PROVIDER REIMBURSEMENT REVIEW BOARD
HEARING DECISION

ON-THE-RECORD
99-D10

PROVIDER -Tri-City Medical Center
Oceanside, CA

Provider No. 05-0128

vs.

INTERMEDIARY -
Blue Cross and Blue Shield Association/
Blue Cross of California

DATE OF HEARING-
September 30, 1998

Cost Reporting Period Ended -
June 30, 1986

CASE NO. 89-1103

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ISSUE:

Was the Intermediary's adjustment to reclassify all identified purchased repairs and maintenance expenses from the individual cost centers to the maintenance overhead cost center proper?

STATEMENT OF THE CASE AND PROCEDURAL HISTORY:

Tri-City Medical Center ("Provider") is a general, short-term hospital located in Oceanside, California. It filed its Medicare cost report for the fiscal year ended June 30, 1986 ("FY 86") assigning outside vendor maintenance and repair costs directly to the cost centers that received such services. Blue Cross of California ("Intermediary") reclassified these costs to the maintenance and repair cost center. It then allocated the directly assigned costs with general maintenance expense to all Provider cost centers on the basis of square footage. The Provider appealed the Intermediary's adjustment to the Provider Reimbursement Review Board ("Board"). The Provider's filing has met the jurisdictional requirements of 42 C.F.R. §§ 405.1835-.1841. The Provider is represented by Anita D. Lee, Esquire, of Foley, Lardner, Weissburg and Aronson. The Intermediary is represented by Bernard M. Talbert, Esquire, of Blue Cross and Blue Shield Association.

The parties jointly stipulate to the following facts:

1. During Tri-City's fiscal year ending June 30, 1986, Tri-City, on its general ledger, assigned amounts paid to outside vendors for maintenance and repair service to the departments which benefitted from the services. Specifically, instead of posting these costs to a general maintenance and repair expense account for the entire facility, these expenses were charged directly to the .62 subaccount of each benefitted department.

2. This accounting treatment was part of the normal accounting practice at Tri-City. Tri-City assigned outside maintenance costs to the benefitted area on its general ledger regularly, throughout the year; it was not done as a year end adjustment.

3. This treatment of outside maintenance fees on the general ledger during FYE 6/30/86 was consistent with the accounting treatment of such costs for many prior years.

4. When repair services were performed by Tri-City personnel, the costs were not directly assigned in the general ledger to the benefited cost center, but were, instead, included in the general maintenance and repair expense account.

5. Detailed invoices and vouchers reflect the equipment to which the directly assigned costs relate. Accordingly, Tri-City's directly assigned maintenance and repair costs were capable of audit.

6. For FYE 6/30/86, Tri-City reported its directly assigned maintenance and repair costs in the benefitted cost center on Medicare cost report Worksheet A. This was consistent with the manner in which costs had been reported in several prior periods. The costs associated with repair services performed by Tri-City's own personnel were reported in the maintenance and repair cost center.

7. In Audit Adjustment No. 17 the Intermediary reclassified the directly assigned costs from the individual departments to the maintenance and repair cost center. The effect of this audit adjustment was to allocate these costs to various other cost centers via the step-down process rather than through direct allocation. The statistic used to allocate maintenance and repair costs was square footage.

8. The reimbursement effect of Audit Adjustment No. 17 is approximately $45,000.

PROVIDER'S CONTENTIONS:

The Provider contends that Adjustment No. 17 was improper because it is contrary to the Medicare law, regulations, the Provider Reimbursement Manual, and previous decisions of the Board. Moreover, it resulted in a less accurate method of allocating maintenance and repair costs and, therefore, violates general reimbursement principles. The Medicare Act requires the Medicare program to reimburse hospitals outpatient services and services in exempt units on the basis of reasonable cost. 42 U.S.C. §§ 1395f(b). Reasonable cost is defined as "the cost actually incurred . . . determined in accordance with regulations establishing the method or methods to be used. . . ." 42 U.S.C. § 1395x(v)(1)(A). To implement this statutory mandate the Secretary of Health and Human Services has promulgated regulations which require the use of data obtained from a provider's own accounting system to determine reasonable costs. See 42 C.F.R. § 413.20(a). The Provider argues that it complied with this regulation by using its general ledger as the basis for directly assigning the maintenance and repair costs in question. The Intermediary's subsequent reclassification of these costs to another cost center is, therefore, contrary to the foregoing regulations.

