

Texas Health and Human Services Commission



**Day Activity and Health Services (DAHS)
2015 Cost Report Training**

Housekeeping Items



- **Mid-session break**
- **Hold questions**
- **Hold music**
- **How to ask questions (the hand)**

Topics to be Covered

- **HHSC, DADS & DFPS**
- **Rate Analysis for LTSS Staff**
- **Communications**
- **ACRES Versus STAIRS**
- **Why are Cost Reports Important?**
- **How a Cost Becomes a Rate with Asides on Desk Reviews, Field Audits, Informal Reviews and Formal Appeals Requests**
- **Cost Report Training Requirements**
- **Cost Report Due Dates**
- **When to Complete a Cost Report**
- **How to Complete a Cost Report**

Topics to be Covered (cont.)

- **Miscellaneous but Important**
- **Unacceptable and Unauditable Cost Reports**
- **Vendor Hold**
- **Allowable and Unallowable Costs**
- **Insurance Costs**
- **Depreciation**
- **Related-Parties, Transactions & Compensation**
- **Rate Enhancement**
- **Website**
- **DAHS Program Specific Instructions**

HHSC, DADS & DFPS



Rates for long term care programs are developed by Rate Analysis for Long Term Services and Supports (LTSS) at the Health and Humans Services Commission (HHSC).

HHSC, DADS & DFPS



Long Term Care programs are ADMINISTERED by the Department of Aging and Disability Services (DADS) and the Department of Family and Protective Services (DFPS – 24-Hour Residential Child Care only).

HHSC, DADS & DFPS



Rate Analysis staff work closely with staff at DADS and DFPS to coordinate program administration, service definitions, billing guidelines and rates.

Communications

E-Mail

firstname.lastname@hhsc.state.tx.us

LTSS Program contacts can be found at:

<http://www.hhsc.state.tx.us/rad/long-term-svcs/contacts.shtml>

General questions can be sent to:

costinformation@hhsc.state.tx.us

ACRES versus STAIRS

ACRES is the automated cost reporting system used to complete the cost reports for Accountability Reports (AR)

STAIRS is the web-based cost reporting system used to complete cost reports for 24-RCC, CPC (PHC and CLASS), DAHS, ICF/IID, HCS / TxHmL, NF and RC.

Why are Cost Reports Important?



- Used to set rates
- Used to make appropriations requests
- Used to determine enhancement compliance
- Used to obtain cost information for special circumstances and projects

How a Cost Becomes a Rate



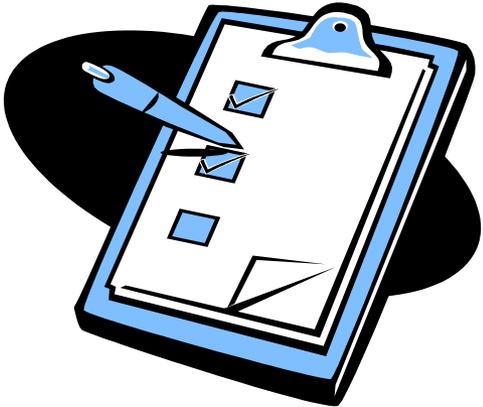
**Provider completes
Cost Report in
ACRES or STAIRS**



**The ACRES or
STAIRS file is
verified and all
necessary
documentation
provided by
Provider**



How a Cost Becomes a Rate



**Rate Analysis Edit
Check**



**HHSC
Desk Review or
Field Audit**

Aside - Desk Reviews & Field Audits

Verify that each cost report:

- **Correctly reports allowable and unallowable costs**
- **Follows Generally Accepted Accounting Principles (GAAP) except as otherwise specified**
- **Follows cost report instructions and rules**
- **Is supported by documentation**

Aside - Desk Reviews & Field Audits

- **Records must be accessible to HHSC Audit staff within 10 working days of notification**
- **When records are not in Texas, the provider must pay the costs for HHSC staff to travel and review records out of state**

Aside - Desk Reviews & Field Audits

HHSC sends notices regarding the exclusions and adjustments. These notices identify:

- Items that have been adjusted**
- The amount of each adjustment**
- The reason for each adjustment**

How a Cost Becomes a Rate



**Rate Analysis
Post-Audit Data
Clean-Up**



**Informal Reviews /
Formal Appeals**

Aside - Informal Review Requests

- **Due within 30 days of notification**
- **Must include items in dispute, recommended resolution, supporting documentation**
- **Must be signed by individual legally responsible for the conduct of the DADS or DFPS-contracted provider or their legal representative**

Aside - Formal Appeal Requests

- **Due within 15 days of notification**
- **Limited to issues and documentation from Informal Review**
- **Must be signed by individual legally responsible for the conduct of the DADS or DFPS-contracted provider or their legal representative**

How a Cost Becomes a Rate

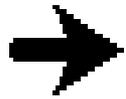


Rate Analysts create database(s) to calculate proposed rates



Analysis of Data by Rate Analysts

How a Cost Becomes a Rate



**Public
Rate Hearing**



**Executive
Commissioner
Approves Rates**



Cost Report Due Date

April 30, 2016

**24-RCC, CPC (CLASS and PHC),
DAHS, ICF/IID, HCS/TxHmL, NF
and RC**

Due dates may only be extended for good cause

When to Complete a Cost Report

All providers are required to submit a cost report; however, some providers may be excused from submitting a cost report if they meet specific criteria. Some of the criteria for being excused are:

- The provider delivered no services
- The provider delivered less than a certain amount of service
- The contract was effective no more than 30 days before the end of the cost report period

Note: Not all criteria apply to all programs. See the Rate Analysis webpage or the program-specific instructions for more information.

How to Complete a Cost Report

- Review the prior year's Cost Report
- Review prior year's Cost Report Audit Adjustments (if available)
- Read the current year's Cost Report Specific Instructions



How to Complete a Cost Report

- Gather all required documentation
- Review General Ledger for unallowable costs and classification errors
- Develop work papers that clearly reconcile between the provider's fiscal year end trial balance and the amounts reported on the Cost Report
- Include Cost Report line items on your reconciliation
- Complete all required allocations



How to Complete a Cost Report

- **Complete Steps in order, where required**
- **Transfer values from your allocation worksheets and reconciliations to appropriate cost report items**
- **If report is being used for enhancement purposes, complete enhancement worksheets**
- **Check work for errors**

How to Complete a Cost Report

- **Complete Methodology Certification**
 - **Must be signed by the PREPARER. This person must be the individual who actually prepared the cost report or who has primary responsibility for the preparation of the cost report**
 - **Must contain original signatures and original notary stamps/seals**

How to Complete a Cost Report

- **Complete Cost Report Certification**
 - **Must be signed by an individual legally responsible for the conduct of the provider such as an owner, partner, Corporate Officer, Association Officer, Government official, or L.L.C member**
 - **Must contain original signatures and original notary stamps/seals**
 - **The signature date should be the same or after the date the preparer signed the Methodology Certification page**

Miscellaneous but Important...

- Round \$ to 0 places; round statistical information to 2 places
- Amended Cost Reports



Miscellaneous but Important...

- **Accrual method of accounting**
- **To be allowable, accrued expenses must be incurred during the cost reporting period and must be paid within 180 days after the end of that cost reporting period**



Miscellaneous but Important...

Records must be maintained a minimum of 3 years and 90 days after the end of the provider's fiscal year or after the resolution of all litigation, claims and audit findings involving the cost report, if that is later.



Problems: Unacceptable Cost Reports

- **Not completed in accordance with rules, instructions, and policy clarifications**
- **Not completed for the correct reporting period**
- **Not completed using an accrual method of accounting (except for governmental entities required to operate on a cash basis)**

Problems: Unacceptable Cost Reports

- **Preparer has not submitted required documentation (certification pages, allocation summaries, leases, management agreements...)**

Problems: Unauditable Cost Reports

- **Auditor is unable to reconcile to provider's workpapers**
- **Provider fails to provide requested information/documentation in a timely fashion**
- **Provider does not have supporting workpapers**
- **Provider used unacceptable allocation method**

Vendor Hold

Failure to submit an acceptable cost report by the cost report due date may result in DADS or DFPS withholding payments from the provider until an acceptable cost report is submitted (i.e., “vendor hold”)



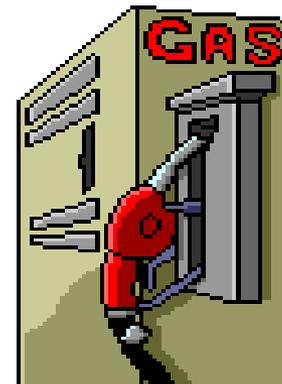
Allowable and Unallowable Costs

- ✓ Costs are **ALLOWABLE** if they meet the “reasonable” and “necessary” tests.

“reasonable”

and

“necessary”



Allowable and Unallowable Costs

Reasonable Costs

- The provider seeks to minimize costs through arm's-length transactions
- The amount expended does not exceed what a prudent, cost-conscious buyer pays for a given item or service



Allowable and Unallowable Costs



Necessary Costs

Appropriate for developing and maintaining the required standard of operation for client care



- Within State, federal, local regulations
- Not personal
- Directly or indirectly related to providing the contracted service
- Allocated costs per program are substantiated

Allowable and Unallowable Costs

The provider may purchase items or services that are “unallowable”, but they must NOT include them on the cost report



Allowable and Unallowable Costs

Authority Sources

- Cost Report Specific Instructions
- Cost Report Training
- Texas Administrative Code (TAC)
 - 1 TAC §355.102
 - 1 TAC §355.103
- GAAP – unless in conflict with instructions or TAC



Allowable and Unallowable Costs

ARM'S-LENGTH TRANSACTIONS

- **Arm's-length transactions are transactions between parties that are not related by blood, marriage or control**
- **Less-than-arm's-length transactions are transactions between related parties**

Allowable and Unallowable Costs

COMPENSATION

Includes both cash and noncash forms of compensation subject to federal payroll tax regulations:

- **Wages and salaries (including bonuses)**
- **Payroll taxes**
- **Fringe benefits**

Allowable and Unallowable Costs

COMPENSATION

A bonus is a type of compensation granted to employees as an addition to wages. Bonuses paid to employees in arm's-length transactions are allowable costs, subject to the reasonable and necessary costs criteria

Allowable and Unallowable Costs

COMPENSATION

Allowable employee benefits are reported as either:

- **Salaries and wages**
- **Employee benefits**
- **Costs applicable to specific cost areas**

Allowable and Unallowable Costs

COMPENSATION

Benefits that must be reported as salaries and wages and directly charged to the individual employee include:

- **Paid vacation days**
- **Paid holidays**
- **Paid sick leave**
- **Other paid leave**

Allowable and Unallowable Costs

COMPENSATION

Benefits that must be reported as benefits and directly charged to the individual employee include:

- **Employer contributions to deferred compensation plans, retirement funds or pension plans**
- **Costs of certain employer-paid health/medical/dental and disability insurance premiums and paid claims**
- **Employer-paid life insurance premiums**
- **Employer-paid child day care for children of employees**
- **Accrued paid days off not yet subject to payroll taxes**

Allowable and Unallowable Costs

COMPENSATION

- **Only employer-paid health/medical/dental and disability paid claims can be allocated**
- **All other employee benefits and/or insurance must be direct-costed**

Allowable and Unallowable Costs

COMPENSATION

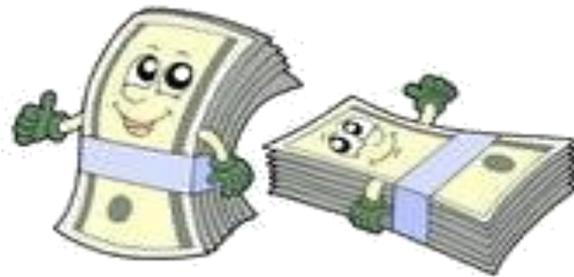
Benefits that are reported as costs applicable to specific cost areas include:

- Employer-paid training/educational costs
- Employee relations costs
- Uniforms
- Noncash incentives
- Mileage reimbursement
- Meals

Allowable and Unallowable Costs

COMPENSATION

Providers must maintain documentation which clearly identifies each type of compensation



Allowable and Unallowable Costs

COMPENSATION

Examples of required documentation include:

- **Insurance policies**
- **Provider benefit policies**
- **Records showing paid leave accrued and taken**
- **Documentation to support hours (regular & overtime) worked and wages paid**
- **Mileage logs**
- **Travel Allowances**

Allowable and Unallowable Costs

CONSULTANTS

Allowable compensation for outside consultants and for services provided by outside vendors must be:

- **Reasonable**
- **Necessary**
- **Related to the provision of contracted services**

Allowable and Unallowable Costs

ACCOUNTING AND AUDITING FEES

Allowable accounting and auditing fees include those for:

- **Preparation of business tax reports/returns**
- **Preparation of financial statements**
- **Preparation of cost reports**
- **Performance of a financial audit**

Allowable and Unallowable Costs

ACCOUNTING AND AUDITING FEES

Unallowable accounting and auditing fees include expenses related to:

- **Preparation of personal tax returns or single audit**
- **Litigation**
- **Preparation of annual reports, reports to stockholders or other interested parties**
- **Investment management**
- **Any other unallowable costs**

Allowable and Unallowable Costs

LEGAL FEES AND RETAINERS

Allowable legal fees are expenses for allowable legal representation in allowable instances that are clearly enumerated as to amount and subject of the action

Allowable and Unallowable Costs

LEGAL FEES AND RETAINERS

Unallowable legal fees are expenses for legal activities related to lawsuits against the government; retainers in and of themselves; expenses related to other business activities

Allowable and Unallowable Costs

LITIGATION EXPENSES AND AWARDS

Unallowable litigation expenses and awards include expenses related to:

- **Court-ordered awards of damages or settlements, with an exception for certain workers' compensation settlements**
- **Legal fees associated with litigation that resulted in any court-ordered award of damages or settlements or a criminal conviction**
- **Litigation expenses (e.g., legal fees, settlement costs, award costs, expert witness expenses and investigative services)**

Allowable and Unallowable Costs

ACCOUNTING, AUDITING AND LEGAL FEES

Documentation for accounting, auditing and legal fees that are billed on an hourly basis and the allowable portion of legal retainers should include:

- **The amount of time spent on the activity**
- **A written description of the activity performed**
- **The person performing the activity**
- **The hourly billing amount of the person performing the activity**

Allowable and Unallowable Costs

ADVERTISING AND PUBLIC RELATIONS

ALLOWABLE

Costs include yellow page listings in the provider's service area (up to 1/8 page) and classified ads for the recruitment of personnel.



UNALLOWABLE

Costs include advertising which seeks to increase client utilization, sale of stock and public relations costs.

Allowable and Unallowable Costs

INTEREST EXPENSE

In order for interest expense to be allowable, the loan must:

- **Satisfy a financial need**
- **Be related to contracted client care**
- **Be made in the name of the contracted provider entity**
- **Be used for allowable costs**

Allowable and Unallowable Costs

INTEREST EXPENSE

Unallowable interest expense includes:

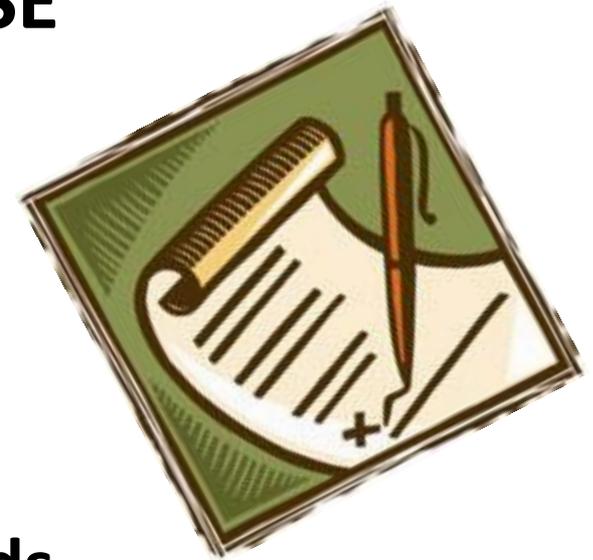
- **Loan is for purpose of investing in operations other than contracted services**
- **Loan pertains to unallowable items**
- **Loan is for purpose of creating excess working capital**

Allowable and Unallowable Costs

INTEREST EXPENSE

LOAN DOCUMENTATION

- Signed copy of loan
- Explanation of purpose of loan
- Documentation of use of proceeds
- Evidence of systematic principal and interest payments
- Substantiation of costs of securing loan



Allowable and Unallowable Costs

EMPLOYEE MORALE AND WELFARE

ALLOWABLE: To the extent they are incurred in accordance with written policy and only as indirect costs, expenses related to employee morale and welfare are limited to \$50 per employee per year



Allowable and Unallowable Costs

FINES AND PENALTIES

UNALLOWABLE: Non-sufficient fund fees, parking fines, damages and settlements from violations (or alleged violations) of laws and regulations ACA fines are unallowable



Allowable and Unallowable Costs

FUNDRAISING & INVESTMENT MANAGEMENT

UNALLOWABLE: salaries related to fundraising and investment management and any fees paid to others for such activity



Allowable and Unallowable Costs

MEMBERSHIPS, SUBSCRIPTIONS, LOBBYING, CONTRIBUTIONS & DONATIONS

Costs for membership in professional associations directly and primarily concerned with the provision of services

Allowable

- **professional association dues**
- **dues or fees to maintain professional accreditation**

Unallowable

- **lobbying or campaign contributions**
- **civic organizations**
- **nonprofessional organizations**

Allowable and Unallowable Costs

TAXES



ALLOWABLE

- Ad Valorem (Property) and Texas Franchise taxes
- Employment-related taxes such as FICA and State/Federal Unemployment

NOTE: Sales tax on purchased goods is included in the cost of the asset or item purchased

Allowable and Unallowable Costs

TAXES

UNALLOWABLE

- Federal and state income taxes
- Self-employment taxes
- “Pass-through” taxes (e.g. sales taxes)
- Taxes for which exemptions are available



Allowable and Unallowable Costs

TRAINING

The following training expenses are **ALLOWABLE** on the cost report as long as the training has a direct relationship to the job:

- CPR
- On-The-Job Training
- Instructors
- Materials
- Registration Fees



Allowable and Unallowable Costs

TRAVEL COSTS

The maximum for lodging per diem and meals per diem costs is 150% of the General Services Administration (GSA)'s federal travel rates for maximum lodging and meal reimbursement rates. The GSA's travel rates may be found at www.gsa.gov. Click on "Per Diem Rates".

For locations not specifically listed on the GSA website, the maximum allowable lodging and meals per diem rates for cost-reporting purposes are \$133.50 for lodging (plus applicable city/local/state taxes and energy surcharges) and \$76.50 for meals.

Allowable and Unallowable Costs

TRAVEL COSTS

Effective Date	Automobile Mileage (per mile)
Jan. 1 – Dec. 31, 2014	56 cents per mile
Jan. 1 – Dec. 31, 2015	57.5 cents per mile

<https://fmx.cpa.state.tx.us/fm/travel/travelrates.php>

Allowable and Unallowable Costs

TRAVEL COSTS

Out-of-state travel costs are unallowable, unless:

- **For allowable staff training which is not available in the state of Texas;**
- **For delivering client services within 25 miles of the Texas border (adjoining states but not Mexico); or**
- **To conduct business related to contracted client services in Texas only if between Texas and the contracted provider's central office.**

Allowable and Unallowable Costs



TRAVEL COSTS



- **All costs for travel outside the continental United States are unallowable costs.**
- **DADS currently prohibits travel to Mexico, therefore, unallowable even if our rules allow.**
- **Allowable costs for meals do NOT include tips, gratuities or alcoholic beverages.**

Allowable and Unallowable Costs

IN-KIND DONATIONS

In-kind donations are donations of property, goods and/or services. The value of the item is not an allowable cost; but occasionally related costs ARE allowable.

Call your Rate Analyst if you have in-kind donations and need assistance with determining what is an allowable cost.

Allowable and Unallowable Costs

R&D, ORGANIZATION AND STARTUP COSTS

Some research and development, organization and start-up costs are allowable.

If the provider has R & D, organization or start-up costs for a new contract, contact your Rate Analyst for further instructions

Allowable and Unallowable Costs

GOODWILL

- The difference between the purchase price and the fair market value of an asset
- Not an allowable cost on the cost report



Allowable and Unallowable Costs

DIRECT REIMBURSEMENTS

Expenses directly reimbursable to the provider that are outside of the unit rate are unallowable.

Check program-specific rules and instructions for any exemptions related to direct reimbursements.

Allowable and Unallowable Costs

LOSSES

- **Losses resulting from THEFT or EMBEZZLEMENT of property or funds of the provider or clients by owners or staff of the provider are not allowable**
- **BAD DEBT allowance as an expense is unallowable and must be shown as a revenue offset in the provider's books**
- **CHARITY/COURTESY ALLOWANCES are not costs and cannot be reported on the cost report. The actual costs of the service are already included in the cost report**

Insurance Costs

Insurance is the coverage by contract in which one party agrees to indemnify or reimburse another for loss that occurs under the terms of the contract.

