



COMPLIANCE WITH NEW PROVIDER RELIEF FUNDS REPORTING REQUIREMENTS

October 5, 2020

© 2020 PYA, P.C.

WE ARE AN INDEPENDENT MEMBER OF HLB—THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Introductions



Martie Ross, JD
Strategy & Integration
mross@pyapc.com



Lori Foley, CMA
Compliance Advisory
lfoley@pyapc.com



Catherine Bunch, CPA
Audit & Assurance
cbunch@pyapc.com



pyapc.com
800.270.9629

ATLANTA | KANSAS CITY | KNOXVILLE | NASHVILLE | TAMPA

\$175 Billion CARES Act Provider Relief Fund

HHS Allocations Through September



1. General Distribution, Phase I - \$50 billion
 - a. Round I - \$30 billion
 - b. Round II - \$20 billion
2. General Distribution, Phase II (Medicaid, CHIP, & Dental Providers) - \$18 billion
3. Targeted Distributions
 - a. COVID-19 High Impact Hospitals - \$22 billion
 - b. Rural Providers - \$11.3 billion
 - c. Skilled Nursing Facilities - \$4.9 billion
 - d. Safety Net Hospitals - \$14.7 billion
 - e. Nursing Homes - \$2.5 billion
 - f. Indian Health Services - \$500 million
4. Other Allocations
 - a. Rural Health Clinic Testing Program - \$225 million
 - b. Nursing Home Infection Control Incentive Payments – \$2 billion
 - c. COVID Testing and Treatment for Uninsured - \$??

\$175 Billion CARES Act Provider Relief Fund

HHS Distributions Through September



\$105.8 billion out the door – just over 60%

- Up from \$61 billion at end of July

\$104.5 billion to approximately 525,000 individual healthcare providers

\$1.27 billion to testing and treating uninsured patients

- **\$824.8 million** for care
- **\$445.3 million** for testing

General Distribution, Phase III

- Additional \$20 billion announced October 1
 - Any provider that has not yet received payments of 2% of patient revenue
 - Behavioral health providers
 - Providers that commenced operations between 01/01/20 and 03/31/20
 - Medicare Part A provider that experienced a CMS approved change in ownership prior to 08/10/20
 - Any remaining funds used for equitable add-on based on change in operating revenues and expenses and prior PRF payments
- Apply via portal between 10/05/20 and 11/06/20
 - Most recent federal income tax return for 2017, 2018, or 2019, unless exempt
 - Revenue worksheet (if required)
 - Operating revenues and expenses from patient care

Terms & Conditions – Use of Funds



- Funds “will only be used to prevent, prepare for, and respond to coronavirus, and that the Payment shall reimburse the Recipient only *for health care related expenses or lost revenues that are attributable to coronavirus.*”
- Funds will not be used “to reimburse expenses or losses that have been *reimbursed from other sources* or that other sources are obligated to reimburse.”
- Funds will not be used to pay individual salary in excess of \$197,300
 - Direct salary (exclusive of fringe benefits, indirect costs)
 - May pay up to that amount, but not more
 - If allocation 0.5 FTE, limited to \$98,650

Terms & Conditions - Reporting



- “[S]ubmit reports as the Secretary determines are needed to ensure compliance with conditions ... in such form, with such content, as specified by the Secretary in future program instructions directed to all.”
- “[M]aintain appropriate records and cost documentation [as] required by future program instructions to substantiate the reimbursement of costs under this award.”
- “[P]romptly submit copies of such records and cost documentation upon the request of the Secretary”
- “[F]ully cooperate in all audits the Secretary, Inspector General, or Pandemic Response Accountability Committee conducts to ensure compliance with these Terms and Conditions.”