The Provider notes that the direct assignment of maintenance costs is also consistent with the additional regulatory requirement that providers receiving payment on the basis of reimbursable cost must provide adequate cost data. This must be based on their financial and statistical records which must be capable of verification by qualified auditors. 42 C.F.R. § 413.24. In this case, the Provider's maintenance and repair costs were based on adequate data capable of verification by the Intermediary. Detailed invoices and vouchers established the propriety of the costs and reflected the department to which they related. As a result, the cost data maintained by the Provider satisfied the controlling regulation.

The Board's determination in St. John's Hospital and Health Center v. Blue Cross, PRRB Dec. No. 84-D131, June 11, 1984, Medicare & Medicaid Guide ("CCH") ¶ 34,163 ("St.

John's") supports the Provider's contention that the Intermediary's reclassification is contrary to the regulation. In that case, the provider charged its maintenance and repair service costs related to outside vendors directly to those departments in which the serviced equipment was located. These amounts were so reported on the Medicare cost report. However, as in the present case, the intermediary reclassified the Provider's maintenance and repair costs from the various individual cost centers to the maintenance and repair cost center. The Board held that the intermediary's adjustment should be reversed because the maintenance and repair costs directly assigned by the provider were capable of audit and resulted in a more accurate allocation of costs. Furthermore, because this method of allocation had been used in prior years, prior approval by the intermediary was not required.

The Provider further contends that the Intermediary's adjustment is contrary to the instructions for Form HCFA-2552-85 contained in Provider Reimbursement Manual, HCFA Pub. 15-2 ("HCFA Pub. 15-2"). For purposes of completing the Worksheet A trial balance the instructions provide: "[t]he expenses listed in these columns [trial balance] must be in accordance with the provider's accounting books and records." HCFA Pub. 15-2, § 1907. The Provider complied with this instruction. The directly assigned maintenance and repair costs included on Worksheet A were obtained directly from it's general ledger. Furthermore, the instructions to Worksheet A-6 do not instruct providers to reclassify directly assigned maintenance and repair costs. Therefore, the Intermediary's subsequent adjustment was directly contrary to these cost reporting instructions.

The Provider notes that the Board has decided a number of cases on the maintenance and repair costs issue. In a series of cases in which the Board reached identical conclusions, the Board upheld the providers' practices of directly assigning maintenance and repair expenses related to outside contractors, which could be directly identified to a specific cost center. See Medical Center of Garden Grove v. Blue Cross of California, PRRB Dec. No. 95-Dl, October 13, 1994, Medicare and Medicaid Guide (CCH) ¶ 42,913; Arroyo Grande Community Hospital v. Blue Cross of California, PRRB Dec. No. 95-D3, October 14, 1994, Medicare and Medicaid Guide (CH) ¶ 42,915; Circle City Hospital v. Blue Cross of California, PRRB Dec. No. 95-D4, October 14, 1994, Medicare and Medicaid Guide (CCH) ¶ 42,916. In all three cases, the Board found that the providers had consistently followed the accounting practice of directly charging costs of maintenance and repair services from outside suppliers to the individual departments where the equipment was located. Therefore, there was no change in the allocation basis and no prior intermediary approval was necessary.

The Provider argues that like the providers in the three cases, it also had directly assigned the maintenance and repair costs related to outside vendors both on its financial books and records and on its Medicare cost report for many years. Accordingly, like the three providers, it did not need prior approval from the Intermediary to continue this practice. Further, in all three cases, the Board specifically held that directly charging purchased services to the department which houses and uses the equipment is a more accurate manner of accounting for the maintenance and repair costs. That results in a proper and equitable determination of

costs for services rendered to program beneficiaries. In light of the fact that the Board has recognized that the practice of directly assigning maintenance and repair costs to the benefitting department is a more accurate and reasonable method than the intermediary's, and because the facts for the Provider are similar to those in the above three Board cases, the Board should reach the same conclusion in this case.