A provider can purchase insurance from:

- **a commercial carrier**
- **a limited purpose insurer**
- **a special risk management fund or pool**

Insurance Costs

COMMERCIAL INSURANCE CARRIER

- **Purchase must be an arm's-length transaction**
- **Insurer must meet standards set by the Texas Department of Insurance**

LIMITED PURPOSE INSURANCE CARRIER

Costs must not be in excess of the cost of comparable insurance premiums

Insurance Costs

SPECIAL RISK MANAGEMENT FUND OR POOL

- Fund or pool must be operated by a third party which assumes some of the risk
- Fund or pool must have an annual actuarial review



Insurance Costs

REPORTING COSTS FOR PURCHASED INSURANCE

- Include all allowable insurance premium costs with amounts accrued for premiums, modifiers, and surcharges adjusted by any refunds and discounts received or audit settlements paid during the cost reporting period
- Errors and omissions insurance on members of boards of directors is an allowable cost
- Insurance costs pertaining to items of unallowable costs are unallowable

Insurance Costs

SELF INSURANCE

- Occurs when a provider assumes the risk to protect itself against anticipated insurance liabilities and no other entity shares any of the risk.
- Can also be described as being *uninsured*
- Costs allowable on a CASH, claims-paid basis with certain limitations



Insurance Costs

PARTIAL SELF INSURANCE

- **Occurs when a provider assumes the risk to protect itself against anticipated insurance liabilities, but another entity shares part of the risk**
- **Includes a stop-loss policy or some other method to share the risk between the provider and the third party**
- **Costs allowable on a CASH, claims-paid basis – with certain limitations**

Insurance Costs

SELF INSURANCE DOCUMENTATION REQUIREMENTS

Maintain documentation that supports the amount of claims paid each year. Other documentation will also be required.



If you believe you are self-insured and need assistance with the reporting requirements, call your Rate Analyst.

Insurance Costs

LIFE INSURANCE COSTS FOR OWNERS, OFFICERS & KEY EMPLOYEES

ALLOWABLE:

- **Where the individual's relatives or estate are the beneficiary, to the extent such employee benefits are allowable**

Insurance Costs

LIFE INSURANCE COSTS FOR OWNERS, OFFICERS & KEY EMPLOYEES

ALLOWABLE:

- **If the individual's relatives or estate are not the beneficiary only allowable if:**
 - **Required by a financial institution**
 - **Financial institution is the beneficiary**
 - **Proceeds restricted to paying off the balance of the loan**

Insurance Costs

LIFE INSURANCE COSTS FOR OWNERS, OFFICERS & KEY EMPLOYEES

UNALLOWABLE:

- Premiums paid where the provider is a direct or indirect beneficiary



Depreciation

- **Depreciation is the periodic reduction of the value of an asset over its useful life or the recovery of an asset's cost over its useful life**
- **Amortization is the periodic reduction of the value of an intangible asset, such as a trademark or patent, or debt over its useful life**

Depreciation



- Depreciate items if:
 - Cost \geq \$5,000 and
 - > 1 Year Useful Life
- Expense items if:
 - Cost $<$ \$5,000 or
 - ≤ 1 Year Useful Life

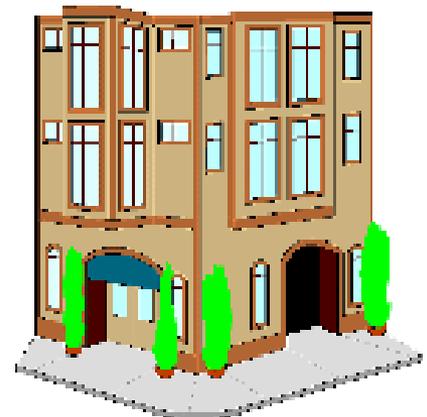
Depreciation

- **The system will use straight-line method**
- **Begin depreciation in month placed in service**
- **End depreciation when asset is fully depreciated or taken out of service**
- **Do not claim depreciation for the month taken out of service**

Depreciation

BUILDINGS

- **Minimum useful life is 30 years**
- **Minimum salvage value is 10%**
- **Do NOT include land cost**



Depreciation

TRANSPORTATION EQUIPMENT

- **Cars & minivans – 3 years**
- **Light trucks & vans– 5 years**
- **Buses & planes – 7 years**
- **Used vehicles: longer of years remaining in useful life of vehicle or 3 years**

Depreciation

SPECIALIZED TRANSPORTATION EQUIPMENT

- **Specialized equipment added to a vehicle to assist a client should be depreciated separately from the vehicle**
- **Wheelchair lifts have an estimated useful life of five years**

Depreciation

GROUND TRANSPORTATION – MILEAGE LOGS

NOT REQUIRED IF:

- **Used solely (100%) for provision of contracted client services delivering ONE type of contracted care or contract**
- **Provider has a written policy that states that the equipment is restricted to that use and the policy is followed**

Depreciation

GROUND TRANSPORTATION – MILEAGE LOGS

REQUIRED IF:

- Equipment is used for several purposes (including personal use**) or multiple programs or contracts

** Personal use includes, among other things, driving to and from a personal residence

Depreciation

GROUND TRANSPORTATION – MILEAGE LOGS

Minimum elements:

- **Date**
- **Driver**
- **Persons in vehicle**
- **Trip Mileage (beginning, ending and total)**
- **Purpose of trip**
- **Allocation Centers (departments, business entities)**

Mileage Log

Date 5/27/20XX

Vehicle Information Make Honda
 Model Civic
 Year 2008

Beginning Odometer Reading 27,855
 Ending Odometer Reading 27,942

Driver	Passengers	Purpose of Trip	Odometer Reading			Program Allocation
			Beginning	Ending	Total	
Jane Smith	None	Supervisory Visit	27855	27865	10	PHC/FC
Jane Smith	None	Skilled Nursing	27865	27890	25	Medicare
Jane Smith	None	Lunch	27890	27900	10	None - Personal
Jane Smith	None	Supervisory Visit - ADLs	27900	27930	30	CBA - Supervisory
Jane Smith	None	Fill-in for Attendant	27930	27942	12	CBA - PAS
Total Miles:					87	

Daily Summary by Program & Contract Number		
Program	Contract #	Miles
PHC/FC	001019999	10
Medicare	XX XXXX	25
CBA	001018888	42
Personal	N/A	10

Depreciation

DEPRECIATION OF LUXURY VEHICLES

- **LUXURY VEHICLES** are passenger vehicles with a purchase price higher than the allowable base value.

2010 \$38,808

2011 \$39,584

2012 \$40,376

2013 \$41,184

2014 \$42,008

2015 \$42,849

Depreciation

REPAIRS and MAINTENANCE

- **Ordinary repairs**
 - recurring
 - usually involve expenditures for parts and labor to keep the asset in operating condition
- **Examples - painting, wall papering, copy machine repair, oil changes**



EXPENSE AS INCURRED

Depreciation

REPAIRS and MAINTENANCE



- **Extraordinary repairs > \$2,500**
 - expenditures not normally recurring
 - usually increase the value of an asset
- **Examples - vehicle overhauls, replacing a roof and strengthening the foundation of a building**

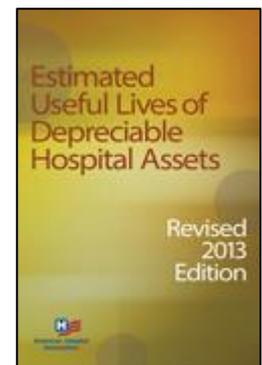


Depreciation

OTHER DEPRECIATION

All other assets must be depreciated consistent with the American Hospital Association's "Estimated Useful Lives of Depreciable Hospital Assets", 2013 edition.

Website: www.healthforumonlinestore.com



Depreciation

DOCUMENTATION

Required for each depreciable asset so that its classification and estimated useful life can be checked for accuracy

- Historical cost
- Date of purchase
- Depreciable basis



Depreciation

DOCUMENTATION

Must be accessible in a field audit for each depreciable asset

- **Estimated useful life**
- **Accumulated depreciation**
- **Calculation of gains and losses upon disposal**



Depreciation

DOCUMENTATION

- Descriptions with unacceptable insufficient detail: “kitchen equipment”, “current year purchases”, “office furniture”
- In STAIRS these items are rolled up, but your documentation needs to be at this level of detail.



Depreciation

UNALLOWABLE DEPRECIATION/AMORTIZATION

- Depreciation and amortization for unallowable assets
- Amounts in excess of those using the straight-line method
- Planning/evaluation expenses for depreciable assets not purchased and used in contracted services
- Goodwill

Related Parties

A Related Party is any person or organization related to the provider by:

- Blood
- Marriage
- Common ownership
- Control



Related Parties

A Related Party is any person or organization related to the provider by:

- **Parent, child, sibling (including step-children)**
- **Mother-in-law, Father-in-law**
- **Aunt, Uncle, Cousin**



Related Parties

Control

Control occurs if a person or organization has the power to directly or indirectly influence actions or policies of the provider – whether or not that control is exercised

Related Parties

Common Ownership

Common ownership occurs if a person possesses an ownership/equity interest in the provider and in the organization serving the contracted provider.



Related Party Transactions and Compensation

- **Reasonable – must be an amount that would ordinarily be paid for comparable services**
- **Necessary – duties/services performed by the related-party employee or entity are such that the provider would have to employ another person or contract with another entity to perform the duties/services if the related-party was unavailable**

Related Party Compensation

- **Documentation should include:**
 - **Written description of duties, functions, responsibilities**
 - **Substantiation that services performed were not duplicative**
 - **Daily timesheets or other documentation verifying hours worked**



Related Party Compensation

(continued)

- **Breakdown by regular pay, overtime, bonuses, benefits, etc.**
- **Proof of regular, periodic payments and/or accruals**
- **Proof that compensation is subject to payroll/self-employment taxes**
- **Allocation worksheets, if compensation is allocated**



Related Party Compensation

Bonuses

- **Must not represent profit sharing or be determined based on profit**
- **Must be clearly defined in written agreement or employment policy**
- **Must not be made only to, or discriminate in favor of, related parties**



Related Party Compensation

Bonuses

Documentation should include a written, clearly defined bonus policy which defines:

- The basis for distributing the bonuses
- Who received bonuses
- The amount received by each individual
- Whether the individual was a related party



Related Party Compensation

Benefits

Benefits paid to related parties must not discriminate in favor of certain employees such as employees who are officers, stockholders, or the highest paid individual(s) of the organization

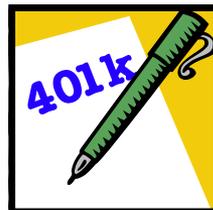


Related Party Compensation

Benefits

Documentation should include a written, clearly defined benefits policy which defines:

- The basis for eligibility for each type of benefit
- Who is eligible to receive each type of benefit
- Who actually received each type of benefit



Related Party Compensation

Benefits

Documentation should include a written, clearly defined benefits policy which defines:

- The amount of each type of benefit received by each individual
- Whether the individual receiving each type of benefit was a related party



