical records



# MANAGING COST STRATEGIES

- Are RHC practitioners providing services in other parts of the Hospital?
  - Emergency room call
  - Medical director
  - Are these costs in the right department / line on the cost report
  - Other
    - For cost report period ending after December 31, 2024 no longer applicable



# **RURAL HEALTH CLINICS — VACCINATIONS**

# RHC VACCINATIONS

- Effective **July 1, 2025** - RHCs can bill for all four types of Part B preventive vaccines, and their administration, at the time of service with or without a qualifying visit.
  - Pneumococcal, influenza, hepatitis B, and COVID-19
- Effective **July 1, 2025** - RHCs can bill HCPCS code M0201 for an in-home additional payment for Part B preventive vaccine administration only if a home visit meets all the requirements of both 42 CFR 405 Subpart X (services provided in the home) and 42 CFR 410.152(h)(3)(iii) (administration).

# RHC VACCINATIONS

- Previous reimbursement method – No interim billings with settlement based on the Medicare cost report.
- New reimbursement method – Bill as services are provided with a final settlement based on the Medicare cost report.
  - Should improve cash flow
  - Expect to see a new report type on the Medicare PS&R
- **Take Away** - Be sure your billers know how to bill Medicare for these services starting July 1, 2025.

# RHC VACCINATIONS

- Billing information from the Federal Register

**TABLE 51: CY 2025 Part B Payments for Preventive Vaccine Administration if the EUA Declaration for Drugs and Biologicals with Respect to COVID-19 Continues into CY 2025**

Category of Part B Product Administration	Part B Payment Amount (Unadjusted)	Annual Update <sup>6</sup>	Geographic Adjustment
Influenza, Pneumococcal, Hepatitis B Vaccines <sup>1,4</sup>	\$33.71	MEI	GAF
COVID-19 Vaccine <sup>2,4</sup>	\$44.95	MEI	GAF
In-Home Additional Payment for Part B Vaccine Administration (M0201) <sup>4</sup>	\$39.90	MEI	GAF
COVID-19 Monoclonal Antibodies (for Treatment or Post-Exposure Prophylaxis) <sup>3,4,5</sup>	N/A	N/A	N/A
COVID-19 Monoclonal Antibodies (for Pre-Exposure Prophylaxis) <sup>3,4</sup>	N/A	N/A	N/A
Intravenous Infusion: Health Care Setting	\$450	N/A	GAF

<sup>1</sup> HCPCS Codes G0008, G0009, G0010.

<sup>2</sup> CPT code 90480.

<sup>3</sup> <https://www.cms.gov/monoclonal>.

<sup>4</sup> Beneficiary coinsurance and deductible are not applicable.

<sup>5</sup> As of the issuance of the CY 2025 PFS final rule, there are no monoclonal antibodies approved or authorized for the treatment or for post-exposure prophylaxis of COVID-19.

<sup>6</sup> The CY 2025 percentage increase of the 2017-based MEI is 3.5 percent, based on historical data through the 2nd quarter of 2024.



# CURRENT TRENDS

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- **Audit adjustment reports**
  - **Emergency room call**
    - **Contract wordings**
    - **Secondary call**
  - **Financial Statement Tie-outs**
  - **PS&R Adjustments**
    - **PS&R Splits**
  - **A-8-3 contract therapy**



# **MEDICARE ADVANTAGE**



# MEDICARE ADVANTAGE

- **Volume growth**
  - Shift from traditional to Advantage
  - Advantage payment as a % of traditional
  - Who knows Advantage costs and % paid
- **Rate Settings**
  - Prior year cost report results
    - Receivable
    - Payable
    - Rate letter approaches
    - Interim rate change requests

# QUESTIONS?

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**PAST, CURRENT AND FUTURE  
PRONOUNCEMENT  
REMINDERS**

# FASB ASC 842, LEASE REMINDERS

- **Financing Lease (if any of the one below is met = financing)**
  - Ownership transfer by the end of the lease term
  - Option to purchase the underlying asset that the lessee is reasonably certain to exercise
  - Lease term is major part of the remaining economic life of the underlying asset
  - Present value of the lease payments equals or exceeds substantially all for the fair value of the underlying asset
  - Underlying asset is specialized in nature that it is expected to have no alternative use at the end of the lease term
- **If none of the above terms are met = operating leases**

# FASB ASC 842, LEASE REMINDERS

- Measurement of Leases
- Financing Leases
  - Right to use asset are measured at the lease liability adjusted for any prepaid or accrued lease payments, remaining lease incentive, unamortized initial direct costs and impairment
  - Lease term includes any periods for which the lessee is reasonably certain to exercise a renewal option or not exercise an option to terminate the lease
  - Lease liabilities are reduced by the difference between the interest incurred the lease payments for the period
  - Finance right to use assets are reduced through straight-line amortization
  - Finance lease costs are recognized separately in the income statement as interest expense and amortization expense
- Operating Leases
  - Measured by the present value of the remaining lease payments
  - Right to use asset are measured at the lease liability adjusted for any prepaid or accrued lease payments, remaining lease incentive, unamortized initial direct costs and impairment
  - Operating lease costs are recognized as a single lease costs, on straight-line basis

