

# **Texas Health and Human Services Commission**



**Cost Report Training for the 24-Hour  
Residential Child Care Program  
2015 Cost Report**

# **2015 24 RCC Cost Report Training**

**Presenter:**

**Guerin Heckman**

**[guerin.heckman@hhsc.state.tx.us](mailto:guerin.heckman@hhsc.state.tx.us)**

**(512) 707-6067**



# Housekeeping



- Break
- Hold Questions
- Hold music
- How to ask questions  
("The Hand")

# **Training Objectives**

- **Promote effective communication between preparers and RAD**
- **Provide information necessary to complete the 24 RCC Cost Report**
- **Proactively address items and responsibilities that have historically been problematic for new preparers**

# Topics to be Covered

- **HHSC, DADS & DFPS**
- **Rate Analysis for LTSS Staff**
- **Communications**
- **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**
- **24-RCC Program Specific Instructions**

# HHSC & 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 & DFPS**

**The 24-Hour Residential Child Care (24 RCC) program is administered by the Department of Family and Protective Services (DFPS)**



# HHSC & DFPS

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



# Communications

## E-Mail

[firstname.lastname@hhsc.state.tx.us](mailto: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](mailto:costinformation@hhsc.state.tx.us)

# **STAIRS**

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

# Why are Cost Reports Important?

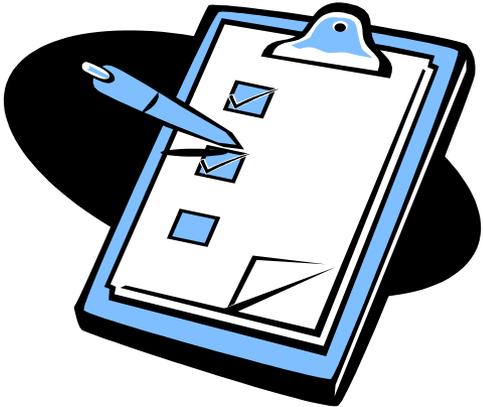


- Used to set rates
- Used to make appropriations requests
- Used to determine enhancement compliance
- Used to obtain cost information for special circumstances and projects

# How a Cost Becomes a Rate



# 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

The image shows a silhouette of a person pointing at a line graph on a screen, with a crowd of people in front of them, representing a public hearing.



• Executive  
• Commissioner  
• Approves Rates

The image shows a hand in a blue suit sleeve holding a pen, representing an executive or commissioner approving rates.

# **Cost Report Due Dates**

- **April 30, 2016**
- **24-RCC, CPC (PHC, CLASS and STAR+PLUS), 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)**
- **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”



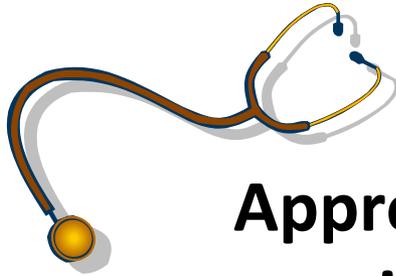
# Allowable and Unallowable Costs

## 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**

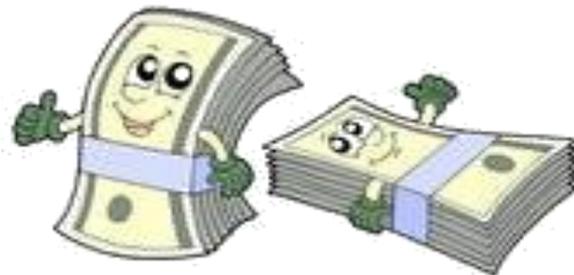
**Benefits that are reported as costs applicable to specific cost areas include:**

- **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. Affordable Care Act (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](http://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

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

<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 and DFPS 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
  - $\leq$  1 Year Useful Life



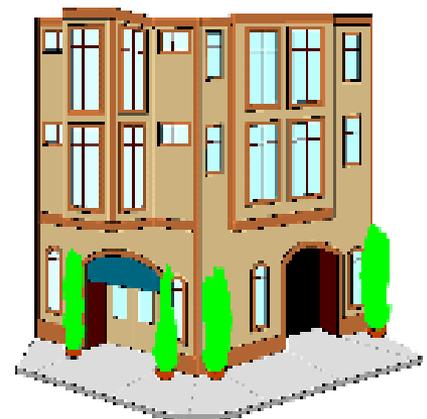
# **Depreciation**

- **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:					<b>87</b>	

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

<b>2010</b>	<b>\$38,808</b>	<b>2013</b>	<b>\$41,184</b>
<b>2011</b>	<b>\$39,584</b>	<b>2014</b>	<b>\$42,008</b>
<b>2012</b>	<b>\$40,376</b>	<b>2015</b>	<b>\$42,849</b>