Related Party Compensation

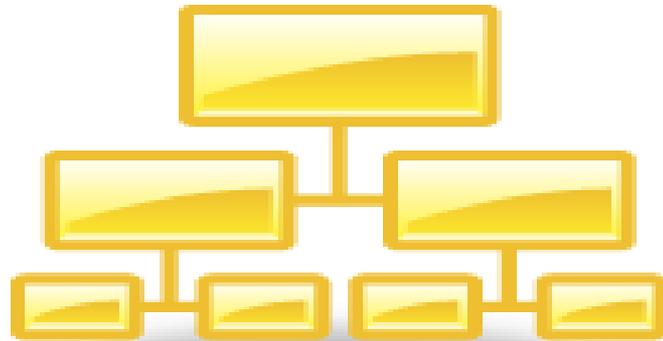
UNALLOWABLE COMPENSATION

- **Compensation that is not clearly enumerated as to the dollar amount or which represents profit or surplus revenue distributions**



Related Parties

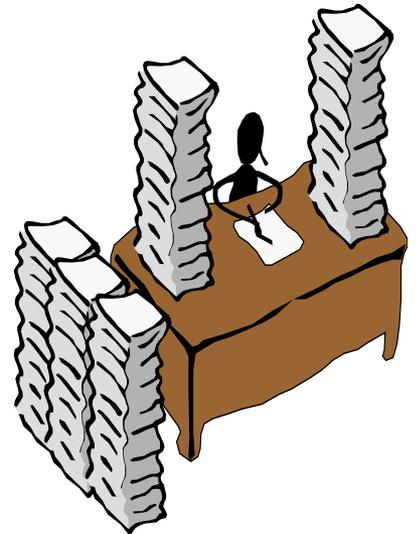
Upload an organizational chart indicating the related party and name within the organization



Related Party Transactions

You have a related-party transaction if:

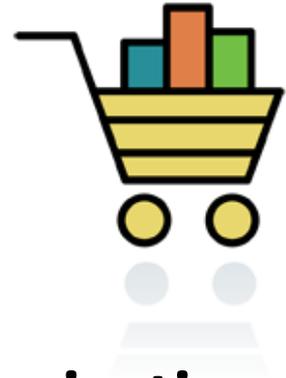
- If you have purchased and/or leased items, equipment, services, facilities from a related party
- If you have a loan from a related-party



Related Party Transactions

Purchases

- Can be items or services
- From a related-party individual or organization



Related Party Transactions

Related-party loans from organizations or groups of individuals



Related-party loans from individuals

Related Party Transactions

Allowable expenses in related-party transactions must be reported at the lower of the cost to the related party or the price of comparable services, equipment, facilities or supplies that could be purchased/leased elsewhere in an arm's-length transaction.



Related Party Transactions

Calculate the cost to the related party:

- Of a building lease
- Purchases such as buildings and depreciable assets



Attendant Compensation Rate Enhancement

- Improve quality of care by improving wages and benefits for staff providing direct care
- Participants receive an add-on to their per unit rate in order to increase compensation to attendants
- Participation is voluntary



Attendant Compensation Rate Enhancement

- July enrollment
- Funds not spent according to requirements are recouped
- Use the cost report data to determine compliance



EXCUSALS

Excusals

- On the Rate Analysis website, under “Reporting Information,” click on “View 2015 Cost Reporting Information”
- Scroll down to click “excused from submitting a Cost Report.”

Excusals

- **A provider may be excused from submitting a 2015 Cost Report if certain criteria have been met for their 2015 fiscal year.**
- **If a provider feels any of the below criteria have been met for their program, they must contact the Rate Analyst, via phone, e-mail or fax, in order to be excused from submission of their Cost Report.**

Excusals

- **HHSC Rate Analysis may request documentation or verify billing data in order to grant the excusal.**
- **If the provider is excused from submission of the cost report, but is a participant in the Attendant Compensation Rate Enhancement, they may be required at a later date to submit data related to attendants to determine if requisite spending requirements were met.**

Excusal Criteria

- **No days of service were provided during the reporting period;**
- **Circumstances beyond the control of the provider make cost report completion impossible (i.e., a natural disaster has destroyed financial records);**
- **The number of days between the date the first DADS client received services and the provider's fiscal year end is 30 days or less;**
- **If the total number of DAHS billable days of service is 366 or fewer in the provider's fiscal year.**

ALLOCATION METHODS

**APPROPRIATE ALLOCATION METHODS FOR REPORTING
SHARED ADMINISTRATIVE COSTS THAT CANNOT BE REASONABLY DIRECT COSTED**

Makeup of Controlling Entity's Contracts	Multiple Contracts of the Same (Equivalent) Type of Service	Various Contracts - All Labor-Intensive	Various Contracts - All with Programmatic- or Residential-Building Costs	Mixed Contracts - Some with Programmatic- or Residential-Building Costs and Some Labor-Intensive	Shared Administrative Personnel Performing Different Duties for Different Contracts (Not Direct Care)	Functional Methods
Allowable Allocation Methods	Units of Service	Cost-to-Cost Labor Costs Salaries	Cost-to-Cost Total-Cost-Less-Facility-Cost Labor Costs Salaries	Total-Cost-Less-Facility-Cost Labor Costs	Time Study*	Payroll Department - Number of payroll checks issued for each contract during the reporting period Purchasing Department - Number of purchase orders processed during the reporting period for each contract

Providers may use any of the methods listed as appropriate for the makeup of their business organization. If one of the approved methods does not provide a reasonable reflection of the provider's actual operations, the provider must use a method that does. If none of the listed methods provides a reasonable reflection of the provider's actual operations, contact your DAHS Rate Analyst for further instructions.

*See 1 TAC §355.105(b)(2)(B)(i) for time study requirements.

Makeup of Controlling Entity

- Multiple Contracts of the Same Type Service and Units of Service
- Various Contracts – All with Programmatic or Residential-Building Costs
- Various Contracts – All Labor-Intensive
- Mixed Contracts – Some with Programmatic or, Residential-Building Costs and some Labor-Intensive

Makeup of Controlling Entity

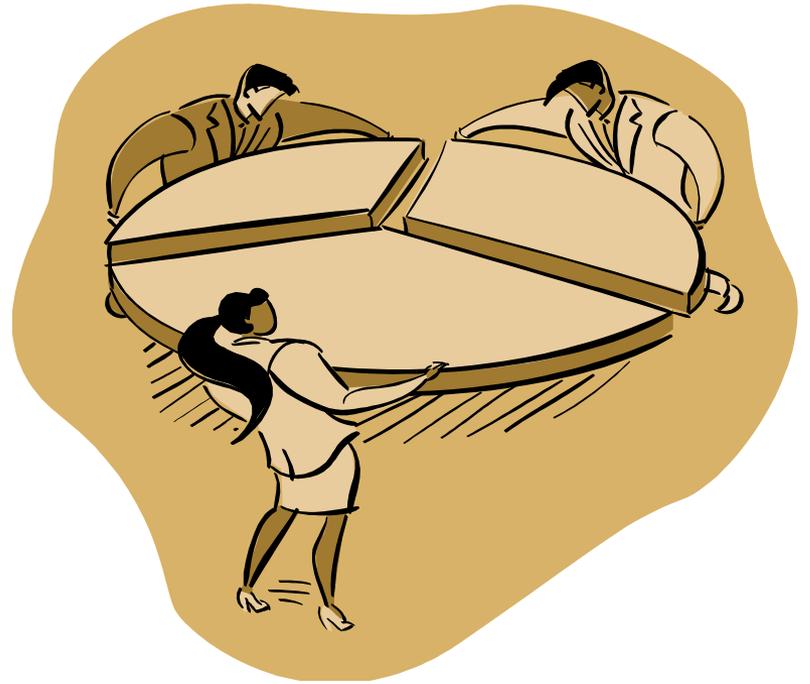
Which are you?

APPROPRIATE ALLOCATION METHODS FOR COST REPORTING

Make-Up of Controlling Entity's Business Components	Multiple Contracts of the Same (Equivalent) Type of Service	Various Business Components - All Labor-Intensive	Various Business Components – All with Programmatic or Residential-Building Costs	Mixed Business Components - Some with Programmatic or Residential-Building Costs and Some Labor-Intensive	Shared Administrative Personnel Performing Different Duties for Different Components	Functional Methods
Allowable Allocation Methods	<u>Units of Service</u>	<u>Cost-to-Cost</u> <u>Labor Costs</u> <u>Salaries</u> <u>Labor-Intensive:</u> <ul style="list-style-type: none"> • CBA • CLASS • PHC • DBMD 	<u>Cost-to-Cost</u> <u>Total-Cost-Less-Facility-Cost</u> <u>Labor Costs</u> <u>Salaries</u> <u>Programmatic/Residential:</u> <ul style="list-style-type: none"> • DAHS • NF • RC • CBA AL/RC 	<u>Total-Cost-Less-Facility-Cost</u> <u>Labor Costs</u>	<u>Time Study</u>	<u>Payroll Department -</u> Number of payroll checks issued for each business component during the reporting period <u>Purchasing Department -</u> Number of purchase orders processed during the reporting period for each business component

Cost Allocation

- **The basic objective of cost allocation is to determine the total cost (direct costs and indirect costs) of each revenue producing center of an organization (contract) when certain indirect costs are shared.**



Cost Allocation

RAD General Cost Descriptions

- **Allowable or Unallowable**
- **Direct or Indirect**
 - This description refers to services provided to clients
- **Directly Costed (Charged) or Shared (Central Office / Shared Administrative)**
 - This description refers to how a cost is reported

Cost Allocation

Direct Costs

Direct costs are required to be directly costed. These costs include:

- Direct care staff compensation
- All medical/health/dental insurance premiums
- All life insurance premiums
- Other employee benefits such as:
 - Employer-paid disability premiums
 - Employer-paid retirement/pension plan contributions
 - Employer-paid deferred compensation contributions
 - Employer-paid child day care
 - Accrued leave



Cost Allocation

Indirect Costs

Indirect costs can be directly costed or shared. These costs include:

- Building/facility rent or lease
- Utilities costs
- Telecommunications costs
- Administrative staff salaries/wages
- Advertising expenses



Cost Allocation

Administrative Costs vs. Central Office Costs



Administrative costs are indirect costs produced by administrative functions.

- Administrative Costs can be directly charged or shared
- If these costs are shared, they are considered central office costs and must be allocated



Cost Allocation – Central Office

Administrative functions include:

- General Administrative Oversight
- Central Management
- Personnel Functions
- Accounts Payable
- Accounts Receivable
- General Ledger Accounting Functions
- Risk Management Functions
- Financial Statement Functions
- Payroll Functions
- Benefit Management Functions
- Purchasing Functions
- Any other Administrative-Type Function

Cost Allocation – Central Office

- Costs related to the administrative functions include:
 - salaries/wages
 - payroll taxes
 - employee benefits
 - supplies
 - office space
 - operations costs



Cost Allocation

Direct Cost When Possible!