# RELATED PARTY CONSIDERATIONS



## Related party leases:

- Recognition and measurement requirements on the basis of legally enforceable terms and conditions of the arrangement.
- Should be the same classification and accounting as unrelated parties.
- Apply related party transactions disclosure requirements.
- Operating entity / leasing entity arrangements.

# **GASB STATEMENT NO. 87 *LEASES* & NO. 96 *SBITAS* - REMINDER**

- **Evaluation of leases**
  - Lease term (short-term vs long-term)
  - Extensions or termination options
  - Determination if lease is just a financing agreement = Debt (automatic transfer of ownership)
  - Discount rate, if interest rate cannot be readily determined, use incremental borrowing rate
- **Evaluation of SBITA**
  - Contract that conveys control of the right to use another party's IT software
  - Right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
  - Right to determine the nature and manner of the use of the underlying IT asset as specified in the contract
  - Subscription term to consider any renewal options



# **GASB 101 — COMPENSATED ABSENCES**



# COMPENSATED ABSENCES - DEFINED

- A *compensated absence* is leave for which employees may receive one or more (a) cash payments when the leave is used for time off; (b) other cash payments, such as payment for unused leave upon termination of employment, and (c) noncash settlements, such as conversion to defined benefit postemployment benefits.
- If the leave is dependent on the occurrence of a sporadic event (parental, military or jury duty) the liability is not recognized until the leave commences



- Vacation
- Sick
- Paid time off
- Holidays
- Parental leave
- Bereavement leave
- Sabbatical leave (certain types)

# LIABILITY SHOULD BE RECOGNIZED IF ALL THE FOLLOWING ARE TRUE

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- The leave is attributable to services already rendered
- The leave accumulates
- The leave is *more likely than not* to be used for time off or otherwise paid in cash or settled through noncash means.



# **GASB 103 — FINANCIAL REPORTING MODEL IMPROVEMENTS**

# OVERVIEW

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- Management's Discussion and Analysis
- Clarification of operating and nonoperating
- Presentation of proprietary funds statement of revenues, expenses, and changes in net position
- Budgetary comparisons
- Major component unit presentations
- Unusual or infrequent items

# MANAGEMENT'S DISCUSSION AND ANALYSIS

- Users of MD&A “have different levels of knowledge and sophistication about governmental accounting and finance,” “may not have a detailed knowledge of accounting principles”.
- Analysis of current-year balances and activity to explain why balance and results changed from prior year.
- Avoid unnecessary duplication, avoid “boilerplate” language.
- Focus on primary government, discussion of discretely presented component units is a matter of professional judgment.
- MD&A Five Sections
  - Overview of the financial statements
  - Financial summary
  - Detailed analysis
  - Significant capital asset and long-term financing activity
  - Currently known facts, decisions or conditions

# MD&A – SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

- Capital Asset Activity
  - Include intangible capital assets
  - Discussion of significant additions and disposals
  - Discussion of significant policy changes and economic factors
  - Avoid duplication between the analysis and this component
- Long-Term Financing Activity
  - Includes debt, leases and SBITAS
  - Discuss new agreements, changes to credit rates, debt limit
  - Discussion of significant policy changes and economic factors
  - Avoid duplication between the analysis and this component

# MD&A – CURRENTLY KNOWN FACTS, DECISIONS, AND CONDITIONS

- Include a description of currently known facts, decisions, and conditions that are expected to have a significant effect on financial position or results of operations in the subsequent year. Examples could include:
  - Trends in relevant economic and demographic data.
  - Factors used to develop the subsequent year's budget:
    - Those affecting revenues available for appropriation, e.g., changes in rates and bases of activity.
    - Those affecting planned spending, e.g. inflation, labor contracts, changes in programs.
  - Expected changes in budgetary net position or fund balance.
  - Actions government has taken related to capital plans, leases, and SBITAs (long-term items).
  - Actions other parties have taken, such as new laws or regulations.

# OPERATING AND NONOPERATING

- Operating
  - Activities other than nonoperating activities
- Nonoperating
  - Subsidies received and provided
  - Revenues and expenses of financing
  - Resources from the disposal of capital assets and inventory
  - Investment income and expenses
  - Contributions to permanent and term endowments



# EFFECTIVE DATE AND TRANSITION

- Effective for fiscal years beginning after June 15, 2025:
  - All reporting periods thereafter.
  - Earlier application is encouraged.
  - Changes adopted at transition – change in accounting principle (Statement 100).
  - All component units should implement the provisions in the same year as the primary government.



