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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

NICK LYON  
DIRECTOR

March 2017

RE: Ancillary / Therapy Services Administrative Overhead

Dear Provider:

Recently it has been brought to the attention of this office, that for those providers that voluntarily elect(ed) to remove on Worksheet 1 – C of the Medicaid provider's cost report the direct costs associated with related party transactions (in lieu of filing a home office cost report), especially those related party transactions involving ancillary services provided, that Medicaid policy requires that the indirect (overhead) costs associated with these services must also be adjusted (removed) from the provider's cost report.

Medicaid Provider Manual (MPM), Nursing Facility Chapter, Cost Reporting and Reimbursement Appendix, Section 9.6.A.3, *Ancillary / Therapy Services Administrative Overhead* states the following:

*Medicaid requires that administrative overhead associated with ancillary services be allocated to the ancillary services cost center. The required basis for distribution of administrative costs to the benefiting activities of the nursing facility is accumulated costs. The accumulated costs base generally includes all service activities of the nursing facility.*

*In specific situations, the nursing facility may request exclusion of certain ancillary service groups from the administrative cost overhead allocation in the Medicaid cost report. The determination applies only to those service items where the billing to the third party only allows for the recovery of the direct cost of the service. The provider must demonstrate considerable inequity of the overhead cost allocation to these service activities that have been identified as excluded groups under the Medicare regulations and that it is not incurring additional costs beyond the activity for arranging for the services.*

This policy section provides a listing of potential incidental costs that would be associated with providing this service which should also be adjusted as "miscellaneous costs" in the Administration and General cost center.

MPM, Nursing Facility Chapter, Cost Reporting and Reimbursement Appendix, Section 9.6.A.4, *Ancillary Group Exclusion* does permit an exception from remove of administrative overhead for ancillary services IF the ancillary service provided by the provider does not meet the general parameters listed in the previous section.

If the provider believes that there are ancillary costs which should be recognized as "excluded" ancillary costs for the ancillary / therapy administrative overhead calculation, the provider will need to:

- 1) Remove the cost(s) from the ancillary / therapy administrative overhead calculation;
- 2) Submit in accordance with MPM, Nursing Facility Chapter, Cost Reporting and Reimbursement Appendix, Sections 9.6.A.3 and 9.6.A.4, a written request to have specific ancillary costs considered for ancillary therapy administrative overhead exclusion. As stated in the referenced policy, the provider's request letter will need to provide an explanation or justification for having these ancillary costs excluded from the overhead calculation. This office will issue a tentative approval letter, pending a final determination by the Office of Audit during a review of the provider's annual Medicaid cost report. If during the audit of the provider's cost report, the Office of Audit determines that the provider's records does not support excluding ancillary service costs from the ancillary / therapy overhead calculation, an adjustment will be made to include these costs in the administrative overhead calculation.

Enclosed is a document which explains the steps necessary to be taken to calculate the ancillary / therapy administrative overhead associated with the ancillary services provided, and the method for recording the adjustment on the provider's Medicaid cost report.

For prior cost reporting periods, in which the appropriate adjustment for the administrative overhead associated with the ancillary services provided was not made by the provider, this adjustment will be made by Department audit staff.

Should you have any questions regarding this matter you may contact this office at [DARS@michigan.gov](mailto:DARS@michigan.gov) or 517 – 335 – 5356.

Sincerely,

LTC Reimbursement and Rate Setting Section



Michigan Department of  
Health & Human Services

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### **Home Office, Chain Organization, or Related Party Transaction Cost Reporting**

Medicaid Provider Manual, Nursing Facility Chapter, Cost Reporting and Reimbursement Appendix, Section 4.11 "Home Office, Chain Organization, or Related Party Cost Reporting" which states:

*For nursing facilities reporting costs of services provided by a related party organization, the MSA-1578 must be used for reporting costs. Alternative cost reporting worksheets or accounting schedules may be substituted for the Home Office Cost Statement if RARSS agrees that the alternative format provides supporting documentation to adequately identify expenses and the allocation of costs to the nursing facility. RARSS will approve the format as submitted, require additional data or revisions to the reporting format, or disapprove the alternative reporting.*

There are specific exception situations in which the provider may file an alternative cost reporting worksheets or accounting schedules. One situation that a provider may file an alternative cost reporting worksheet would be if the only cost being allocated to the provider is the direct cost of salary / wages and associated payroll taxes, and benefits. Another situation that a provider may file an alternative cost reporting worksheet would be a county medical care facility submission of the County Central Service cost allocation plan report prepared by Maximus. Any request for an exception, must be received by Rate Setting and Reimbursement Section 90 days prior to the provider's cost report due date, to avoid cost report rejection.