- **Salaries / Wages for Direct Care Staff**
- **Certain Employee Benefits**

Chain

Shared Administrative Costs

Cost Allocation

Chains

- All businesses linked together by a common parent company, a sole member, owners/directors in common
- All businesses operated by a related-party management company



Cost Allocation

Revenue Streams

- Because only cost data are analyzed in the calculation of reimbursement rates, allocation methods based upon revenue streams are inappropriate and unallowable.



Allocation Methods

Allocation methods must be:

- **a reasonable reflection of the actual business operations of each contract**
- **consistently applied across all contracts that are sharing the costs**

Allocation Methods

Rate Analysis Department (RAD) Approved Allocation Methods:

- **Units of Service**
- **Labor Costs**
- **Cost-to-Cost**
- **Salaries**
- **Total-Cost-Less-Facility-Cost**

Functional Allocation Methods

Other Allocation Methods

Allocation Methods

RAD Approved Allocation Methods:

Units of Service

In order to use the units of service allocation method to allocate shared administrative costs, each contract must:

- Deliver equivalent services (cannot be used with different types of programs)
- Measure the delivery of the equivalent services using equivalent units of measurement (e.g. ½ day: greater than 3 hours and less than 6 hours)

Equivalent Service and Equivalent Units = Units of Service
Allocation Method

Allocation Methods

RAD Approved Allocation Methods:

Units of Service

Allocation is based upon the ratio of units of service provided by each contract to the total units of service provided by all contracts

Allocation Methods

Finding the allocation percentage using the **Units of Service** Method:

- Total units of service for all contracts = 100%
- Divide each contract's units of service by the total units of service for all contracts. The result is a percentage for each contract
- Apply the resulting percentages to the total indirect shared costs

Allocation Summary - UNITS of SERVICE

**Adjusted Trial Balance - Adult Day Care Provider, Inc.
As of 12/31/20XX**

Expenses:	Total Costs	Disallowed	Direct Costs		Shared Costs	Allocated Shared Costs		Line Item	
			Dallas ADC	Fort Worth ADC		55.69% Dallas	44.31% Fort Worth	Dallas	Fort Worth
Salaries									
Administrative	125,347.28				125,347.28	69,805.90	55,541.38	xxx	xxx
Attendant Staff	45,288.47		25,361.54	19,926.93	-	-	-	xxx	xxx
Drivers	33,254.88		25,458.97	7,795.91	-	-	-	xxx	xxx
Activities Director	82,588.92		51,205.13	31,383.79	-	-	-	xxx	xxx
Contracted RN	65,000.00				65,000.00	36,198.50	28,801.50	xxx	xxx
FICA/Medicare	21,915.69		7,804.96	4,521.66	9,589.07	5,340.15	4,248.92	xxx	xxx
State & Federal Unemployment	5,156.63		1,270.51	554.46	3,331.66	1,855.40	1,476.26	xxx	xxx
Workers's Compensation	0.00		0.00	0.00	-	-	-	xxx	xxx
Employee Benefits/Insurance	4,847.25		1,254.01	889.47	2,703.77	1,505.73	1,198.04	xxx	xxx
Office Lease	9,000.00		2,400.00	2,100.00	4,500.00	2,506.05	1,993.95	xxx	xxx
Utilities	8,945.67		2,385.51	2,087.32	4,472.84	2,490.92	1,981.91	xxx	xxx
Telecommunications	3,008.16		401.68	333.75	2,272.73	1,265.68	1,007.05	xxx	xxx
Office Supplies	1,501.80				1,501.80	836.35	665.45	xxx	xxx
Medical Supplies	874.64				874.64	487.09	387.55	xxx	xxx
Insurance - General Liability	1,254.00				1,254.00	698.35	555.65	xxx	xxx
Insurance - Malpractice	1,050.87				1,050.87	585.23	465.64	xxx	xxx
Travel	387.98	237.65	54.36	35.74	60.23	33.54	26.69	xxx	xxx
Advertising	402.87	104.97			297.90	165.90	132.00	xxx	xxx
Miscellaneous	601.47	254.74			346.73	193.09	153.64	xxx	xxx
Totals	410,426.58	597.36	117,596.68	69,629.03	222,603.51	123,967.90	98,635.62		

Units of Service Allocation Percentages:	Units of Service	Percentage
Dallas ADC	9,961.00	55.69%
Fort Worth ADC	7,924.00	44.31%
	<u>17,885.00</u>	<u>100.00%</u>

Allocation Methods

RAD Approved Allocation Methods:

Labor Costs

All of a provider's contracts are labor intensive, or all contracts have a programmatic- or residential-building cost, or contracts are mixed with some being labor intensive and others having a programmatic-building or residential-building component

Allocation Methods

RAD Approved Allocation Methods:

Labor Costs

Allocation is based upon the ratio of directly charged labor costs for each contract to the total directly charged labor costs for all contracts

The Five Cost Components of the Labor Costs Allocation Method:

- Salaries/Wages
- Payroll taxes
- Employee benefits/insurance
- Workers' compensation costs
- Contracted labor (excluding consultants)

Allocation Methods

Finding the allocation percentage using the **Labor Costs** Method:

- Total of the five cost components for all contracts = 100%
- Divide each contract's labor costs by the total labor costs for all contracts. The result is a percentage for each contract
- Apply the resulting percentages to the total indirect shared costs

Allocation Methods

RAD Approved Allocation Methods:

Cost-to-Cost

If allocations based on units of service are not acceptable, and all of a provider's contracts are labor-intensive, or if all contracts have programmatic or residential building costs, the provider may choose to allocate their indirect shared costs on a cost-to-cost basis.

The Cost-to-Cost method allocates costs based upon the percentage of each contract's directly charged costs to the total directly charged costs for all contracts.

- The cost-to cost method includes facility and operations costs

Allocation Methods

Finding the allocation percentage using the **Cost-to-Cost** Method:

- Total directly charged costs for all contracts = 100%
- Divide each contract's directly charged costs by the total directly charged costs for all contracts. The result is a percentage for each contract
- Apply the resulting percentages to the total indirect shared costs

Allocation Methods

RAD Approved Allocation Methods:

Salaries

If allocations based on units of service are not acceptable, and all of a provider's contracts are labor-intensive, or if all contracts have programmatic or residential building costs, the provider may choose to allocate their indirect shared costs on the basis of salaries

The Salaries method allocates costs based upon the percentage of each contract's salaries to the total salaries for all contracts

Allocation Methods

RAD Approved Allocation Methods:

Salaries

The two cost components of the salaries allocation method:

- Salaries/wages
- Contracted labor (excluding consultants)

In the cost component above, the term “salaries” does not include the following costs associated with the salaries/wages of employees:

- Payroll taxes
- Employee benefits/insurance
- Workers’ compensation

Allocation Methods

Finding the allocation percentage using the **Salaries Method**:

- Total of the two Salaries cost components for all contracts = 100%
- Divide each contract's directly charged salaries by the total directly charged salaries for all contracts. The result is a percentage for each contract
- Apply the resulting percentages to the total indirect shared costs

Allocation Summary - **SALARIES METHOD**

Adjusted Trial Balance
As of 12/31/20XX

Expenses:	Total Costs	Disallowed	Direct Costs			Shared Costs	Allocated Shared Costs			Line Item		CBA ALRC
			RC	DAHS	CBA AL/RC		22.87% RC	50.59% DAHS	26.54% CBA AL/RC	RC	DAHS	
Salaries												
Administrative	125,347.28					125,347.28	28,666.92	63,413.19	33,267.17	xxx	xxx	xxx
Attendants	87,434.22		19,286.35	46,289.32	21,858.55	-	-	-	-	xxx	xxx	xxx
Drivers	44,295.84		10,352.45	22,576.36	11,367.03	-	-	-	-	xxx	xxx	xxx
Med/Aides DAHS Cook:	54,975.15	Salary	12,094.53	29,136.83	13,743.79	-	-	-	-	xxx	xxx	xxx
Contracted RN	70,000.00		15,299.99	28,145.20	19,221.57	7,333.24	1,677.11	3,709.89	1,946.24	xxx	xxx	xxx
Dietitian	2,400.00					2,400.00	548.88	1,214.16	636.96	xxx	xxx	xxx
FICA/Medicare	28,018.12		7,723.65	5,715.03	5,009.49	9,569.95	2,188.65	4,841.44	2,539.86	xxx	xxx	xxx
State & Federal Unemplo	6,592.50		2,524.07	1,494.13	978.51	1,595.79	364.96	807.31	423.52	xxx	xxx	xxx
Employee Benefits/Insur:	4,847.25		1,254.01	889.47	1,358.41	1,345.36	307.68	680.62	357.06	xxx	xxx	xxx
Office Lease	9,000.00		2,400.00	2,100.00	2,500.00	2,000.00	457.40	1,011.80	530.80	xxx	xxx	xxx
Utilities	8,945.67		2,385.51	2,087.32	2,484.91	1,987.93	454.64	1,005.69	527.60	xxx	xxx	xxx
Telecommunications	3,008.16		401.68	333.75	554.37	1,718.36	392.99	869.32	456.05	xxx	xxx	xxx
Office Supplies	1,501.80					1,501.80	343.46	759.76	398.58	xxx	xxx	xxx
Medical Supplies	874.64				487.39	387.25	88.56	195.91	102.78	xxx	xxx	xxx
Insurance - General Liab	1,254.00					1,254.00	286.79	634.40	332.81	xxx	xxx	xxx
Insurance - Malpractice	1,050.87					1,050.87	240.33	531.64	278.90	xxx	xxx	xxx
Travel	387.98	204.65	54.36	35.74	84.97	8.26	1.89	4.18	2.19	xxx	xxx	xxx
Advertising	402.87	104.97				297.90	68.13	150.71	79.06	xxx	xxx	xxx
Miscellaneous	601.47	254.74				346.73	79.30	175.41	92.02	xxx	xxx	xxx
Totals	450,937.82	564.36	73,776.60	138,803.15	79,648.99	158,144.72	36,167.70	80,005.41	41,971.61			

Salary Method Allocation Percentages:	Salary Costs	Percentage
RC	57,033.32	22.87%
DAHS	126,147.71	50.59%
CBA AL/RC	66,190.94	26.54%
	<u>249,371.97</u>	<u>100.00%</u>

Allocation Methods

RAD Approved Allocation Methods:

Total-Cost-Less-Facility-Cost

The Total-Cost-Less-Facility-Cost allocation method can be used if a provider's contracts are mixed – some being labor-intensive and others having a programmatic or residential building component

This method can also be used for an organization that has multiple contracts all requiring a facility for service delivery

This method allocates costs based upon the ratio of each contract's total costs less that contract's facility or building costs to the provider's total costs less facility or building costs for all contracts

Allocation Methods

The facility costs that are required to be removed from the total costs are identified in the “Facility Costs” section of the DAHS Cost Report. These costs include:

