



COLORADO
Department of Health Care
Policy & Financing

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Preface on the use of the Medicare Cost Report Information

The Department of Health Care Policy & Financing (the Department) is analyzing hospitals to consumers to lower health care costs. Benchmarking hospital financial information provides useful information to help evaluate relative hospital financial and operational performance. There are several proprietary databases that can be used to compare hospitals, but these databases often include only unaudited, self-reported information and do not include all hospitals. **The Medicare Cost Report (MCR), on the other hand, is the single-most comprehensive, audited, standardized publicly available source of hospital financial and patient utilization information.** All Medicare certified hospitals are required to submit an MCR on an annual basis. The MCR includes a great deal of information about hospitals revenues, costs, profits, uncompensated care, and patient volume among other things.

The MCR should not be used without caution, however. The MCR is primarily intended to be a reporting tool used by Medicare to settle reimbursement and to gather information for future rulemaking. The MCR is only submitted annually and several months after the end of the hospital's fiscal year. Further, completion of the MCR is somewhat of an iterative process and the information in the MCR for any given year may not be finalized for several years.

Since Medicare's migration away from cost-based reimbursement, some portions of the MCR are prepared more for informational purposes and may not receive as much scrutiny from auditors as other, more reimbursement-relevant areas. CMS makes no representations as to the suitability of MCR information for hospital analysis. Unlike audited financial statements prepared under generally accepted accounting principles, providing useful information to stakeholders and shareholders is not the primary purpose of the MCR. Audited financial statements, on the other hand, do not provide anywhere near the level of detail included in the MCR and, due to differences in reporting requirements, it is difficult to tabulate audited financial statement information into a usable database.

The MCR provides information on Medicare allowable costs as determined by Medicare reimbursement principles. This means some costs which may be necessary to operate the hospitals are excluded. But this does not diminish the usefulness of the information. There is value in benchmarking allowable costs since all hospitals must follow the same Medicare reimbursement principles thus providing consistency to the information. For this reason, the



Department methodology relies heavily on comparisons of allowable costs to gain insight into possible inefficiencies.

The MCR also provides information on the hospital organization as a whole, regardless of Medicare reimbursement principals related to allowable costs. Usually this information is the same information found in the hospital's audited financial statements which makes it credible, although it is highly summarized. However, for a multitude of reasons, this information can be inconsistent from hospital to hospital depending on the hospital's organizational structure and the various activities in which it is involved. Some hospitals may include all consolidated entities (such as clinics, physician practices, etc.) while others may include only the hospital operations. Comparability may also be hindered by significant non-patient activities the hospital may be involved in, such as research or significant community outreach programs. As another example, system affiliated hospitals may not be 'fully loaded' with the costs that are incurred at the system-level causing comparability issues with non-system hospitals.

For all the above reasons, MCR information is more suited to peer group comparisons rather than comparisons of individual hospitals to one another. **The Department's benchmarking of MCR information is intended to provide broad, overall observations of how hospitals or groups of hospitals compare and to provide directional context in identifying where Colorado hospitals appear to be outside the norm, to hypothesize why those inconsistencies exist and identify areas that warrant further investigation.**

In summary:

- The MCR is the single-most comprehensive, audited, standardized publicly available source of hospital financial and patient utilization information.
- All Medicare certified hospitals submit MCRs on an annual basis.
- The Department extracts data reported for fields by hospital.
- Data extractions from the MCR reflect what hospitals have reported for that field.
- Until a hospital has finalized their MCR there may be changes between the data extractions.
- Some portions may not receive as much scrutiny as other portions.
- Submissions do not include the same mix of organizational structure
- The Department has determined that peer group comparisons are more suited than hospital-to-hospital comparisons.