September 19 Post-Payment Notice of Reporting Requirements

- Applies to any recipient that received **\$10,000 in aggregate**
 - For **General Distributions**, parent may submit single report for multiple subsidiaries
 - For **Targeted Distributions**, each TIN must report separately
 - **Other Distributions** (Nursing Home Infection Control, RHC Testing, Uninsured Testing & Treatment) to have separate requirements
- **Timing**
 - By **02/15/21** – funds expended through 12/31/20
 - By **07/31/21** – funds expended 01/01/21 through 06/30/21
- On-line reporting portal to be available on 01/15/21
 1. **Demographic Information**
 2. **Expenses Attributable to Coronavirus Not Reimbursed by Other Sources**
 3. **Lost Revenues Attributable to Coronavirus**
 4. **Additional Non-Financial Data**

Expenses Attributable to Coronavirus Not Reimbursed by Other Sources

- “Expenses attributable to coronavirus may be incurred both in treating confirmed or suspected cases of coronavirus, preparing for possible or actual coronavirus cases, **maintaining healthcare delivery capacity**, etc.”
- Two types of causation
 - Cause-in-fact (but-for)
 - Proximate cause (sufficient relationship)
- Definition of “expense”
 - Expenditure listed on income statement
 - Capital purchases

Reporting Requirements Expenses



- If received **less than \$500,000** in the aggregate, report expenses net of other reimbursed sources in two aggregated categories:
 - G&A expenses
 - Other healthcare related expenses
- **“Net of other reimbursed sources”** includes “payments received from insurance and/or patients, and amounts received from federal, state or local governments, etc.”
 - Payroll Protection Program, FEMA, CARES Act Testing
 - Medicare Advanced Payments?
 - Cost-based reimbursement?

Reporting Requirements Expenses



If received \$500,000 or more, report the following net of other reimbursed sources

- **General and Administrative Expenses** Attributable to Coronavirus
 - Mortgage/Rent
 - Insurance
 - Personnel
 - Fringe Benefits
 - Lease Payments
 - Utilities/Operations
 - Other G&A
- **Healthcare Related Expenses** Attributable to Coronavirus
 - Supplies (e.g., PPE, hand sanitizer, supplies for patient screening)
 - Equipment (e.g., ventilators, updates to HVAC systems)
 - IT/interoperability systems (e.g., telehealth infrastructure, increased bandwidth)
 - Facilities (e.g., modifications to facilities to accommodate patient treatment practices revised due to coronavirus)
 - **Other Healthcare Related Expenses** - any other actual expenses, not previously captured above, that were paid to prevent, prepare for, or respond to the coronavirus

Lost Revenue Attributable to Coronavirus



- **June 19 FAQs**

- “[M]ay include revenue losses associated with fewer outpatient visits, canceled elective procedures or services, or increased uncompensated care.”
- Use any reasonable method of estimating the revenue during March and April 2020 compared to the same period had COVID-19 not appeared.
 - Compare budget to actual revenue
 - Compare prior year to actual revenue
- “Lost revenue estimates should be based on budget-to-actual or year-over-year, and should include revenue from all sources that can be attributed to COVID-19. This may include value-based payments, such as quality measure achievement payments.”

- **September 19 Notice of Reporting Requirements**

- ***Negative change in year-over-year net operating income from patient care related sources***
 - For 2021, use comparable period in 2019
 - If negative net operating income in 2019, apply PRF amounts to lost revenues up to a net zero gain/loss in 2020

Reporting Requirements

Information Used To Calculate Lost Revenues



1. **Total revenue/net charges from patient care related sources** (by quarter for 2019 and 2020)
 - Net of uncollectible patient service revenue recognized as bad debt
 - Exclude insurance, retail, real estate values, grant funding, tuition
2. **Revenue from patient care payer mix** (2019 and 2020)
 - Traditional Medicare, Medicare Advantage, Medicaid, commercial, self-pay, other
3. **Other assistance received** (2020 only)
 - PPP, FEMA, CARES Act testing, local & state government, business insurance
4. **Total expenses** (by quarter for 2019 and 2020)
 - G&A
 - Healthcare-related expenses

PRF Funds Expended

- **Assumptions**

- Received \$5M in PRF funds
- Incurred \$3M in expenses related to coronavirus
 - \$1.5 million operating expense (included on income statement)
 - \$1.5 million in capital expense (not included on income statement)
- Experienced \$2M in 2020 net operating income, and \$2M lost revenue vs 2019 \$4M (i.e., year-over-year reduction in net operating income from patient care related sources)

- **Calculation**

- Step 1: Retain \$3M of the \$5M PRF funds for expenses
- Step 2: Retain lost revenue minus expenses related to coronavirus
 - \$2M NOI plus \$1.5 million (operating expense only) = \$500,000; retain \$3.5M total
 - \$2M NOI plus \$3 million (total expenses) = \$5M; retain \$3M total

As a Practical Matter....