- Maintenance staff costs
- Building/Facility lease/rental costs
- Building/Facility equipment costs
- Insurance costs (buildings, contents, grounds)
- Mortgage interest costs
- Other facility/operations interest costs
- Ad valorem real estate tax
- Utilities costs (electricity, gas, water, wastewater, and garbage disposal)
- Maintenance and repairs costs (buildings, building equipment, grounds)
- Contract services costs (building/facility/operations)
- Depreciation/Amortization costs

Allocation Methods

Finding the allocation percentage using the **Total-Cost-Less-Facility-Cost** Method:

- The total-cost-less-facility-cost for all contracts = 100%
- Divide each contract's total-cost-less-facility-cost by the total-cost-less-facility-cost for all contracts. The result is a percentage for each contract
- Apply the resulting percentages to the total indirect shared costs

Allocation Summary - TOTAL COST LESS FACILITY COST

**Adjusted Trial Balance
As of 12/31/20XX**

Expenses:	Total Costs	Disallowed	Direct Costs		Shared Costs	Allocated Shared Costs		Line Item	
			Home Health (PHC)	Adult Day Care (DAHS)		57.22% PHC	42.78% DAHS	PHC	DAHS
Salaries									
Administrative	125,347.28				125,347.28	71,723.71	53,623.57	xxx	xxx
PHC Attendants	87,434.22		87,434.22		-	-	-	xxx	xxx
Adult Day Care Attendants	33,254.88			33,254.88	-	-	-	xxx	xxx
Adult Day Care Drivers	25,492.12			25,492.12	-	-	-	xxx	xxx
Contracted Nurse	9,482.66			9,482.66	-	-	-	xxx	xxx
FICA/Medicare	18,821.78		8,843.84	5,219.57	4,758.37	2,722.74	2,035.63	xxx	xxx
State & Federal Unemployment	4,428.65		2,822.33	665.10	941.23	538.57	402.66	xxx	xxx
Employee Benefits/Insurance	4,847.25		1,254.01	889.47	2,703.77	1,547.10	1,156.67	xxx	xxx
Office Lease	9,000.00		2,400.00	2,100.00	4,500.00	2,574.90	1,925.10	xxx	xxx
Utilities	8,945.67	Facility Costs	2,385.51	2,087.32	4,472.84	2,559.36	1,913.48	xxx	xxx
Ad Valorem Taxes	3,256.88		842.64	1,834.64	579.60	331.65	247.95	xxx	xxx
Maintenance & Repairs	1,846.74		246.25	1,041.67	558.82	319.76	239.06	xxx	xxx
Telecommunications	3,008.16		401.68	333.75	2,272.73	1,300.46	972.27	xxx	xxx
Office Supplies	1,501.80				1,501.80	859.33	642.47	xxx	xxx
Medical Supplies	874.64				874.64	500.47	374.17	xxx	xxx
Insurance - General Liability	1,254.00				1,254.00	717.54	536.46	xxx	xxx
Insurance - Malpractice	1,050.87				1,050.87	601.31	449.56	xxx	xxx
Travel	387.98	237.65	54.36	35.74	60.23	34.46	25.77	xxx	xxx
Advertising	402.87	104.97			297.90	170.46	127.44	xxx	xxx
Miscellaneous	601.47	254.74			346.73	198.40	148.33	xxx	xxx
Totals	341,239.93	597.36	106,684.84	82,436.92	151,520.81	86,700.21	64,820.60		

Total Costs-Less-Facility-Costs Allocation Percentages:

	PHC	DAHS	Totals
Total Costs	106,684.84	82,436.92	189,121.76
Less Facility Costs	(5,874.40)	(7,063.63)	(12,938.03)
Total Costs Less Facility Costs	100,810.44	75,373.29	176,183.73
Allocation Percentages	57.22%	42.78%	100.00%

Allocation Methods

Functional Allocation Methods

Any function benefiting more than one contract must have all costs associated with that shared function properly allocated across all the contracts receiving its benefit

Allocation Methods

Costs to be allocated using functional allocation methods could include but are not limited to:

- Housekeeping
- Shared dietary expenses
- Maintenance
- Wastewater treatment plant
- Security
- Activities
- Transportation
- Departmental equipment
- Various administrative functions

Allocation Methods

Functional Allocation Methods: Square Footage

When a building is shared and usage is separate and distinct for each contract, the building costs should be identified and then allocated based upon square footage

Expenses to be allocated based upon square footage:

- Rent / Depreciation
- Mortgage Interest
- Utilities
- Maintenance
- Property Taxes
- Insurance



Telecommunications, Transportation and Departmental Equipment cannot be allocated based on square footage



Allocation Methods

Functional Allocation Methods

Other Examples:

- Dietary – number of meals served
- Maintenance – service tickets
- Activities – attendance records
- Transportation – mileage logs

ALLOCATION METHODS

CHANGES IN ALLOCATION METHOD

- Must be fully disclosed on the cost report
- Must have a written explanation or justification for the change
- Must have prior approval from Rate Analysis if the allocation method is different from those considered acceptable by the cost determination process rules

ALLOCATION METHODS

CHANGES IN ALLOCATION METHOD

- An indirect allocation method approved by some other program or governmental entity is not automatically approved by HHSC for cost-reporting purposes
- Changes from one approved method to another approved method must be fully disclosed in the cost report and accompanied by a written explanation

TIME SHEETS AND TIME STUDIES

TIME SHEETS AND TIME STUDIES

- Hours worked by each employee or contracted individual must be **documented**. The type of required documentation will differ depending on whether the work performed is administrative or direct care.
- In the DAHS program, direct care includes Attendants and Drivers.

TIME SHEETS AND TIME STUDIES

- Costs associated with administrative staff who do **not** deliver any direct client services can be allocated based upon time sheets maintained during a “time study”, a functional method, or one of the approved allocation methods.
- **For example: A time study** could be used to allocate the compensation of an employee who is responsible for billing and payroll functions for an NF contract, a Residential Care contract and a DAHS contract.

Time Sheets and Time Studies

- When is a time study acceptable?

To allocate time spent in administrative functions when allocating as a pool of costs does not reflect a reasonable representation of each business entity

To determine whether an attendant/driver who also performs non-attendant/driver services meets the 80% requirement

To remove time associated with unallowable cost when administrative staff performs both allowable and unallowable functions

TIME SHEETS AND TIME STUDIES

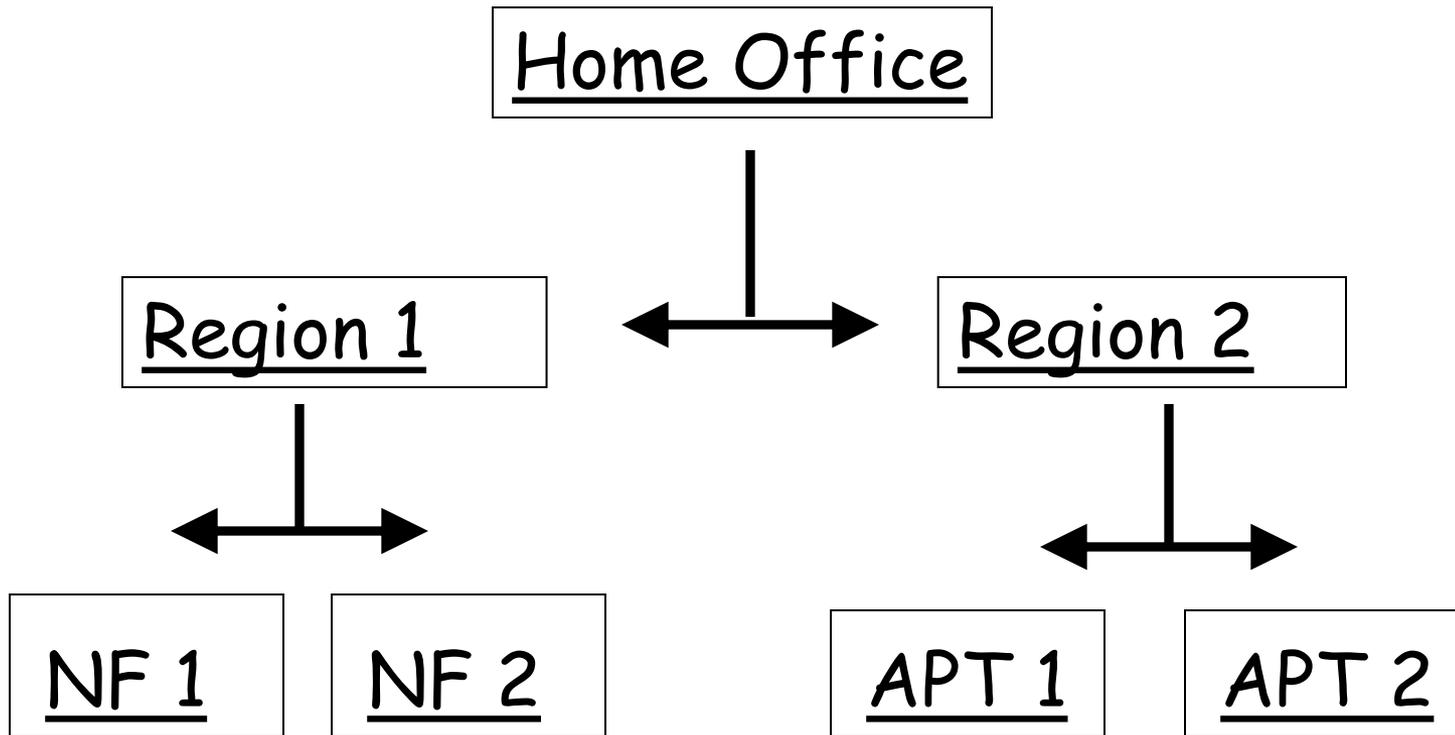
- If an employee or contracted individual provides services to more than one program, contract or business entity *or* the employee or contracted individual performed multiple direct care services or both direct AND indirect activities, the time spent in each program must be **documented** by daily, continuous time sheets (direct costing).

TIME SHEETS AND TIME STUDIES

- Daily, continuous time sheets must include actual start time, stop time and **ALL** hours worked for each contract/program/function for the entire reporting period.
- For example: If an employee serves as an RN and Director for a DAHS program, 100% timesheets must be maintained to document all time and directly charge the time spent functioning as an RN.

MULTI-STEP ALLOCATION

MULTI-STEP ALLOCATION



MULTI-STEP ALLOCATION

- Multi-step allocations are required for administrative costs when there are two or more levels in the provider's organizational structure and
 - Costs at one level are shared between two or more entities and only one of those entities is providing services related to the program in question; and
 - The costs of that entity need to be allocated between two or more entities at some lower level in the organizational structure.