# 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

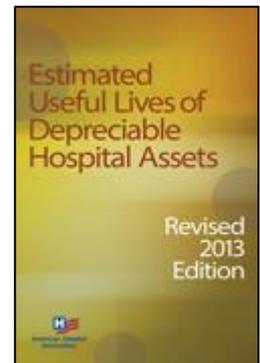


# Depreciation

## 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](http://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**

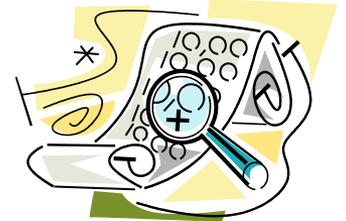
# Related Party Compensation

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



**Documentation should include:**

- **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**

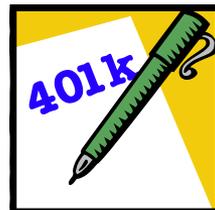


# **Related Party Compensation**

## **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**

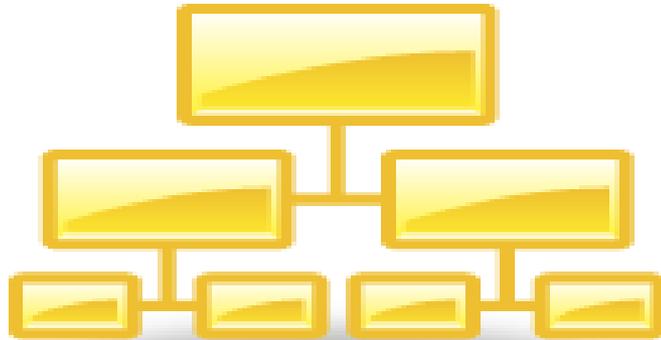
## **Unallowable Compensation**

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



# **Related Parties**

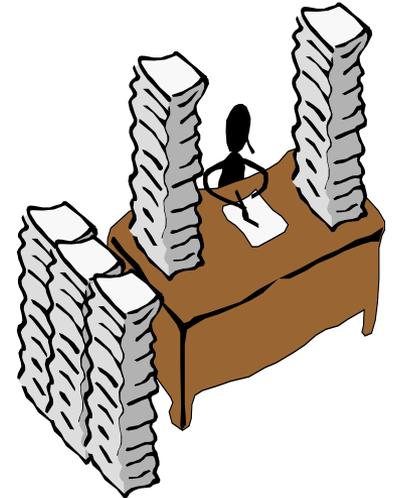
**Attach an organizational chart indicating the related party and name within the organization**



# 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**



# General Information

## Excusal Criteria

- DFPS contract terminated or not renewed
- Basic level services only
- State-placed days
- DFPS-placed days
- Occupancy rate less than 30% (Emergency Care Services only)
- Occupancy rate less than 50% (excludes CPAs and Emergency Care Services)



# **24 RCC Statistical Data**

## **Facility License Types**

- **General Residential Operation (GRO)**
- **Residential Treatment Center (RTC)**
- **Intensive Psychiatric Transition Program (IPTP)**
- **Child Placing Agency (CPA)**
- **Emergency Shelter (ES)**
- **Single Source Continuum Contractor (SSCC)**

**\* If you are licensed or contracted as a different provider type you may not be required to submit a Cost Report \***

# **24 RCC Statistical Data**

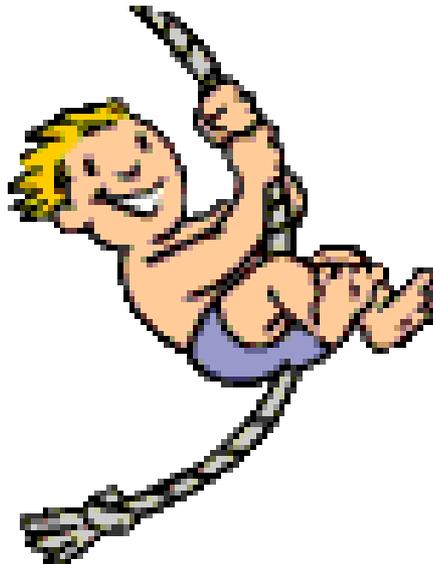
## **General Residential Operations (GRO) and Residential Treatment Centers (RTC)**