# **SINGLE AUDIT/UNIFORM GUIDANCE**

# UNIFORM GUIDANCE CHANGES

- Threshold for a single audit increased from \$750,000 to \$1,000,000
- Type A threshold increase from \$750,000 to \$1,000,000
- Raised the de minimus rate for indirect costs from 10% to 15% (assuming there isn't a federal negotiated rate).
- Raised the threshold for determining items to be equipment from \$5,000 to \$10,000
- Revised the definition and examples of questioned costs
- Added a requirement that when there are known questioned costs, but the dollar amount is undetermined or not reported, a description as to why the dollar amount was undetermined or not included.

# EFFECTIVE DATE

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- October 1, 2024
- Changes to the audit threshold and Type A program threshold cannot be adopted until audits for years ending September 30, 2025 or later.

# QUESTIONS?

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# **DIRECTED PAYMENT PROGRAM**

# DIRECTED PAYMENT PROGRAM – ACCOUNTING TREATMENT

- Financial Statement Presentation
  - Balance Sheet/Statement of Net Position
    - Receivable (gross payment net of any settlement estimates) and payable (assessment and fees)
  - Statement of Operations/Statement of Revenue, Expenses and Changes in Net Position
    - Patient Service Revenue (gross payment as a contractual offset)
    - Expense (assessment and fees)

# DIRECTED PAYMENT PROGRAM – INFORMATION NEEDED

- Notice of Assessment
  - Provides quarterly information
  - Need receipt and payment dates
- Current year MCO payments (exclude fee schedule, professional fees, rhc, physician clinic, and swing-bed)
  - Inpatient
  - Outpatient
- Quarterly/year-end settlement calculation
  - Document your process
  - Example calculation



# DIRECTED PAYMENT PROGRAM – EXAMPLE NOA

## Notice of Assessment (Example not yet finalized)

	Inpatient	Outpatient	Total	
Provider Tax Assessment				
1 Net Patient Revenue	2,445,000	8,500,000	10,945,000	FY 2022 Medicare Cost Report (WS G)
2 Total Assessment Rate	6.40%	7.10%		
3 Adjustment to Rate	100.00%	100.00%		
4 Payment Assessment Rate	6.40%	7.10%		Line 2 times Line 3
5 Annual Assessment	156,500	603,500	760,000	Line 1 times Line 3
6 Quarterly Assessment	39,125	150,875	190,000	Line 5 divided by 4
7 Administrative Fees	3,130	12,070	15,200	
8 Total Quarterly Assessment + Admin Fees	42,261	162,945	205,200	Line 6 plus Line 7

### Quarterly Payment Reporting:

9 United Healthcare MCO Payments	25,002	49,930	74,932	DHHS provided
10 Nebraska Total Care MCO Payments	25,000	63,000	88,000	DHHS provided
11 Molina MCO Payments	25,000	75,000	100,000	DHHS provided
12 Total Quarterly Payments	75,002	187,930	262,932	Line 9 + Line 10 + Line 11
13 Directed Payment Rate	174.88%	278.74%		
14 Total Quarterly Directed Payment	131,163	523,836	655,000	Line 12 times Line 13

# DIRECTED PAYMENT PROGRAM – NOTICE OF ASSESSMENT

- Directed Payment Program Summary (quarter 1 paid)

	Q1 July/Sept (previous slide)	Q2 Oct/Dec	Q3 Jan/Mar	Q4 April/June	Total
Payments	655,000	Open	Open	Open	655,000
Assessments	190,000	Open	Open	Open	190,000
Admin Fees	15,200	Open	Open	Open	4,000
NHA Fees*	<u>1,900</u>	<u>Open</u>	<u>Open</u>	<u>Open</u>	<u>1,900</u>
Net	447,900	Open	Open	Open	447,900

- For example, fees are 1% of assessment and are not included on the “Notice of Assessment”

# DIRECTED PAYMENT PROGRAM – ACTUAL MCO PAYMENTS

- Actual MCO payment summary
  - Internal MCO payment data
  - Add-on percentage from NOA (for that quarter)

Q1	Inpatient	Outpatient	Total
MCO 1	\$ 25,002	\$ 51,953	
MCO 2	\$ 25,000	\$ 66,000	
MCO 3	\$ 25,000	\$ 75,000	
Total	\$ 75,002	\$ 192,953	\$ 267,955
Add-on Percentage	174.88%	278.74%	
Payment	\$ 131,163	\$ 537,837	\$ 669,000

# DIRECTED PAYMENT PROGRAM – INTERIM VS ACTUAL

- NOA (interim payment) compared to calculation on actual payments
  - No change in assessment, administration fees or NHA fees