Allocation Methods

Allocation Summary Documentation

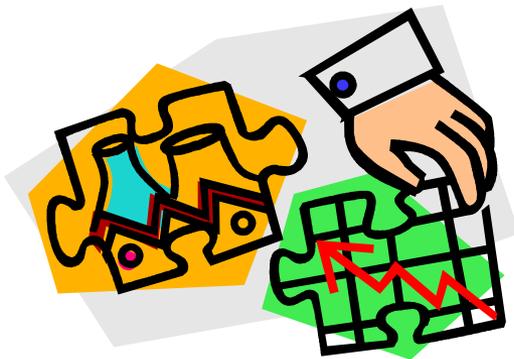
Adequate documentation consists of a written description of each cost allocation method that includes the following:

- A listing of the various cost categories to be allocated
- The numerator and denominator of the allocation ratio in numbers and words
- Allocation percentages calculated with at least two decimal places
- The total dollar amount of shared costs for each category
- The application of the allocation percentages showing 100% allocation of shared costs
- The cost report line number on which each allocated cost is reported

Completing the Cost Report

General Information

- The accrual method of accounting must be used UNLESS the provider is a governmental entity.
- **NO EXCEPTIONS**
- A reconciliation worksheet between the report and the trial balance is a critical item to the preparation of the report. This should always be prepared.



Before You Begin

- Review your ledger for unallowable costs and costs that require allocation.
- Adjust for accruals.
- Prepare the reconciliation worksheet and allocation summaries.
- Gather information on your depreciable assets.



Before You Begin

- If you have related-party transactions, determine the **reportable cost(s)** to the **related party** for services, supplies, leases and purchases.

Organization of the Cost Report



- Reporting Categories
 - Combined Entity and Provider Information
 - Units of Service and Revenues
 - Wages and Compensation
 - Payroll Taxes and Workers' Compensation
 - Facility and Operations
 - Verification Summary and Certifications
 - Agree/Disagree and Informal Review

Entity and Provider Information

- Designation of Entity Contact
- Roles and Designation of Preparer(s) and Other Contacts
- Management of Contracts
 - If you're going to allocate to it, it needs to be in your contracts list (**Step 3**)
- Dates and the importance thereof

Steps 1-4

Entering the System and Starting the Report

STAIRS

State of Texas Automated Information and Reporting System

- The first person at a contracted provider to receive access to STAIRS is the **Entity Contact (Primary)**
- Notification of access, and of the login and password, will be by e-mail to the e-mail address we have on file for the provider.

STAIRS – Dashboard

- The **Entity Contact (Primary)** logs into the system and sets up other users.
- First screen is the **Dashboard**. From here the Entity Contact can edit their own information, add roles for themselves or others, edit the information of other contacts.
 - This screen also contains a link to **Training** registration

STAIRS – Manage Contacts

- Click on **Manage**, to the right on the bar at the top.
- Links to **add a new contact**, DAHS preparer is at the top of the page
- The person doing entry will need to have the new contact's First/Last Name and E-mail. If the person is to be connected to multiple DADS contracts and/or programs, this step will need to be completed once for each contract and program combination.

STAIRS – Manage Contacts, *continued*

- Click on **Add a new contact**
 - Additional Entity Contacts and Financial Contacts can be added at this time.
 - **Initial Entity Contact (Primary)** can then edit the **Entity Contact (Secondary)** to make that person the new Entity Contact (Primary) if the initial person is not going to hold that role. Once that is done, the initial Entity Contact (Primary) becomes (Secondary) and can no longer add or edit roles and can only edit his/her own information.

STAIRS – Manage Contacts, *continued*

- **Preparer – determine who will be preparing your cost report**
- **Click on Add DAHS preparer**
- **Search by name and check that the person is on the drop-down list to choose as the Preparer in STAIRS.**

STAIRS - Roles

- **Entity Contact** can set up all other user types and additional Entity Contacts. Can review the cost report. Must sign the Cost Report Certification.
- **Preparer** can set up *other* Preparers. This is the only role that can make entries into the cost report. Must sign the Methodology Certification. Cannot sign the Cost Report Certification.

STAIRS – Roles, *continued*

- **Financial Contact** can set up Preparers and other Financial Contacts. Can review the cost report. Can sign and upload the Cost Report Certification.
- Detailed information can be found in the document titled “**Managing Contacts Processing Procedures**” in the Reference Materials section at the bottom of every page in STAIRS. A person can hold more than one role.

STAIRS – Cost Reporting

Steps 1-4 Combined and Contracting Entity

- **Combined Entity** - one or more commonly owned corporations and/or limited partnerships where the general partner is controlled by the same identical persons as the commonly owned corporation(s). May involve an additional ***CONTROLLING ENTITY*** which owns all members of the combined entity.
- **Contracting Entity** - The contract with which Medicaid contracts for the provision of the Medicaid services included on this cost report.

STAIRS – Combined Entity Data, Steps 1-2

- **Combined Entity Identification** – all contacts must have information edited.
- **General Information** – Combined Entity reporting dates
 - Probably, but not necessarily, the same as contracting entity
 - Pre-populated. Any correction requires communication with RAD.

STAIRS – Combined Entity Data, Step 3

- **Contract Management**

- Verify Cost Report **Group Code** – assure that all DAHS program contract numbers and IDD, RC or CPC cost reporting groups that are within the entire related organization are included
- Enter all **other Contracts, Grants or Business Relationships with the State of Texas or any other Entity** – this means everything connected with the entire related organization.

STAIRS – Contracting Entity Financial Data, *Step 4*

- **General Information**

- Correctly identify the ownership of the contracting entity
- Dates prepopulated
- Rate Enhancement Participation questions prepopulated
- Questions regarding preparation to complete the report

Step 5

**Units of Service
Screens**

Units of Service and Revenues

DAHS

- Report the licensed capacity at the end of reporting period
- Report the number of days open during the reporting period.
- Report CACFP revenues for the reporting period.
- One unit of service is equal to 3-5 hours of care delivered to the client; 6 hours or more equals two units.



Units of Service and Revenues

DAHS – Revenues

- DO NOT REPORT DAHS MEDICAID REVENUES.

Units of Service and Revenues

DAHS – Non-Medicaid services

- **If you provide unbillable services and incur an expense that cannot be reasonably removed from the cost report, report the services under the Private and Other.**

Step 6

**Wages &
Compensation Screens**

Wages and Compensation

- *Step 6a* - General Information
- *Steps 6b* - Related Party
- *Step 6c* - Attendant
- *Step 6d* - Non-Attendant
- *Step 6e* – Administrative & Operations Personnel



Wages and Compensation

Reporting Staff Time and Cost

HOURS = Hours worked in order to earn the wages/compensation reported on corresponding line item



Wages and Compensation

Reporting Staff Time and Cost

Allowable Compensation That Must Be **Direct Costed**

- Salaries/Wages:
 - Regular Paid Hours
 - Overtime
 - Bonuses
 - Cash Incentives/Awards
- Paid Leave (e.g., sick, vacation, jury, etc.)
- Accrued Vacation, Accrued Sick Leave



Wages and Compensation

Reporting Staff Time and Cost

Allowable Compensation That Must Be **Direct Costed** (continued)

- **Employer-Paid Benefits/Insurance:**

- Premiums for Health/Medical/Dental, Life Insurance, Disability Insurance
- Contributions to acceptable retirement funds/pension plans and deferred compensation funds
- Employer-Paid Child Day Care

Wages and Compensation

Reporting Staff Time and Cost

Steps 6c, 6d, 6e

Allowable Compensation That Must Be Direct Costed (continued)

– Mileage Reimbursement

- 1/1/2014 – 12/31/2014 = 56¢
- 1/1/2015 – 12/31/2015 = 57.5¢

May be less than the maximum, based on provider's policy, but may never be greater.

Wages and Compensation

Reporting Staff Time and Cost

Allowable Travel and Transportation

– *Steps 6c*

- Transport individuals to/from DAHS program services and activities in personal vehicle
- Use personal vehicle to attend allowable training
- Must use mileage logs to allocate costs



Wages and Compensation

Reporting Staff Time and Cost

Compensation That Can Be Direct Costed or Allocated by Functional Method



- Employer-Paid Health/
Medical/Dental Paid Claims
- Employer-Paid Disability Paid
Claims

Wages and Compensation

Who Counts as an Attendant?

- **Unlicensed caregiver** providing direct assistance to individuals with Activities of Daily Living (ADLs) and Instrumental Activities of Daily Living (IADLs);



Wages and Compensation

Who Counts as an Attendant?

- ✓ Attendants and Drivers and any other non-licensed staff that delivers attendant services to ensure the provision of contracted services

Wages and Compensation

Examples of Staff Who CANNOT Be Counted as an Attendant

- Director, administrator, assistant director, assistant administrator, clerical and secretarial staff, professional staff, other administrative staff, licensed staff, maintenance and grounds keeping staff, activity director, laundry and housekeeping staff

Wages and Compensation

Attendant **Non-Related Party** Wages and Benefits

Step 6c

Attendant

Report non-related party hours and wages

Wages and Compensation

Non-Attendant Non-Related Party Wages and Benefits

Step 6d

- RNs and LVNs
- Activity Director
- Dietitian
- Food Service Personnel
- Other Permanent Direct Care Staff

Wages and Compensation Administrative Personnel

Step 6e

- Program Administrator
- Asst. Administrator
- Owners
- Other Administrative Staff
- Other Facility and Operations Staff (including Maintenance) staff
- Central Office Staff



Step 7

Payroll Taxes and Workers' Compensation Screen

Payroll Taxes and Workers' Compensation

Step 7 - Payroll Taxes and Workers' Compensation

- Section 125 or Cafeteria Plan?
- Texas Workforce Commission Reimbursing Employer?
- Taxes and Workers' Compensation reported as
 - Attendant, Non-Attendant/Program Administration and Central Office



Step 8

Facility and Operations Screens

Facility and Operations Organization

- *Step 8a* - General Information
- *Steps 8b-8d* - Related Party Transactions
 - All purchases of supplies or services and loans from a related party
- *Step 8e* - Assets and Depreciation
 - All assets, related-party purchases of capital items and related-party leases
- *Step 8f* - Operations Expenses

Facility and Operations

Step 8a General Information



- Questions about asset and operations Self Insurance and building square footage
- Questions to unlock Related Party transaction reporting

Facility and Operations Cost Areas

Non-Related Party

- Program Administration and Operations
- Central Office

Related Party

- Program Administration and Operations
- Central Office

Facility and Operations Cost

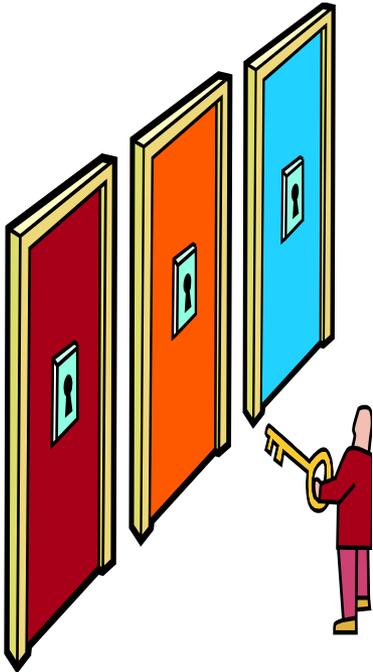
Steps 8b-8d Entering Related-party Transactions

- Noncapital purchases, loans and services
- Important to remember:
 - Related-party transactions are reported at the cost to the related party – not the expense on the books of the provider

Click “Save” to select the report(s) and cost area(s) for each transaction.