- **Separate Cost Report for each facility**
- **Separate Cost Report for an Emergency Care Services designation**
- **Include Intensive Psychiatric Transition center (IPTP) data on the applicable GRO / RTC Cost Report**

# **24 RCC Statistical Data**

## **Child Placing Agencies**

- **Separate Cost Report**
- **All Regional Licenses under a legal entity are combined into a single Cost Report**



# **24 RCC Statistical Data**

## **Emergency Care Services**

- **A common license condition associated with the GRO and RTC license type**
- **Formerly a stand-alone license type known as “Emergency Shelter”**
- **Emergency Care Program must be physically separate from all other programs**
- **A separate cost report must be submitted for Emergency Care Services**

# **24 RCC Statistical Data**

## **Single Source Continuum Contractor (SSCC)**

- **New foster care model – Foster Care Redesign**
- **SSCC is licensed as a CPA but do not report as such**
- **Do not indicate any other license type**
- **If you have another license type you must complete a separate cost report**
- **Not for providers who contract with the SSCC**

# **24 RCC Statistical Data**

## **Service Level & Days of Service GRO / RTC, CPA, ES**

- **Service Level – refers to a child’s level of need:**
  - **Basic**
  - **Moderate**
  - **Specialized**
  - **Intense**
- **Days of Service – refers to the number of days a provider served a child during the reporting period. Days of service are reported for each child by service level according to the entity from whom the provider received reimbursement.**

# **24 RCC Statistical Data**

## **Placement Type and Days of Service SSCC**

- **Days of Service – refers to the number of days a provider served a child during the reporting period. Days of service are reported for each child by placement type:**
  - **GRO / RTC**
  - **CPA**
  - **Emergency Care Services**
  - **Foster Family**
  - **Intensive Psychiatric Transition Program (IPTP)**
  - **Exceptional Care**

# **24 RCC Statistical Data**

## **Placement Type and Days of Service SSCC**

- **Only report days of service referred to contracted providers in the SSCC Days of Service line items**
- **Report days of service from other referral sources in the appropriate line item**

# **24 RCC Statistical Data**

## **Service Level & Days of Service Private or Other**

- **Private – clients who are reimbursed by any entity other than a state or county agency on behalf of the state**
- **Other – clients for whom the provider receives no reimbursement**

# 24 RCC Allowable Costs

## Authority Sources



- 24 RCC Specific Instructions
- Cost Report Training / Training Manual
- Texas Administrative Code (TAC)
  - 1 TAC §355.102
  - 1 TAC §355.103
- Code of Federal Regulations (CFR):
  - 45 CFR, Part 74
  - 48 CFR, Part 31

# 24 RCC Allowable Costs

## Authority Sources

- Office of Management and Budget (OMB) Circulars
  - A-87
  - A-122
  - A-110
- GAAP – unless in conflict with instructions or TAC



# **24 RCC Allowable Costs**

## **Federally Funded Title IV-E**

**DFPS receives a federally funded match under Title IV-E of the Social Security Act (SSA) Foster Care Maintenance Regulations.**

- **Under IV-E, certain costs are defined as allowable for federal matching funds while others are unallowable.**
- **Costs that are allowable under IV-E must be separated from those that are unallowable.**

# **24 RCC Allowable Costs**

## **Educational Services**

- **Educational Services must be supported by a structured curriculum**
- **Allowable Educational Service expenses are those incurred during the regular school year for all students and those incurred during extended year services for special education students**



# **24 RCC Allowable Costs**

## **Educational Services**

- **Other Educational Services , such as summer school for non-special education children, special training courses, pre-vocational training or seminars, are NOT considered allowable educational services costs and must not be reported on the cost report**
- **Tuition for private school must be reported as a Direct Care Non-Labor expense on the “Other” line item.**

# **24 RCC Allowable Costs**

## **Educational Services**

**A provider must complete Schedule D to offset any reimbursed costs or revenue provided by a state agency including the Texas Education Agency (TEA), the county, or the local school district before reporting these costs on the Cost Report.**



# 24 RCC Allowable Costs

## Educational Services

- **ALLOWABLE** - A provider performs educational services for children that reside at its facility in an “on-facility school.”
- **UNALLOWABLE** - An outside entity provides educational services in an “on-facility school.”



