PPS CAPITAL - TRANSITION PERIOD

Applicable for PPS Capital transition period. This section will be supplemented by Exhibits 6 and 7. The scoping process should incorporate the necessary audit steps to achieve the audit objective.

Regulation Reference: 42 CFR 412.300ff, 42 CFR 413.134

OBJECTIVES:

1. To ensure that capital costs are properly classified as old capital, new capital or other capital.
2. To ensure that asset values used to allocate other capital costs are properly classified as old or new capital.
3. To ensure that cost allocation statistics related to the various capital cost classifications are properly stated.
4. To ensure that gains and losses on disposal of assets during the PPS Capital transition period are handled in accordance with appropriate regulations.
5. To verify that amounts used in PPS Capital reimbursement calculations are properly stated.
6. To verify that amounts to be used in redeterminations of PPS Capital rates are handled in accordance with appropriate regulations.

OTHER REFERENCES:

PRM-I, §2807

Cost Report Forms: Hospital:

HCFA-2552, Worksheet A-7
HCFA-2552, Worksheet L

PPS CAPITAL - TRANSITION PERIOD INDEX

STEP	PROCEDURE DESCRIPTION	AUDITOR'S INITIALS AND DATE	WP REF

Note: These steps do not replace, but rather supplement, other steps on capital-related costs. Consideration will be given in scoping to individual provider circumstances such as payment method for capital, provider election to report all capital as new capital, request for redetermination, exception payments, materiality of outpatient and other cost-based reimbursement areas.

FULLY PROSPECTIVE NOT REQUESTING REDETERMINATION AND 100 PERCENT FEDERAL RATE

CLASSIFICATION OF CAPITAL COST

1. A. Review to ensure that the provider is properly classifying old and new capital costs. If the provider is not properly tracking old and new capital costs, all the costs should be included in "new capital."

Note that providers not separating old and new capital will lose all future options for redetermination under the PPS Capital rules.

GAINS OR LOSSES

2. A. Ensure any adjustment applicable to prior periods reflects the appropriate capital reduction factor for each period (see Exhibit 6, Steps 2, 10, 11, 12 and 13).

B. Ensure that current and prior period adjustments for gains or losses are handled in accordance with PRM-I, §2807.8, considering the implications of capital payment methodology, old versus new capital assets, Part A versus Part B adjustments, etc. (see Exhibit 6, Steps 10, 11, 12 and 13).

STEP	PROCEDURE DESCRIPTION	AUDITOR'S INITIALS AND DATE	WP REF

COST ALLOCATION STATISTICAL BASES

3. A. Verify whether the allocation bases shown in all columns of Worksheet B-1 which were used to allocate old capital cost are the same as those used in the last cost reporting period ended on or before October 1, 1991.

Note: This step does not apply if the provider has undergone a change of ownership subsequent to the last cost reporting period which ended on or before October 1, 1991.

B. Verify and document changes to new capital (42 CFR 413.302(d)(3)).

FULLY PROSPECTIVE PROVIDERS ONLY

CALCULATION OF REIMBURSEMENT AMOUNT

4. Review Form HCFA-2552, Worksheet L, to verify proper completion.

A. Ensure proper Medicare settlement data in Part 1.

Note: If the provider was paid on an interim rate during the year, this period will need to be adjusted accordingly to reflect the final rate for the whole year.

B. Ensure the correct exception percentage is used in Part IV. See the cost report instructions for the different minimum payment levels (PRM-II, §2820.4).

C. Ensure the proper accumulated carryover amount from the prior year for the exceptions payment computation is reflected in Part IV.

D. Review Form HCFA-2552, Worksheet L-1, to verify proper completion, if the provider qualifies for any exception payments related to extraordinary circumstances.

HOLD HARMLESS PROVIDERS

The following steps relate to hold-harmless hospitals that have not elected the 100 percent federal payment methodology (the provider

STEP	PROCEDURE DESCRIPTION	AUDITOR'S INITIALS AND DATE	WP REF

should have answered "No" on the applicable hold harmless line on Worksheet S-2) and for fully prospective providers that are requesting a redetermination.

CONSISTENCY OF CAPITALIZATION POLICY AND CAPITAL COST

5. A. Ensure the provider's capitalization policy is consistent with the PPS Capital base period. The auditor should review for an increase in the capitalization amount. The provider may try shifting cost to the outpatient side by including small asset purchases in operating costs (see Exhibit 6, Step 27).

