Base cost data on an approved method of cost finding and on the accrual basis of accounting except where government institutions operate on a cash basis of accounting. (See 42 CFR 413.24(a).) Cost data based on such basis of accounting is acceptable subject to appropriate treatment of capital expenditures. Cost finding is the process of recasting the data derived from the accounts ordinarily kept by you to ascertain costs of the various types of services rendered. It is the determination of these costs by the allocation of direct costs and proration of indirect costs. The various cost finding methods recognized are outlined in 42 CFR 413.24. Worksheets B, Part I, and B-1 have been designed to accommodate the stepdown method of cost finding.

The provider can elect to change the order of allocation and/or allocation statistics, as appropriate, for the current cost reporting period if a request is received by the contractor, in writing, 90 days prior to the end of that reporting period. The contractor has 60 days to make a decision and notify the provider of that decision or the change is automatically accepted. The change must be shown to more accurately allocate the overhead or should demonstrate simplification in maintaining the changed statistics. If a change in statistics is requested, the provider must maintain both sets of statistics until an approval is made. If both sets are not maintained and the request is denied, the provider reverts back to the previously approved methodology. The provider must include with the request all supporting documentation and a thorough explanation of why the alternative approach should be used. (See CMS Pub. 15-1, chapter 23, §2313.)

Simplified Cost Allocation Methodology

As an alternative approach to the cost finding methods identified in CMS Pub. 15-1, chapter 23, §2306, the provider may request a simplified cost allocation methodology. This methodology reduces the number of statistical bases a provider maintains. It may result in reducing Medicare reimbursement. A comparison is recommended if the possible loss reimbursement is surpassed by the reduced costs of maintaining voluminous statistics. The following statistical bases must be used for purposes of allocating overhead cost centers. There can be no deviation of the prescribed statistics and it must be utilized for all the following cost centers.

- Buildings and Fixtures: Square Footage
- Movable Equipment: Square Footage
- Maintenance and Repairs: Square Footage
- Operation of Plant: Square Footage
- Housekeeping: Square Footage
- Employee Benefits: Salaries
- Cafeteria*: Salaries
- Administrative and General: Accumulated Costs
- Laundry and Linen: Patient Days
- Dietary**: Patient Days
- Social Service: Patient Days
- Maintenance of Personnel: Eliminated and moved to A&G for simplified cost finding
- Nursing Administration: Nursing Salaries
- Central Services and Supply: Costed Requisitions
- Pharmacy: Costed Requisitions
- Medical Records and Library: Gross Patient Revenue
- Nursing School*: Assigned Time
- Interns and Residents: Assigned Time
- Paramedical Education: Assigned Time
- Nonphysician Anesthetists: 100 percent to Anesthesiology
NOTE: The election of the alternative method discussed above cannot result in inappropriately shifting costs.

*Contract labor is not included and is not grossed up.
**If this is a meals on wheels program, a Worksheet A-8 adjustment is required.

Once the simplified method is elected, the provider must continue to use this method for no less than 3 years, unless a change of ownership occurs.

The 90-day and 60-day rule previously discussed in this section still applies (CMS Pub. 15-1, chapter 23, §2313).

Continuation of the Standard Allocation Methodology Instructions

Worksheet B, Part I, provides for the allocation of the expenses of each general service cost center to those cost centers which receive the services. The cost centers serviced by the general service cost centers include all cost centers within your organization, other general service cost centers, inpatient routine service cost centers, ancillary service cost centers, outpatient service cost centers, other reimbursable cost centers, special purpose cost centers, and nonreimbursable cost centers. Obtain the total direct expenses from Worksheet A, column 7.

All direct GME costs (inpatient and outpatient in approved programs) are reimbursed based on a specific amount per resident as computed on Worksheet E-4. Costs applicable to interns and residents must still be allocated in columns 21 and 22. These costs are, however, eliminated from total costs in column 25, unless you qualify for an exception. See the instructions for column 25 for a more detailed explanation.