Facility and Operations Cost



- Select the appropriate Cost Area(s)

Facility and Operations Cost

- Do your **allocations** in your **work papers** and enter only the values here.
- If you allocate between Cost Areas or to more than one Business Component, you **MUST upload allocation methodology work papers.**



Facility and Operations Cost

Step 8e Entering Depreciable Assets and Related-party Leases

- Not many assets: it's easier to enter them all by hand.
- A large number of assets: **import** to save time.

Before beginning asset entry, look at the information that's required and make sure you have all necessary information collected on each asset to be entered.

Facility and Operations Cost

Step 8e Entering Depreciable Assets and Related-party Leases

- Line items that are completed through this step:
 - Depreciation – Buildings & Building Improvements, Building Fixed Equipment., Leasehold and Land Improvements, Other Amortization
 - Depreciation – Departmental Equipment.
 - Depreciation – Transportation Equipment

Facility and Operations Cost

Step 8e Entering Depreciable Assets and Related-party Leases

- Line items that are completed through this step (cont.):



- Rent/Lease from a related party
 - Building and Building Equipment



- Departmental Equipment
- Transportation Equipment

Facility and Operations Cost

Step 8e Entering Depreciable Assets and Related-party Leases

- **Asset** – this is actually the line item the depreciation expense will be reported in.
- **Asset description** – this drives the useful life and other requested information
- **Historical Cost** – cost to acquire and prepare for use. Do not include either goodwill or land cost.

Facility and Operations Cost

Step 8e Entering Depreciable Assets and Related-party Leases

Click “Save” to select the report(s) and cost area(s) to allocate each asset.

This must be entered manually for all assets, including assets that were imported.

Facility and Operations Cost

Step 8f All Other F&O Expenses

- Directly entered for nonrelated-party transactions
 - **Rent/Lease** – Building and Building Equipment
 - **Rent/Lease** – Departmental Equipment/Other
 - **Interest** – Mortgage
 - **Insurance** – Building and Equipment
 - **Taxes** – Ad Valorem Real Estate
 - **Rent/Lease** – Transportation Equipment or Contracted Transportation

Facility and Operations Cost *Step 8f* All Other F&O Expenses

- Other expenses
 - **Utilities & Telecommunications**
 - **Building/Equipment** – Contracted Services and Maintenance and Repairs
 - **Transportation** – Maintenance, Repairs, Gas, Oil, Interest, Insurance, Taxes, Other



- **Liability Insurance**



Facility and Operations Cost

Step 8f All Other F&O Expenses



- **More expenses**
 - Staff Training/Seminars
 - Travel (not to include mileage reimbursement)
 - Dietary Expenses



Facility and Operations Cost

Step 8f All Other F&O Expenses

- Program Administration and Operations and Central Office:
 - **Fees** – Management Contract
 - **Fees** – Contracted Administrative, Professional, Consulting and Training
 - **Licenses and Permits**
 - **Taxes** – Texas Corporate Franchise Tax
 - **Taxes** – Other (describe)
 - **Advertising**
 - **Dues and Memberships**

Facility and Operations Cost

Step 8f All Other F&O Expenses

- Line items that are different between the programs:
 - **Operations Supplies**
 - Look carefully at instructions to see what is and what is **NOT** allowable in this line item by program.

Steps 9, 10 & 11

**Verification and
Certifications**

Verification Summary and Certifications

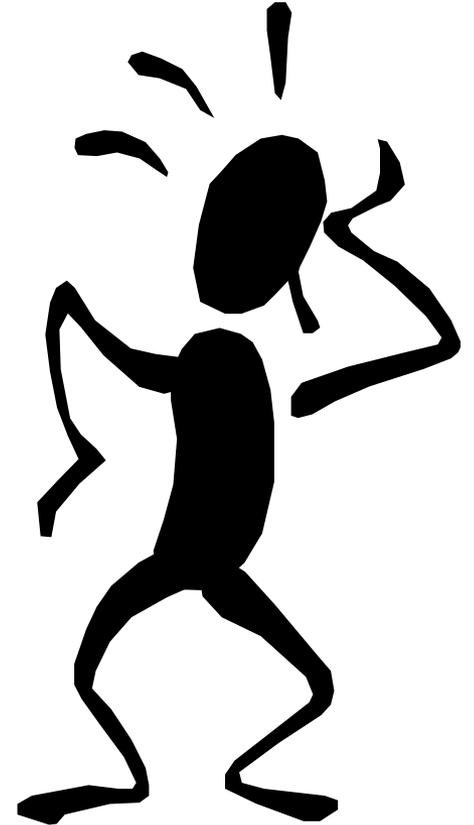
- The **final summary** shows everything entered into the cost report.
- The preparer is required to verify his/her entries.
- There are two certifications:
 - Methodology
 - Cost Report

Both must be signed, notarized and uploaded into STAIRS in order for the report to be submitted.



Verification and Certification

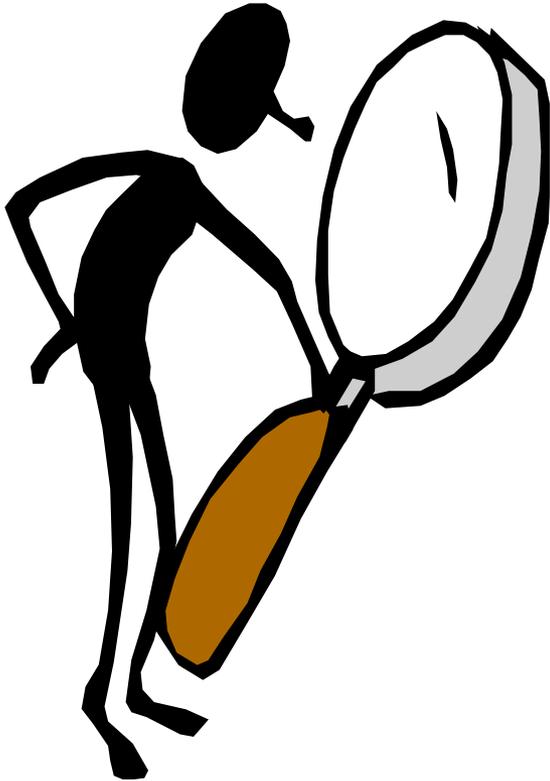
- Once you have verified your information and printed the certifications, *the cost report is **locked** to any further changes.*
- If you realize that something was omitted and you need to access your data again or upload an additional document, you will need to contact your Rate Analyst to assist with getting the report re-opened.



Step 12

Provider Adjustments Report

Provider Adjustments Report



Report Shows:

- Changes made to original values
- Adjusted amount
- Reason for the adjustment
- Summary Table at bottom of report
- Review Period Expiration date

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Step 13

Agree / Disagree

Step 14

Informal Review

Agree/Disagree

- Completed by individual **legally responsible** for conduct of contracted provider
- Designated in STAIRS with “Entity Contact” or “Financial Contact” role
- **Agree** = Finalizes this cost report.



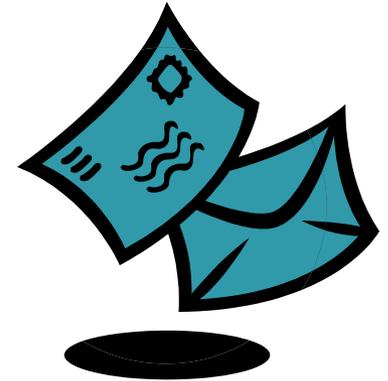
Agree/Disagree

- **Disagree** = Informal Review (IR) request
- IR – must be received no later than 30 calendar days from adjustments notification
- Extension to file IR – within 30 days from notification; provides 15 additional days (total of 45 days)

Disagree

Informal Review:

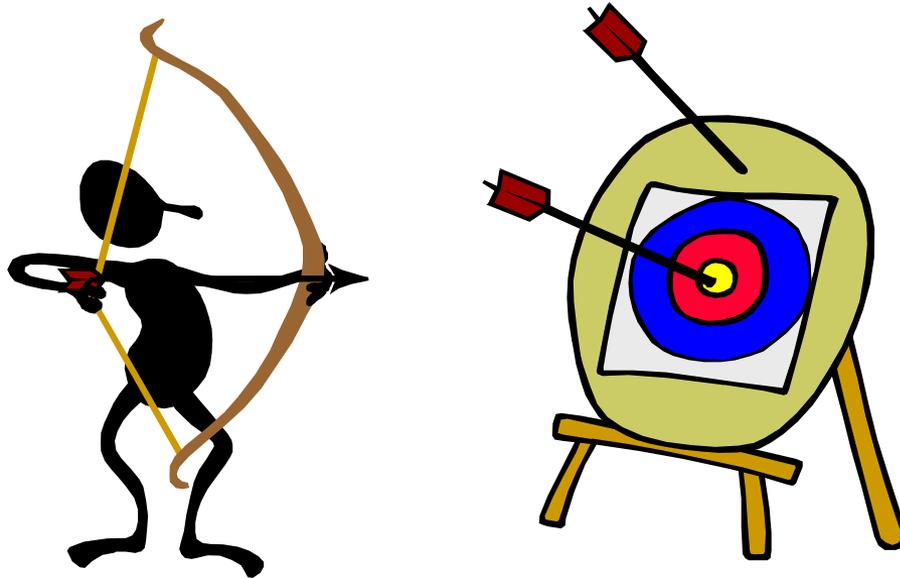
- Written request
- Signed by individual legally responsible for the conduct of the requesting entity
- Hand delivery, U.S. mail, special mail delivery or email (with certain requirements) – NO faxes



Informal Review

- After HHSC staff has completed the IR, provider will be notified and can see the adjustments via Step 14.
- Any further actions, such as a formal appeal, will not be handled in STAIRS.

Cost Reports Due



April 30, 2016

Contact Information

HHSC RATE ANALYSIS

DAHS contact:

Guerin Heckman

(512) 707-6067

guerin.heckman@hhsc.state.tx.us

HHSC RATE ANALYSIS

Receipt of Cost Report:

Cost Reporting Helpline

acres@hhsc.state.tx.us

(512) 490-3115

HHSC RATE ANALYSIS

Other helpful numbers:

Rate Analysis Help Desk

(512) 490-3193

Fax

(512) 730-7475

The End