maryland
health services
cost review commission

TO: Chief Financial Officers

FROM: Gerard Schmith, Deputy Director of Revenue & Compliance

DATE: March 3, 2022

RE: Compliance Monitoring of Drugs (CDS) & Supplies (MSS)

The HSCRC and the hospital field have been working together to review and update the terms of the GBR Agreements.

The one remaining item that is outstanding relates to compliance corridors for supplies (MSS) and drugs (CDS). Our current methodology measures the supplies and drugs rate centers using a revenue target and applying a year end penalty of 40% to any revenue beyond the revenue corridor.

Moving forward, in effort to ensure the best possible charging practices to patients, the HSCRC would like to measure compliance in the supply and drug rate centers using a charge to cost ratio. Our final decision is outlined below:

- The corridors for MSS and CDS will be 30% for the portion of the charge to cost ratio or imputed price related to overhead with the ability to expand an additional 10% upon written approval from the HSCRC
- The year-end corridors for MSS and CDS will be calculated using the weighted average, similar to how the other year end corridors are calculated. An example of this calculation is included below.
- HSCRC will evaluate hospital performance in these rate centers by reviewing year end revenue compliance and assessing charge to cost ratio compliance.

Staff do want to note that corridors are reviewed monthly to ensure that month to month charging is not egregious. In addition, revenue can be spread (uniformly) to other rate centers to help achieve unit rate compliance.

Weighted Corridor Example on overhead:

July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	YE /12
30	30	30	30	30	30	30	30	30	40	40	40	32.5

Staff understand that these changes are being made in the middle of the rate year. We also understand that hospitals are working hard to meet the demands of the ongoing COVID-19 pandemic. We are using rate year 22 as a test period and will be measuring compliance using both the revenue target and the charge to cost ratio for the remainder of the year. Year-end compliance for CDS and MSS will be measured using revenue targets. Staff intend to adopt the new methodology effective July 1, 2022.

Frequently Asked Questions

1. Does the HSCRC intend to measure both MSS/CDS revenue compliance as well as charge to cost compliance? If so, we need to see how this plays out before making anything permanent. The intent would be to move to the charge to cost compliance for RY23. However, during this integration period we will measure both ways. Compliance penalties for supplies and drugs will be measured based on revenue for RY22.

2. There are lingering concerns that the proposal only raises the overhead portion by the 30% since we don't know what actual cost (volume) was until the month is closed. This ultimately could be ok, but we need to test it. This is precisely why we are having a test period. We have asked a few hospitals if they went back and revised the cost after the period (for those that say it's delayed) and they didn't give us a definitive answer. We are still interested in understanding how often cost numbers get revised.

3. The greater concern is month-to-month volatility of MSS/CDS cost and whether we reconcile this at year end or will HSCRC address this monthly? Penalties will be assessed on an annual basis. However, HSCRC staff will continue to monitor compliance monthly. We understand that there may be a month of volatility and we don't intend to penalize for a situation like that. However, if staff sees a persistent pattern of charging beyond the corridors for more than three months in a row, we will evaluate and determine if any additional penalty needs to be added to any penalties at year end. The penalty would be calculated at 40 percent of the associated revenue beyond the approved weighted corridor for the 3-month period. Staff requests that the hospital note any unit rate variances beyond the approved corridor in a letter and submit the letter via the monthly mailbox. If a hospital recognizes they are out of monthly compliance and has plans to get back in over the next several months, staff will consider this in any decision on whether to assess an additional penalty or not.

4. From Jan-Jun, interplay of MSS/CDS charging with overall price corridors to recover the $100m and last year's undercharges. This is a bigger issue because the Commission intended hospitals to be allowed both. If MSS/CDS is inadvertently squeezed – though understanding, we don't want crazy prices – it may have to be made up somewhere. Agreed that the addition of revenue in the January rate orders adds a layer of complexity. As always, if a hospital has trouble maintaining compliance in a particular rate center it can get spread to other rate centers.

5. Another concern is the amount of overhead sitting in CDS and MSS. We agree and would like to address this concern. Changing the allocation of overhead in these centers involves a lot of stakeholder involvement and we intend to consider this in a later evaluation.