   B. Compare and test for consistency the current period's capital-related cost schedules to those of the base period.

CLASSIFICATION OF ALLOWABLE CAPITAL COST

6. A. Verify the provider's classification and consistency of asset basis, old capital cost, new capital cost and other capital costs, which should be filed on Worksheet A for the following:

   1. Depreciation
   2. Interest
   3. Leases
   4. Directly assigned capital
   5. Other capital-related costs
   6. Asset values used as the basis for the reclassification of other capital on Worksheet A-3, Part III, Column 8.
   7. See Exhibits 6 and 7 for applicable steps

Note: Obligated capital must be considered in the review of the provider's classification of capital cost. Recognition of obligated capital is contingent on the provider's request for recognition of obligated capital and the intermediary's approval of the request. Obligated capital costs approved by the intermediary are treated as old capital. Capital costs for which the provider was not obligated under PPS Capital

STEP	PROCEDURE DESCRIPTION	AUDITOR'S INITIALS AND DATE	WP REF

regulations are treated as new capital (see Step 6B following).

Note: All lease/rental costs should be treated as operating or capital cost consistently with the base year. The provider may try to maximize outpatient reimbursement by leaving lease/rental costs in operating costs.

B. Using the applicable steps in Exhibit 6, review major new capital asset additions for the following:

1. Proper useful life. See Exhibit 6, step 3D.

2. Related to patient care.

3. Proper classification between building, equipment, etc.

4. Verify historical cost by matching to the invoice and ensure that the depreciation basis is in accordance with 42 CFR 413.134, subpart G.

5. Re-compute first year depreciation.

6. Verify that minor equipment is handled in accordance with the provider's capitalization policy.

Note: Refer to Exhibit 6 for applicable audit steps.

C. For providers claiming old capital costs on the basis of the obligated capital rules, obtain the intermediary determinations regarding amounts of obligated capital recognized.

1. Verify that the amounts of obligated capital claimed by the provider do not exceed the amounts recognized by the intermediary.

2. Verify that the assets brought into service are those that were obligated.

3. Verify that obligated capital amounts for building and building components follow PRM-I, §118, Time Lag.

4. Verify that the useful life assigned to the obligated

STEP	PROCEDURE DESCRIPTION	AUDITOR'S INITIALS AND DATE	WP REF

capital is in accordance with PRM-I, Section 104.17.

GAINS OR LOSSES

7. A. Ensure any adjustment applicable to prior periods reflects the appropriate capital reduction factor for each period (see Exhibit 6, Steps 10, 11, 12 and 13).

B. Ensure that current and prior period adjustments for gains or losses are handled in accordance with PRM-I, §2807.8, considering the implications of the capital payment methodology, old versus new capital assets, Part A versus Part B adjustments, etc.

COST ALLOCATION STATISTICAL BASES

8. A. Ensure that cost allocation statistics used to allocate capital costs are reported in a manner that properly allocates old and new capital cost.

B. Verify whether the allocation bases shown in all columns of Worksheet B-1 which were used to allocate old capital cost are the same as those used in the last cost reporting period ended on or before October 1, 1991.

Notes: This step does not apply if the provider has undergone a change of ownership subsequent to the last cost reporting period which ended on or before October 1, 1991.

The provider may request in writing to change only the new capital allocation basis. The request should be made in accordance with PRM-I, §2312.

C. Verify the provider's classification of old and new capital assets used to allocate "Other" capital costs (Worksheet A-7).

Note: Use the same obligated capital rules and determinations in the review of capital assets as used in the review of capital costs in Steps 1 and 2.

Note: Column 7 of Part I is for fully depreciated assets.

CALCULATION OF REIMBURSEMENT AMOUNTS

STEP	PROCEDURE DESCRIPTION	AUDITOR'S INITIALS AND DATE	WP REF

9. Review Form HCFA-2552, Worksheet L, to verify proper completion.

   A. Ensure the proper Medicare settlement data amounts are reported in Part II. This includes the IME and DSH adjustments for PPS Capital. See applicable cost report instructions for possible adjustment to Part II.

   B. Ensure that the correct capital reduction factor for hold harmless payment is used in Part II. Sole community hospitals are 100 percent and all other hospitals are 85 percent.

   C. Ensure the correct exception percentage is used in Part IV. See the cost report instructions for the different minimum payment levels.

   D. Ensure the proper accumulated carryover amount from the prior year for the exception payment computation is reflected in Part IV.

   E. Review Form HCFA-2552, Worksheet L-1, to verify proper completion, if the provider qualifies for any exception payments related to extraordinary circumstances.

REDETERMINATIONS

REDETERMINATIONS

10. A. Determine the factor(s) causing the provider's redetermination request.

    B. Perform sufficient testing focused on the factor(s) noted in Step 10A in conjunction with other steps in this exhibit.

    Note: A provider could only be approved for a redetermination if it had an increase in old capital costs.