Actual from NOAs	Quarter 1
Date Funds deposited	x/xx/2024
Payments	\$ 655,000
Assessments	\$ 190,000
Admin Fees	\$ 15,200
NHA Fees	\$ 1,900
Net	\$ 447,900

ESTIMATED PAYMENTS Using Claims paid during Quarter	Quarter 1
Estimated Payments Earned	\$ 669,000
Assessments	\$ 190,000
Admin Fees	\$ 15,200
NHA Fees	\$ 1,900
Net	\$ 461,900

Difference between NAO and Actual	Quarter1
Payments	\$ 14,000
Assessments	\$ -
Admin Fees	\$ -
NHA Fees	\$ -
Net	\$ 14,000



# DIRECTED PAYMENT PROGRAM - ACCOUNTING TREATMENT

## Financial Statement Example (Quarter 1 financial statements)

- Recorded on accrual basis
- Q1 received:
  - Record cash, negative contractual for gross payments, and expense for gross assessments/fees
- Settlement calculation considered

# DIRECTED PAYMENT PROGRAM – EXAMPLE BALANCE SHEET

	Without DPP	DPP Activity Based on Payment Q1	DPP Estimated Settlement Q1	With DPP Total
Cash	\$ 5,000,000	\$ 447,900	\$ -	\$ 5,447,900
Patient receivables	6,000,000	-	-	6,000,000
Inventory	1,000,000	-	-	1,000,000
Prepaid expenses	500,000	-	-	500,000
Estimated third-party payor settlements	500,000	-	14,000	514,000
Total current assets	13,000,000	447,900	14,000	13,461,900
Investments	7,500,000	-	-	7,500,000
Capital Assets	15,000,000	-	-	15,000,000
Total assets	\$ 35,500,000	\$ 447,900	\$ 14,000	\$ 35,961,900
	Without DPP	Q1	Q2	Total
Current portion of debt	\$ 500,000	\$ -	\$ -	\$ 500,000
Accounts payable	1,000,000	-	-	1,000,000
Accrued salaries	500,000	-	-	500,000
Total current liabilities	2,000,000	-	-	2,000,000
Long-term debt	4,000,000	-	-	4,000,000
Net position	\$ 29,500,000	\$ 447,900	\$ 14,000	29,961,900
Total liabilities and net position	\$ 35,500,000	\$ 447,900	\$ 14,000	\$ 35,961,900

- Net position increased \$461,900



# DIRECTED PAYMENT PROGRAM - EXAMPLE STATEMENT OF OPERATIONS

	Without DPP	DPP Activity Based on Payment Q1	DPP Estimated Settlement Q1	With DPP Total
Net patient service revenue	\$ 12,000,000	\$ 655,000	\$ 14,000	\$ 12,669,000
Other revenue	6,000,000	-	-	6,000,000
<b>Total revenue</b>	<b>18,000,000</b>	<b>655,000</b>	<b>14,000</b>	<b>18,669,000</b>
Salaries and wages	5,000,000	-	-	5,000,000
Employee benefits	6,000,000	-	-	6,000,000
Professional fees and purchased services	4,000,000	207,100	-	4,207,100
Supplies and other	2,000,000	-	-	2,000,000
Depreciation	500,000	-	-	500,000
<b>Total expense</b>	<b>17,500,000</b>	<b>207,100</b>	<b>-</b>	<b>17,707,100</b>
<b>Increase in net position</b>	<b>\$ 500,000</b>	<b>\$ 447,900</b>	<b>\$ 14,000</b>	<b>\$ 961,900</b>

- Net patient service revenue increased \$679,000
- Expenses increased \$207,100
- Net position increased \$461,900

# DIRECTED PAYMENT PROGRAM - ACCOUNTING TREATMENT

- Other cut-off considerations if quarterly NOA not paid
  - Record gross payments as receivable (third-party payor settlement account or receivable account)
  - Record gross assessments/fees as accounts payable
  - Record negative contractual for gross payments
  - Record expense for gross assessments/fees



# DIRECTED PAYMENT PROGRAM - ACCOUNTING TREATMENT

- Financial Statement Footnote
  - Discussion about program
  - Table showing location of amounts in the balance sheet and income statement
- Final Directed Payment Period (DPP) Reconciliation
  - Notice of assessment based on payments received two quarters prior to assessment period (eventually after a few periods of implementation) (regardless of date of service)
  - Final reconciliation will be based on payments received for DPP dates of service
    - Offset against a future assessment
- Other Considerations
  - Year-end estimate
  - Accounting estimate policy

# DIRECTED PAYMENT PROGRAM – COST REPORTING

- **Allowable Expense**
  - Administrative fees and NHA fees
- **Non-Allowable Expense**
  - Assessments
  - Should be part of the Worksheet A-8 Adjustments

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