hospital cost reports must be electronically transmitted to the intermediary in ASCII format. In addition to the electronic file, existing § 413.24(f)(4)(iii) requires hospitals to submit a hard copy of a settlement summary, a statement of certain worksheet totals found in the electronic file, and a statement signed by the hospital's administrator or chief financial officer certifying the accuracy of the electronic file.

Further, to preserve the integrity of the electronic file, we implemented provisions regarding the processing of the electronic cost report once submitted to the intermediary Specifically, existing § 413.24(f)(4)(ii) provides that the intermediary may not alter the cost report once it has been filed by the provider. That is, the intermediary must maintain an unaltered copy of the provider's electronic cost report. This provision is not intended to prohibit the intermediary from making audit adjustments to the provider's cost report. Additionally, this section provides that the intermediary must reject a cost report that does not pass all specified edits. Finally, the provider's electronic program must be able to disclose that changes have been made to the provider's filed cost report. Again, we would apply these same provisions to SNFs and HHAs.

As stated above, the electronic cost reporting requirement for hospitals has been a statutory requirement for over 5 years. Our experience with the process of hospitals submitting cost reports to the intermediary in ASCII format has been uniformly positive. These cost reports are processed more expeditiously and efficiently than manually prepared cost reports or hard copies of electronically prepared cost reports. In fact, based on comments from hospitals, we amended § 413.24(f)(4) in our June 27, 1995 final rule to eliminate the requirement that hospitals submit a hard copy of the cost report in addition to the electronic file (60 FR 33123). In conclusion, based on our experience with the submission of electronic cost reports by hospitals, we believe that electronic filing would reduce the administrative burden on most SNFs and HHAs, with a waiver available in financial hardship cases. Therefore, we propose to amend §413.24 accordingly:

• Add a new paragraph (f)(4)(i) to define the word "provider" as a hospital, SNF, or HHA;

• Redesignate existing paragraphs (f)(4)(i) through (f)(4)(iv) as (f)(4)(ii) through (f)(4)(v); • Revise redesignated paragraph (f)(4)(ii) to state that SNFs and HHAs must submit cost reports in a standardized electronic format for cost reporting periods beginning on or after October 1, 1995; and

• In redesignated paragraphs (f)(4)(iii) through (f)(4)(v), replace the word "hospital" wherever it appears with the word "provider."

III. Impact Statement

We generally prepare a regulatory flexibility analysis that is consistent with the Regulatory Flexibility Act (RFA) (5 U.S.C. 601 through 612) unless we certify that a proposed rule such as this would not have a significant economic impact on a substantial number of small entities. For purposes of the RFA, all providers and small businesses that distribute cost-report software to providers are considered small entities. HCFA's intermediaries are not considered small entities for purposes of the RFA.

In addition, section 1102(b) of the Social Security Act requires us to prepare a regulatory impact analysis for any proposed rule that may have a significant impact on the operation of a substantial number of small rural hospitals. Such an analysis must conform to the provisions of section 604 of the RFA. For purposes of section 1102(b) of the Act, we define a small rural hospital as a hospital that is located outside of a Metropolitan Statistical Area and has fewer than 50 beds. We are not preparing a rural impact statement since we have determined, and certify, that this proposed rule would not have a significant impact on the operations of a substantial number of small rural hospitals.

As stated above, under §§ 413.20(b) and 413.24(f), providers are required to submit cost reports annually, with reporting periods based on the provider's accounting year. This proposed rule would require SNFs and HHAs, like hospitals, to submit their Medicare cost reports in a standardized electronic format. We anticipate that this requirement would take effect for cost reporting periods beginning on or after October 1, 1995, meaning that the first electronic cost reports would be due February 28, 1997.

Currently, approximately 75 percent of all SNFs and HHAs submit a hard copy of an electronically prepared cost report to the intermediary. We believe that the provisions of this proposed rule would have little or no effect on these providers, except to reduce the time involved in copying and collating a hard copy of the report for intermediaries. In addition to the 75 percent of providers that currently use electronic cost reporting, this rule would not affect those providers that do not file a full cost report and, as stated above, would not be required to submit cost reports electronically.

This proposed rule may have an impact on those providers who do not prepare electronic cost reports, some of whom may have to purchase computer equipment, obtain the necessary software, and train staff to use the software. However, as discussed below, we believe that the potential impact of this proposed rule on those providers who do not prepare electronic cost reports would be insignificant.

First, a small number of providers that do not submit electronic cost reports may have to purchase computer equipment to comply with the provisions of this proposed rule. However, even among the 25 percent of SNFs and HHAs that do not submit electronically prepared cost reports, we believe that most providers already have access to computer equipment, which they are now using for internal recordkeeping purposes, as well as for submitting electronically generated bills to their fiscal intermediaries, for example. Thus, we do not believe that obtaining computer equipment would be a major obstacle to electronic cost reporting for most providers. For those providers that would have to purchase computer equipment, we note that, in accordance with current regulations governing payment of provider costs, Medicare would pay for the cost of the equipment as an overhead cost.

We recognize that a potential cost for providers that do not submit electronic cost reports would be that of training staff to use the software. Since most SNFs and HHAs currently use computers, we do not believe that training staff to use the new software would impose a large burden on providers. An additional cost would be the cost of the software offered by commercial vendors. However, providers could eliminate this cost by obtaining the free software from HCFA.

The requirement that hospitals submit cost reports in a standardized electronic format has been in place since October, 1989. Since that time, the accuracy of cost reports has increased and we have received very few requests for waivers. Additionally, we have not received any comments from the hospital industry indicating that the use of electronic cost reporting is overly burdensome. We believe that electronic cost reporting would be equally effective for SNFs and HHAs, with the benefits (such as increased accuracy and decreased