# 24 RCC Allowable Costs

## Vocational Services

- Vocational services are defined as a structured program in which children at the facility participate in an ongoing basis (i.e. a working farm or ranch)
- Providers must complete Schedule D to offset any facility-earned vocational revenue against costs before reporting these costs on the Cost Report



# **24 RCC Allowable Costs**

## **Foster Family Development & Recruitment**

- **Allowable advertising costs associated with the recruitment of foster families are defined by OMB Circular A-122 attachment B.1**
- **If an advertisement for fundraising/public relations purposes includes material for foster family recruitment, the provider must allocate the costs of that advertisement between the unallowable fundraising/public relations costs and the allowable foster family recruitment costs**

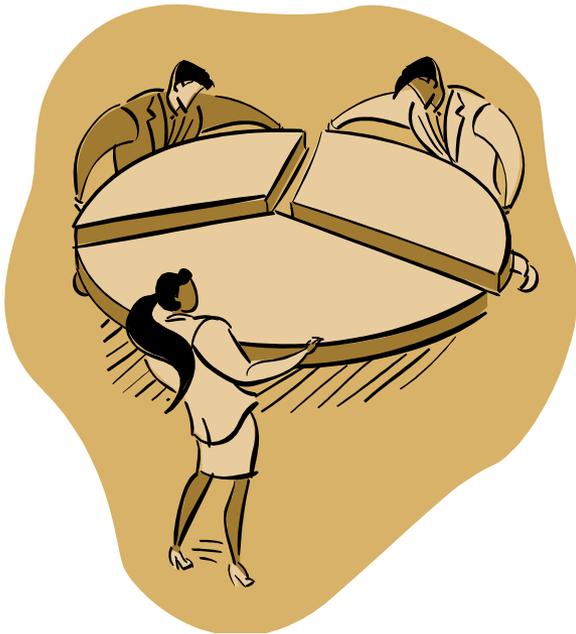


# 24 RCC Allowable Costs

The provider may make unallowable purchases, but they must NOT include them on the cost report



# 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**

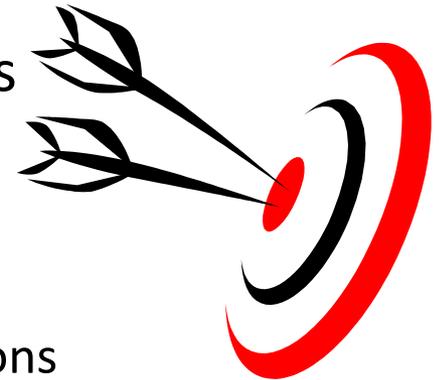
- **Allowable or Unallowable**
- **Direct or Indirect**
  - **This description refers to services provided to clients**
- **Directly Costed (Charged) or Shared (Central Office / Shared Administrative)**
  - **This description refers to how a cost is reported**

# 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**

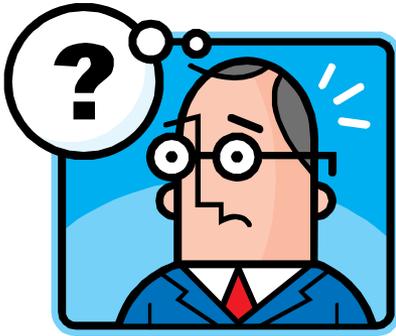
**Indirect costs can be directly costed or shared. These costs include:**

- **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**

## **Administrative Functions**

- **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**

## **Administrative Functions**

**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**

## **RAD Approved 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**

## **RAD Approved Allocation Methods**

- **Units of Service**
- **Labor Costs**
- **Cost-to-Cost**
- **Salaries**
- **Total-Cost-Less-Facility-Cost**
- **Functional Allocation Methods**
- **Other Allocation Methods**

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

<b>Makeup of Controlling Entity's Contracts</b>	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
<b>Allowable Allocation Methods</b>	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 24 RCC Rate Analyst for further instructions.

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

# **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 (i.e., 1 day)**

# **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**
- **Equivalent Service and Equivalent Units = Units of Service Allocation Method**