The provider may elect, In lieu of filing the MSA – 1578 for the related organization business transactions removing 100% of the related organization business transaction expenses (both direct and indirect) reported in the individual provider's cost report as an adjustment on the Worksheet 1 - C. Providers must report the costs on Worksheet 1 – C, and in Section C of this worksheet, report "0" as the "Amount Allowable in Cost".

Medicaid Provider Manual, Nursing Facility Chapter, Cost Reporting and Reimbursement Appendix, Section 4.11.B "Related Party Business Transactions" states:

*The related party organization cost reporting is required for the specific related party organization business entity in the following cases:*

- *If the dollar amount of routine nursing care costs to the individual nursing facility exceeds \$10,000 in aggregate, regardless of the number or type of services provided.*
- *If the sum (total dollar amount) of routine nursing care costs to multiple nursing facilities exceeds \$50,000 in aggregate, regardless of the number or type of services provided and number of nursing facilities served.*

*These dollar limits apply to related party business transactions whether they are routine or ancillary nursing services.*



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Medicaid Provider Manual, Nursing Facility Chapter, Cost Reporting and Reimbursement Appendix, Section 9.6.A "Cost Allocation Basis" states:

*The Medicaid cost reporting process establishes the cost finding process. Indirect and non-revenue producing cost centers are allocated using a statistical basis that reflects an equitable measurement of the services provided to, or benefits derived by, a revenue producing or non-reimbursable activity. The nursing facility must develop and maintain adequate statistical data to corroborate the basis of the cost allocation. Adequacy requires that the data be accurate and include sufficient detail to accomplish the purpose for which it is intended. When completing the allocation of the general service cost centers, the nursing facility provider should first allocate those cost centers that render the most services to, and receive the least services from, other cost centers.*

Medicaid Provider Manual, Nursing Facility Chapter, Cost Reporting and Reimbursement Appendix, Section 9.6.A.3 "Ancillary/Therapy Services Administrative Overhead" states:

\$

*Medicaid requires that administrative overhead associated with ancillary services be allocated to the ancillary services cost center. The required basis for distribution of administrative costs to the benefiting activities of the nursing facility is accumulated costs. The accumulated costs base generally includes all service activities of the nursing facility.*

**Ancillary / Therapy Services Administrative Overhead Calculation:**

- A. Total Accumulative Costs (WS 2, column 4 or column 4.a)      \$ \_\_\_\_\_ (A/C)%
- B. Plus: Allowable Ancillary Therapy Costs Removed on WS 1-C      \$ \_\_\_\_\_ (B/C)%
- C. Revised Total Accumulative Costs for Administration & Gen      \$ \_\_\_\_\_ 100 %

- D. Administration and General Costs to be Allocation (WS 2-B, column 4)      \$ \_\_\_\_\_
- E. Administration and General Cost Adjustment due to Related Party      \$ (D times B)

An adjustment is made on WS 1 – C, for the amount calculated in "E" above.

Worksheet	D. Costs incurred and adjustment required as result of transactions with related organizations:								
	Expense Items	Row (from part C)	Cost Center	Account	Amount	Amount Allowable in Cost	(to WS 1) Net Adj Amount		
WS2-D									
WS2-E									
WS2-F									
WS2-G									
WS2-H									
WS3									
WS3-Lessor									
WS3-A									
WS3-B									
WS4									
WS5									
	1	Lease/Rental							
	2	Lease/Rental							
	3	Related Party Ancillary / Therapy Overhead Adjustment	2	Administrative & General	200 - Miscellaneous	20,000	0	(20,000)	
	Totals (transferred to Worksheet 1)					20,000	-	(20,000)	

## Removal of Indirect (Overhead) Costs Related to Non Filing of Home Office Cost Report

Administration and General Costs (Accumulated Costs Per WS 2, column 4a)	\$	-	Percentage #DIV/0!
Plus: Total Removed Related Party Direct Costs (Per WS 1-C)	\$	-	#DIV/0!
Revised Total Administration and General Costs (Accumulated Costs)	\$	-	

Total Administration and General Costs (from WS 2-B, column 4)	\$	-
Administration and General Costs Due to Related Party Adjustment		#DIV/0!

### Calculation of Removed Related Party Direct Costs from WS 1 - C

	<u>Description</u>	<u>Amount</u>
1	_____	\$ -
2	_____	\$ -
3	_____	\$ -
4	_____	\$ -
5	_____	\$ -
6	_____	\$ -
7	_____	\$ -
8	_____	\$ -
		\$ -