The Provider further notes that the Simi Valley Hospital v. Blue Cross of California, PRRB Dec. No. 94-D54, July 14, 1994, CCH ¶ 42,589, ("Simi Valley") decision also supports the Provider's position. In that case, the hospital had directly assigned certain maintenance costs, and the intermediary had reclassified the expenses to the maintenance and repair cost center. On review, the Board held in favor of the intermediary but indicated that it did so because the provider failed to supply evidence supporting its contention that it directly assigned costs of maintenance and repair expenses to the benefitted departments on its financial books and records. The Board strongly indicated that, had such evidence been presented, the result would have been different. It expressly stated that directly assigning maintenance costs is a permissible practice. The Provider in the instant case has, however, presented sufficient evidence to demonstrate that it assigned outside maintenance costs to the benefitted area on its general ledger as part of its regular and consistent accounting practice.[1] Accordingly, even the Simi Valley case supports the Provider's contention that it correctly treated maintenance and repair costs.

INTERMEDIARY'S CONTENTIONS:

The Intermediary contends:

1. Its determination was proper and in accordance with 42 C.F.R. § 413.24 and HCFA-Pub. 15-1, §§ 2302.4 and 2302.9, for the following reasons:

    - The payments to outside vendors for maintenance and repairs services were direct cost components of the maintenance and repairs cost center.

    - The step-down method of cost finding requires using one statistical basis to allocate all cost components of the maintenance and repairs cost center to all using cost centers.

    - Unless all cost components of the maintenance and repairs cost center could be directly assigned to the using cost centers, no component of these costs should be separated from this cost center for direct assignment purposes.

    - The Provider's dual allocation of costs, that is, through the direct assignment of costs related to services of the outside vendors and step-down allocation of

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[1] See Stipulation ("Stip.") ¶¶ 5 and 6.

costs related to the services of the Provider's staff, is not acceptable for the Medicare Program cost reporting purposes.

2. The Provider did not qualify for the direct assignment of general service costs allowed by the Program, pursuant to HCFA-Pub. 15-1, § 2307. The Provider did not demonstrate with compelling or convincing evidence that:

- It requested and received the Intermediary's approval of the direct assignment of certain maintenance and repairs costs during FY 86 or any prior cost reporting periods.

- It met all of the requirements applicable to the direct assignment of general service costs as outlined in the referenced Program instruction.

- It has consistently recorded the direct assignment of costs in is accounting records by relying upon the related vouchers, service contracts, and bills from outside vendors.

- Its cost reporting or cost finding basis for the maintenance and repairs costs was a more sophisticated and efficient method of determining the cost of services to Program beneficiaries.

3. It's determination was in accordance with the cost report instructions for Form HCFA-2552-85 as outlined in HCFA-Pub. 15-2, § 1907, Worksheet A - Reclassification and Adjustment of Trial Balance of Expenses, which states as follows:

> . . . Where the cost elements of a cost center are separately maintained on the provider's books, a reconciliation of the costs per the accounting book and records to those worksheet must be maintained by the provider and is subject to review by the intermediary . . . .

Id.

Pursuant to this instruction, the Intermediary reviewed the Provider's records and determined that the Provider has improperly accounted for certain cost elements or components of the maintenance and repairs cost center based on a direct assignment.

CITATION OF LAW, REGULATIONS AND PROGRAM INSTRUCTIONS:

1. Law - 42 U.S.C.:

§ 1395(f)(b)	-	Amounts Paid to Provider for Services

§ 1395x(v)(1)(A) - Reasonable Costs

2. Regulations - 42 C.F.R.:

§ 413.9 - Cost Related to Patient Care

§ 413.20 - Financial Data and Reports

§ 413.24 et seq. - Adequate Data and Cost Finding

3a. Program Instructions - Provider Reimbursement Manual, Part I (HCFA Pub. 15-1):

§ 2302.4 - Allocable Costs

§ 2302.9 - General Service Cost Centers

§ 2307 - Direct Assignment of General Service Costs

§ 2310 - More Sophisticated Methods

§ 2313 - Changing Bases for Allocating Cost Centers

b. Provider Reimbursement Manual, Part II (HCFA Pub. 15-2):

§ 1907 - Worksheet A - Reclassification and Adjustment of Trial Balance of Expenses

4. Cases:

St. John's Hospital and Health Center v. Blue Cross, PRRB Dec. No. 84-D131, June 11, 1984, Medicare & Medicaid Guide ("CCH") ¶ 34,163.