- HHS' formulation incentivizes providers to maximize expenses and penalizes those who aggressively managed expenses
- Budgeted increases in 2020 operating expenses reduce lost revenue without corresponding increase in PRF funds
- New definition of lost revenue creates administrative and accounting nightmares
 - Providers with June 30 year-end
 - Physician practices operating on cash basis
 - Publicly-traded corporations
- Exclusion of non-patient care revenue results in inaccurate picture of provider's financial condition
- Recipients of targeted distributions (especially rural providers and safety net hospitals) likely required to return significant portion of PRF payments received
- Parental reporting of general distributions vs. subsidiary reporting of targeted distributions

Year-End Tax Planning Implications



Paycheck Protection Program (PPP) Loans

- Loan Forgiveness Approval Timeline
- Impact of Loans Not Forgiven in 2021

HHS Provider Relief Fund Payments

- Coordination with PPP Loan
- Repayment of Funds in 2021
- Change to Net Patient Care Operating Income

Economic Injury Disaster Loan (EIDL)

- EIDL Loan vs Advance
- Coordination with PPP Loan

Medicare Advance and Accelerated Payment Program

- Repayment of Advanced Funds

Employer Payroll Tax Deferral

- Deduction Timing

Year-End Income Tax Planning Considerations

- Timing of Tax Implications on Relief Funds
- Balancing Liquidity and Phantom Income
- Ownership Changes in 2020 and 2021

Non-Financial Information

For each calendar quarter -

- **Personnel Metrics**
 - Total personnel by labor category (FT, PT, contract, other), total re-hires, total new hires, total personnel separations by labor category
- **Patient Metrics**
 - Total # patient visits (in-person/telehealth), total # patients admitted, total # resident patients
- **Facility Metrics**
 - Total available staffed beds for medical/surgical, critical care, other
- **Changes in Ownership**
 - If reporting entity acquires or divests of related subsidiary, include specified information regarding transaction

Audit Requirements

Non-federal entity (state, local government, not-for-profit) that expends \geq \$750,000 in federal funds - including PRF payments - in a fiscal year must submit an audit in compliance with 45 CFR Part 75, Subpart F (“**Single Audit**”) conducted in accordance with Generally Accepted Government Accounting Standards

- Submit through Federal Audit Clearinghouse
- Refer to OMB website regarding deadlines

For-profit entity receiving \geq \$750,000 in PRF must submit a program specific audit or Single Audit under the same guidance

- Submit through HHS Audit Resolution Division
- Contact HRSA Division of Financial Integrity regarding deadlines

Answers Forthcoming?

- HHS will offer **Question & Answer Sessions** via webinar in advance of the reporting deadline
- As needed, HHS will issue **Frequently Asked Questions** to aid in the reporting process

How PYA Can Help

PYA is leveraging its subject matter experts in **complex regulatory guidance, government funding mechanisms, compliance, accounting, audit, cost reporting, and strategy.**

- Serving as a “hands on” resource to health systems, practices, and hospital associations
- Developing a comprehensive list of Provider Relief Fund requirements
- Assisting with the identification and quantification of COVID-related lost revenues, incurred expenses, and required capital expenditures (“COVID Costs”)
- Assisting with the development of a process to accumulate supporting documentation for all such COVID Costs for reporting purposes, including processes to prevent “double-counting” of COVID Costs
- Reviewing compliance activities initiated to-date and planning for future needs
- Assisting with the preparation of all required reports to federal authorities
- Evaluating whether a refund may be necessary at some future date

PYA Resources



COVID-19 HUB

Because we are living through an unprecedented healthcare phenomenon, PYA is committed to sharing timely and relevant information that we hope will benefit our clients and colleagues. The COVID-19 HUB will centralize PYA's thought leadership, guidance, and resources related to the COVID-19 pandemic.

- Prior webinar recordings, slides, transcripts, follow-up Q&As
- Thought leadership
- Links to important resources

www.pyapc.com/covid-19-hub/