Worksheet B-1 provides for the proration of the statistical data needed to equitably allocate the expenses of the general service cost centers on Worksheet B, Part I. To facilitate the allocation process, the general format of Worksheets B, Part I, and B-1 is identical. Each general service cost center has the same line number as its respective column number across the top. Also, the column and line numbers for each general service cost center are identical on the two worksheets. In addition, the line numbers for each routine service, ancillary outpatient service, other reimbursable, special purpose, and nonreimbursable cost center are identical on the two worksheets. The cost centers and line numbers are also consistent with Worksheet A. If you have subscripted any lines on Worksheet A, subscript the same lines on these worksheets.

NOTE: General service columns 1 through 23 and subscripts thereof must be consistent on Worksheets B, Parts I and II; H-2, Part I; J-1, Part I; K-5, Part I; and L-1, Part I.

The statistical basis shown at the top of each column on Worksheet B-1 is the recommended basis of allocation of the cost center indicated which must be used by all providers completing this form. If a different basis of allocation is used, you must indicate the basis of allocation actually used at the top of the column subject to the applicable provisions of CMS Pub. 15-1, chapter 23, §2313. Additionally, the following overhead cost center statistics can be substituted for the recommended statistics printed on Worksheet B-1 subject to the applicable provisions of CMS Pub. 15-1, chapter 23, §2313.

<table>
<thead>
<tr>
<th>Cost Center</th>
<th>Statistical Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping</td>
<td>Square Footage</td>
</tr>
<tr>
<td>Cafeteria</td>
<td>FTEs</td>
</tr>
<tr>
<td>Maintenance of Personnel</td>
<td>Eliminate and move to A&amp;G</td>
</tr>
<tr>
<td>Medical Records</td>
<td>Gross Patient Revenue</td>
</tr>
</tbody>
</table>
Most cost centers are allocated on different statistical bases. However, for those cost centers with the same basis (e.g., square feet), the total statistical base over which the costs are allocated differs because of the prior elimination of cost centers that have been closed.

The general service cost centers are ordered sequentially such that the cost centers that render the most services to and receive the least services from other cost centers are listed first. When closing the general service cost centers, first close the cost centers that render the most services to and receive the least services from other cost centers. List the cost centers in this sequence from left to right on the worksheets. However, your circumstances may be such that a more accurate result is obtained by allocating to certain cost centers in a sequence different from that followed on these worksheets.

NOTE: General service cost centers are not allocated to provider-based physician (PBP) clinical lab service (line 61) because this cost center is treated as a purchased service under arrangements provided only to program beneficiaries.

If the amount of any cost center on Worksheet A, column 7, has a credit balance, show this amount as a credit balance on Worksheet B, Part I, column 0. Allocate the costs from the applicable overhead cost centers in the normal manner to the cost center showing a credit balance. After receiving costs from the applicable overhead cost centers, if a general service cost center has a credit balance at the point it is allocated, do not allocate the general service cost center. Rather, enter the credit balance in parentheses on line 201 as well as on the first line of the column and on line 202. This enables column 24, line 202, to crossfoot to columns 0 and 4A, line 202, if the provider has intern & resident costs or a post step-down adjustment in column 25. However, column 26 will cross foot to columns 0 and 4A if the provider has no interns and residents costs or a post step-down adjustment in column 25. After receiving costs from the applicable overhead cost centers, if a revenue producing cost center has a credit balance on Worksheet B, Part I, column 26, do not carry forward a credit balance to any worksheet.

On Worksheet B-1, enter on the first line in the column of the cost center being allocated the total statistical base over which the expenses are allocated (e.g., in column 1, capital-related cost - building and fixtures, enter on line 1 the total square feet of the building on which depreciation was taken). For all cost centers to which the capital-related cost is allocated, enter that portion of the total statistical base applicable to each. The sum of the statistical base applied to each cost center receiving the services rendered must equal the total base entered on the first line. Use accumulated cost for allocating A&G expenses.

Do not include any statistics related to services furnished under arrangements except if:

- Both Medicare and non-Medicare costs of arranged for services are recorded in your records; or
- Your contractor determines that you are able to (and do) gross up the costs and charges for services to non-Medicare patients so that both cost and charges are recorded as if you had furnished such services directly to all patients. (See CMS Pub. 15-1, chapter 23, §2314.)

