



Center for Clinical Standards and Quality/Survey & Certification Group

Ref: S&C: 13-31-HHA

DATE: May 17, 2013

TO: State Survey Agency Directors

FROM: Director
Survey and Certification Group

SUBJECT: Cost Allocations for Surveys of Home Health Agencies (HHAs)

Memorandum Summary

- **Office of Management and Budget (OMB) Circular A-87:** OMB Circular A-87 articulates basic principles for determining the allowability of costs in the administration of certain federal programs. One principle is that costs should be allocated between cost centers in accordance with relative benefits received.
- **Benefiting Programs:** Medicare, Medicaid, and States all benefit when surveys are conducted to assure compliance with basic public expectations for quality of care and safety through the federal survey process.
- **HHA Surveys:** Costs for HHA surveys must be allocated among the benefiting cost centers in accordance with the relative benefits received.
- **Fiscal Year 2014 Centers for Medicare & Medicaid Services (CMS) Reviews:** We will work with States to review the FY2014 State survey budgets to ensure that the HHA survey amounts reflect the appropriate allocation of costs across Medicare, Medicaid, and State-only sources.

A. Background

OMB Circular A-87 articulates basic principles for determining the allowability of costs in the administration of certain federal programs. The Circular, available at http://www.whitehouse.gov/omb/circulars_a087_2004, is intended to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the federal government.

One basic principle of the Circular is that costs should be allocated between cost centers in accordance with the relative benefits received. Most States conduct integrated home health surveys that assess compliance with Medicare, Medicaid, and State licensing requirements in a single survey process. This enables States to avoid subjecting providers to multiple surveys and all three programs benefit when such surveys are conducted to assure compliance with basic public expectations for quality of care and safety in conformance with the federal survey process. The costs for such surveys should therefore be allocated among Medicare, Medicaid, and State-only purposes in accordance with the relative benefits received by each program.

We appreciate that CMS instructions for applying the OMB Circular A-87 requirements have not been as clear as they could be. We will work with States during the remainder of CY2013 in the application of these principles, with the goal of July 1, 2014 to have each State in full conformance with the cost allocation principles for HHA surveys thereafter, if the State is not already in full conformance.

These actions represent a continuation of CMS efforts to ensure proper cost accounting throughout S&C operations, and fulfill recommendations of the Government Accounting Office (GAO). On February 13, 2009, for example, the GAO released a report entitled, “CMS Needs to Reexamine Its Approach for Funding State Oversight of Health Care Facilities” (GAO-09-64). The report concluded, in part, that “CMS lacks information on state contributions, which impeded an overall assessment of the resources available for state surveys.” CMS continued to gather information and analyze State cost allocation practices, but refrained from further follow-up action during the period of serious State budget challenges that were occasioned by the recent recession. We are now resuming those efforts.

B. Example of Medicaid Share of the Combined Medicare/Medicaid Totals

We project about \$37.2 million in total HHA survey expenses for Medicaid and Medicare in FY2014. We will work with individual States on application of the appropriate cost allocation methodology. In terms of allocation of costs to Medicaid, if the methodology applied nationally for the sharing of HHA surveys expenses was the same as the methodology used for surveys of skilled nursing facilities/nursing facilities (50 percent Medicare, 50 percent Medicaid), then the total, national Medicaid share would approximate \$18.6 million, not counting any appropriate State-only expense for State licensure activities. However, since State matching funds required for Medicaid survey activities generally amount to only to 25 percent of the Medicaid share,¹ the required State Medicaid match for HHA survey activities would total only \$4.7 million nationally, spread out over 53 States and territories.

After further discussion with States, we will issue additional information with regard to the HHA cost allocation process.

C. Action

The obligation for Medicaid to pay its fair share of costs for HHA surveys is not a new requirement. It is a current obligation based on the tenets of proper cost accounting, as articulated clearly in 2 CFR Part 225; Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87). This memorandum provides States with advance notice that we will work with States to ensure that each State is properly adhering to the cost accounting principles included in OMB Circular A-87. Our goal is to have each State survey agency budget for FY2014 clearly articulate the steps that the State has taken to ensure that the expenses of HHA surveys are properly allocated across Title XVIII, Title XIX and State-only funding sources for all HHA surveys conducted on or after July 1, 2014, if the State is not already in full conformance with the

¹ For example, section 1903(a)(2)(D) of the Social Security Act provides that federal financial participation (FFP) is available to defray 75 percent of expenses necessary for the proper and efficient administration of the State Medicaid plan that are “attributable to State activities under section 1919(g),” and section 1903(a)(2)(A) provides for 75 percent FFP for the compensation or training of “professional medical personnel, and staff directly supporting such personnel, of the State agency or any other public agency...”

cost principles.

Please feel free to contact your Regional Office with any questions or concerns.

/s/

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cc: Survey and Certification Regional Office Management