Medical Center of Garden Grove v. Blue Cross of California, PRRB Dec. No. 95-Dl, October 13, 1994, Medicare and Medicaid Guide (CCH) ¶ 42,913.

Arroyo Grande Community Hospital v. Blue Cross of California, PRRB Dec. No. 95-D3, October 14, 1994, Medicare and Medicaid Guide (CH) ¶ 42,915.

Circle City Hospital v. Blue Cross of California, PRRB Dec. No. 95-D4, October 14, 1994, Medicare and Medicaid Guide (CCH) ¶ 42,916.

Simi Valley Hospital v. Blue Cross of California, PRRB Dec. No. 94-D54, July 14, 1994, CCH ¶ 42,589.

FINDINGS OF FACT, CONCLUSIONS OF LAW AND DISCUSSION:

The Board, after consideration of the facts, parties' contentions, and evidence presented, finds and concludes as follows.

42 U.S.C. § 1395x(v)(1)(A) and 42 C.F.R. § 413.9 state that providers participating in the Medicare program wil be reimbursed for reasonable costs actually incurred which are necessary and proper in providing patient care services to program beneficiaries. Section 2310 of HCFA Pub. 15-1 allows providers to use a more sophisticated method of cost finding to allocate costs more accurately. The Board finds that the above cited provisions apply to the facts in this case.

The record shows that the Provider has consistently followed the accounting practice of directly charging the costs of maintenance and repair services from outside suppliers to the individual departments where the equipment is located. This methodology has been used by the Provider since prior to the implementation of the Prospective Payment System. The Board, therefore, concludes that there was no change of allocation basis, and prior approval by the Intermediary pursuant to §§ 2307 and 2313 of HCFA Pub. 15-1 is not required.

The Board finds that directly charging such purchased services to the benefitting department which received repairs and maintenance is a more accurate manner of accounting for these costs. The Board does not find outside purchased services to be an allocation of general service costs. General service cost centers as defined by HCFA Pub. 15-1 § 2302.9 are "[t]hose organizational units which are operated for the benefit of the institution as a whole." Id. The outside purchased services represent benefits to the department receiving those services. As such,
§ 2302.9 of HCFA Pub. 15-1 does not apply.

The Board finds that the Provider has maintained its accounting records for these purchased services consistent with the requirements of 42 C.F.R. §§ 413.20 and 413.24. The method used results in a proper and equitable determination of the costs for services rendered to program beneficiaries.

The Intermediary argues that the Provider has not demonstrated with compelling or convincing evidence that it consistently recorded directly assigned costs by relying on vouchers. The joint stipulation which the Intermediary signed contradicts this argument. Specifically, joint stipulation numbers 2 and 3 state that amounts paid to outside vendors for maintenance and repairs were recorded in subaccount s/b .62 of each benefitted department that received outside vendor services. Further, those costs were regularly recorded in these

subaccounts throughout the year. They were not recorded via a year end adjustment by the Provider. Thus, the joint stipulation refutes the Intermediary's argument.

DECISION AND ORDER:

The Intermediary's reclassification of certain maintenance and repair costs from individual cost centers to the general service cost center for maintenance and repairs was not proper. The Intermediary's adjustment is reversed.

Board Members Participating:

Irvin W. Kues
James G. Sleep
Henry C. Wessman, Esq.
Martin W. Hoover, Jr. Esq.
Charles R. Barker

Date of Decision: November 24, 1998

FOR THE BOARD:

Irvin W. Kues
Chairman