Enter on line 202 of Worksheet B-1 the total expenses of the cost center being allocated. Obtain this amount from Worksheet B, Part I, from the same column and line number used to enter the statistical base on Worksheet B-1. (In the case of capital-related costs - buildings and fixtures, this amount is on Worksheet B, Part I, column 1, line 1.)

Divide the amount entered on line 202 by the total statistic entered in the same column on the first line. Enter the resulting unit cost multiplier on line 203. Round the unit cost multiplier to six decimal places.
Multiply the unit cost multiplier by that portion of the total statistics applicable to each cost center receiving the services rendered. Enter the result of each computation on Worksheet B, Part I, in the corresponding column and line. (See §4000.1 for rounding standards.)

After applying the unit cost multiplier to all the cost centers receiving the services rendered, the total cost (line 202) of all the cost centers receiving the allocation on Worksheet B, Part I, must equal the amount entered on the first line. Perform the preceding procedures for each general service cost center. Complete the column for each cost center on both Worksheets B, Part I, and B-1 before proceeding to the column for the next cost center.

If a general service cost center has a credit balance at the point it is allocated on Worksheet B, Part I, do not allocate the general service cost centers. However, display the statistic departmentally, but do not calculate a unit cost multiplier for lines 203 and 205 on Worksheet B-1. Use line 204 of Worksheet B-1 in conjunction with the allocation of capital-related costs on Worksheet B, Part II. Complete line 204 for all columns after Worksheets B, Part I, and B-1 are completed and the amount of direct and indirect capital-related cost is determined on Worksheet B, Part II, column 2A. Use line 205 for all columns in allocating the direct and indirect capital-related cost on Worksheet B, Part II. Compute the unit cost multiplier (after the amount entered on line 204 has been determined) by dividing the capital-related costs recorded on line 204 by the total statistic entered in the same column on the first line. Round the unit cost multipliers to six decimal places. (See instructions for Worksheet B, Part II, for the complete methodology and exceptions.)

Do not use line 200 to allocate costs on Worksheet B, Part I.

Since intern and resident costs are segregated into two cost centers, properly allocate general service costs applicable to each center. A listing of general service cost centers which may be applicable and the appropriate allocation to the separate cost centers for the intern and resident costs is presented below.

<table>
<thead>
<tr>
<th>Cost Center</th>
<th>Salary &amp; Salary Related Fringe Benefits</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Related Costs - Bldgs. &amp; Fixtures</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Capital Related Costs - Movable Equipment</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Administrative and General</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Maintenance and Repair</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Operation of Plant</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Housekeeping</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Cafeteria</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Maintenance of Personnel</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
After the costs of the general service cost center have been allocated on Worksheet B, Part I, enter in column 24, the sum of the costs in columns 4A through 23, for lines 30 through 201. Once overhead is allocated to these cost centers, they are closed and the costs are not further allocated to the revenue producing cost centers.

Since costs applicable to direct GME costs (inpatient and outpatient in approved programs) are reimbursed based on a specific amount per resident, exclude these costs from the total costs in column 26. Enter on each line in column 25 the sum of the amounts shown on each line in columns 21 and 22. If you qualify for the exception (cost reimbursed hospital such as CAHs do not offset I&R costs), enter only the amounts from Worksheet B-2.

In addition, when an adjustment to expenses is required after cost allocation, enter the amount applicable to each cost center in column 25 of Worksheet B, Part I. Corresponding adjustments to Worksheet B, Part II, may be applicable for capital-related cost adjustments. Submit a supporting worksheet showing the computation of the adjustments in addition to completing Worksheet B-2.

NOTE: The amount reported in column 25 must equal both the sum of the amounts shown in columns 21 and 22, unless you qualify for the exception and the amounts on Worksheet B-2, excluding adjustments with a worksheet code of “4.” See the instructions for column 25 for a more detailed explanation.

Other examples of adjustments to expenses which may be required after cost allocation are (1) the allocation of available costs between the certified portion and the non-certified portion of a distinct part provider, and (2) costs attributable to unoccupied beds in a hospital with a restrictive admission policy. (See CMS Pub. 15-1, chapter 23, §§2342-2344.3.)

After the adjustments have been entered on Worksheet B, Part I, column 25, subtract the amounts in column 25 from the amounts in column 24, and enter the resulting amounts in column 26 for each line. The cost subtotal entered in column 24, line 202, must equal the total costs entered in column 0, line 202.

Transfer the totals in column 26, lines 30 through 46 (inpatient routine service cost centers), lines 50 through 77 (ancillary service cost centers), lines 88 through 93 (outpatient service cost centers), lines 94 through 101 (other reimbursable cost centers), and lines 105 through 117 (special purpose cost centers) to Worksheet C, Parts I and II, column 1, lines 30 through 117. For cost reporting periods beginning before October 1, 2014, hospital-based RHC/FQHCs transfer the total costs from column 26, lines 88 and 89, respectively, to Worksheet M-2. For cost reporting periods beginning on or after October 1, 2014, hospital-based RHCs transfer the total costs from column 26, line 88, to Worksheet M-2. For cost reporting periods beginning on or after October 1, 2014, hospital-based FQHCs see instructions for Worksheet N-2, column 4.
Transfer the total cost in column 26, line 100 (intern/resident services not in approved teaching program) to Worksheet D-2, Part I, column 2, line 1.

The total outpatient rehabilitation costs in column 26, line 93, and subscripts, must agree with Worksheet J-1, Part I, column 26, line 22, for each provider type.

Do not transfer ASC costs from column 26, line 115. Do not transfer the nonreimbursable cost center totals (lines 190 through 193).

NOTE: Do not transfer negative numbers.

Column Descriptions

Column 1--Include only capital costs for building and fixtures. See the instructions for Worksheet A, line 1, for a discussion capital-related costs for building and fixtures.

Column 2--Include only capital costs for movable equipment. See the instructions for Worksheet A, line 2, for a discussion capital-related costs for movable equipment.

Column 20--All nursing school program costs that are considered normal operating costs in 42 CFR 413.85(h)(6) (and identified as criterion code 4 in column 3 of Worksheet S-2, Part I, subscripts of line 60) do not transfer to Worksheet D, Part III, and Part IV.

Column 23--All paramedical/allied health costs that are considered normal operating costs in 42 CFR 413.85(h)(6) (and identified as criterion code 4 in column 3 of Worksheet S-2, Part I, subscripts of line 60) do not transfer to Worksheet D, Part III, and Part IV.

Worksheet B, Part I, Column 25--Hospitals other than CAHs--Accumulate in this column the costs for interns and residents. Except as provided in 42 CFR 413.77(e)(1), the costs of interns and residents (direct GME costs for inpatient and outpatient in approved programs) for PPS and TEFRA hospitals are paid on a per resident amount (PRA) through Worksheet E-4. In order to avoid duplicate payments of interns and residents costs, enter the sum of the amounts reported on each line in columns 21 and 22 in the appropriate line of column 25. When an adjustment to expenses is required after cost allocation, enter on the appropriate lines in this column the amounts from Worksheet B-2, excluding adjustments with a worksheet code of “4.” The total of columns 21 and 22 and the applicable lines on Worksheet B-2, must equal the total of column 25.

NOTE: In accordance with 42 CFR 413.77(e), if a hospital did not have any approved medical residency programs or did not participate in Medicare during the base period but either condition changes in a cost reporting period beginning on or after October 1, 2006 and the residents are not on duty during the first month of the cost reporting period in which the hospital first begins to train residents, the contractor establishes a PRA using information from the first cost reporting period immediately following the cost reporting period during which the hospital participates in Medicare and residents began training at the hospital. Any interns and residents costs incurred during the cost reporting period, prior to the base period used to calculate the PRA, are reimbursed as pass-through costs based on reasonable costs on Worksheets D, Parts III and IV, and D-2, Part II, if applicable. If Worksheet S-2, Part I, line 57, column 1, is “Y” and column 2 is “N”, do not include in column 25 the interns and residents costs from columns 21 and 22.

If Worksheet S-2, Part I, line 57, column 1, contains an “N” or column 2 contains a “Y”, include in column 25 the interns and residents in approved programs costs from columns 21 and 22 because these costs will be reimbursed on a PRA basis through Worksheet E-4.

CAHs--If you are CAH and responded “Y” to Worksheet S-2, Part I, line 107 (indicating that you have an I&R training program), the GME elimination is not performed. Consequently, do not include in column 25 the intern and resident costs from columns 21 and 22.
Worksheet B-1, Column 5A--Enter the costs attributable to the difference between the total accumulated cost reported on Worksheet B, Part I, column 4A, line 202, and the accumulated cost reported on Worksheet B-1, column 5, line 5. Enter any amounts reported on Worksheet B, Part I, column 4A, for (1) any service provided under arrangements to program patients and which is not grossed up and (2) negative balances. Enter a negative one (-1) in the accumulated cost column to identify the cost center which should be excluded from receiving any A&G costs. If some of the costs from that cost center are to receive A&G costs then enter in the reconciliation column the amount not to receive A&G costs to assure that only those costs to receive overhead receive the proper allocation. Including a statistical cost which does not relate to the allocation of A&G expenses causes an improper distribution of overhead. In addition, report on line 5 the A&G costs reported on Worksheet B, Part I, column 5, line 5, since these costs are not included on Worksheet B-1, column 5, as an accumulated cost statistic.

For componentized A&G cost centers, the accumulated cost center line number must match the reconciliation column number. Include in the column number the alpha character "A", i.e., if the accumulated cost center for A&G is line 5.03 (Other A&G), the reconciliation column designation must be 5A.03.

Worksheet B-1, Column 5--The A&G expenses are allocated on the basis of accumulated costs. Therefore, the amount entered on Worksheet B-1, column 5, line 5, is the difference between the amounts entered on Worksheet B, Part I, column 4A and Worksheet B-1, column 5A. A negative cost center balance in the statistics for allocating A&G expenses causes an improper distribution of this overhead cost center. Exclude negative balances from the allocation statistics.

Worksheet B-1, Column 20--Enter the appropriate statistics for each nursing school program based on assigned time. Nursing school program costs reported on line 20, and its subscripts, may not be allocated to another program listed on line 20, or its subscripts.

Worksheet B-1, Column 23--Enter the appropriate statistics for each paramedical education/allied health program based on assigned time. If, however, the use of assigned time is not appropriate for that paramedical education program (i.e., a non-direct patient care cost center), a different statistical basis may be used. For example, if you have a paramedical education program for hospital administration, using assigned time as the statistical basis may be inappropriate. Use accumulated costs as the statistical basis for allocating hospital administrative paramedical education program costs. Paramedical education/allied health program costs reported on line 23, and its subscripts, may not be allocated to another program listed on line 23, or its subscripts.

Worksheet B-1, Columns 20 and 23, Lines 206 (NAHE Adjustment Amount to be Allocated) and 207 (NAHE Unit Cost Multiplier)--For each line on Worksheet B-2, where column 2, is "4" (indicating a post stepdown adjustment for nursing school education costs and/or allied health/paramedical education costs), enter on line 206 the adjustment amount (as a positive number) from the corresponding line of Worksheet B-2, columns 20 and or 23, and applicable subscripts, the adjustment amount (as a positive number) from the corresponding line of Worksheet B-2, column 4.

Enter on line 207 the NAHE unit cost multiplier by dividing the adjustment amount on line 206, by the total statistic at the top of the applicable column. Calculate the NAHE post step-down adjustment by multiplying the NAHE unit cost multiplier by the applicable cost center statistic and enter the resulting amount in the corresponding cost center on Worksheet D, Part III, columns 1A and 2A, and Worksheet D, Part IV, columns 2A and 3A, as appropriate. Since the NAHE adjustment columns on Worksheets D, Parts III and IV, are not subscriptable, combine the NAHE adjustment amounts on Worksheet D, Part III columns 1A and 2A, respectively, and Worksheet D, Part IV, columns 2A and 3A, respectively, when Worksheet B-1, columns 20 and/or 23, are subscripted. See the instructions for Worksheets D, Parts III and IV, for further information.