# **Allocation Methods**

## **RAD Approved Allocation Methods Units of Service**

**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 As of XX/XX/XXXX

Expenses:	Total Costs	Disallowed	Lake House	River House	Shared Costs	Allocated Shared Costs		CR Line Items	
			(RTC)	(RTC)		55.70%	44.30%	Lake House	River House
			Direct Costs	Direct Costs		Lake House	River House	Lake House	River House
Salaries									
Administrative	125,347.28				125,347.28	69,818.43	55,528.85	xxx	xxx
Social Workers	157,288.47		87,434.22	69,854.25	-			xxx	xxx
Director - Child Services	33,254.88		25,458.97	7,795.91	-			xxx	xxx
Contracted Social Workers	4,572.08				4,572.08	2,546.65	2,025.43	xxx	xxx
Consultants	2,500.00				2,500.00	1,392.50	1,107.50	xxx	xxx
FICA/Medicare	24,165.63		8,636.33	5,940.24	9,589.07	5,341.11	4,247.96	xxx	xxx
State & Federal Unemployment	5,686.03		2,822.33	1,553.00	1,310.70	730.06	580.64	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	1,506.00	1,197.77	xxx	xxx
Office Lease	9,000.00		2,400.00	2,100.00	4,500.00	2,506.50	1,993.50	xxx	xxx
Utilities	8,945.67		2,385.51	2,087.32	4,472.84	2,491.37	1,981.47	xxx	xxx
Telecommunications	3,008.16		401.68	333.75	2,272.73	1,265.91	1,006.82	xxx	xxx
Office Supplies	1,501.80				1,501.80	836.50	665.30	xxx	xxx
Medical Supplies	874.64				874.64	487.17	387.47	xxx	xxx
Insurance - General Liability	1,254.00				1,254.00	698.48	555.52	xxx	xxx
Insurance - Malpractice	1,050.87				1,050.87	585.33	465.54	xxx	xxx
Travel	387.98	237.65	54.36	35.74	60.23	33.55	26.68	xxx	xxx
Advertising	402.87	104.97			297.90	165.93	131.97	xxx	xxx
Miscellaneous	601.47	254.74			346.73	193.13	153.60	xxx	xxx
<b>Totals</b>	<b>384,689.08</b>	<b>597.36</b>	<b>130,847.41</b>	<b>90,589.68</b>	<b>162,654.63</b>	<b>90,598.63</b>	<b>72,056.00</b>		

Units of Service Allocation Percentages:	Units of Service	Percentage
Lake House	9,961.50	55.70%
River House	7,924.25	44.30%
	17,885.75	100.00%

# **Allocation Methods**

## **RAD Approved Allocation Methods Labor Costs**

- **If allocation based on Units of Service is not acceptable, and 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 is based upon the ratio of directly charged labor costs for each contract to the total directly charged labor costs for all contracts**

# **Allocation Methods**

## **RAD Approved Allocation Methods Labor Costs**

**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**

## **RAD Approved Allocation Methods Labor Costs**

**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 Summary - LABOR COST METHOD

## Adjusted Trial Balance As of XX/XX/XXXX

Expenses:	Total Costs	Disallowed	Round Rock			Shared Costs	Allocated Shared Costs			CR Line Items																									
			River House (RTC) Direct Costs	Safe House (Emergency Shelter) Direct Costs	Home Finders (CPA) Direct Costs		43.09% River House	30.39% Round Rock Safe House	26.52% Home Finders	River House	RR Safe House																								
Salaries																																			
Administrative	125,347.28					125,347.28	54,012.14	38,093.04	33,242.10	xxx	xxx																								
Foster Care Attendants	87,434.22		<div style="border: 1px solid black; padding: 5px;"> <table border="1"> <tr> <td>87,434.22</td> <td></td> <td></td> </tr> <tr> <td></td> <td>65,238.41</td> <td>54,675.15</td> </tr> <tr> <td>13,528.48</td> <td>9,467.85</td> <td>10,258.55</td> </tr> <tr> <td>4,572.08</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td>8,073.41</td> <td>5,715.03</td> <td>4,990.38</td> </tr> <tr> <td>2,524.07</td> <td>1,494.13</td> <td>978.51</td> </tr> <tr> <td>1,254.01</td> <td>889.47</td> <td>1,358.41</td> </tr> </table> </div>	87,434.22				65,238.41	54,675.15	13,528.48	9,467.85	10,258.55	4,572.08						8,073.41	5,715.03	4,990.38	2,524.07	1,494.13	978.51	1,254.01	889.47	1,358.41								
87,434.22																																			
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8,073.41	5,715.03	4,990.38																																	
2,524.07	1,494.13	978.51																																	
1,254.01	889.47	1,358.41																																	
Emergency Care Attendants	119,913.56					-	-	-	-	xxx	xxx																								
Supervisors	33,254.88					-	-	-	-	xxx	xxx																								
Contracted Social Workers	4,572.08					-	-	-	-	xxx	xxx																								
Consultants	2,500.00					2,500.00	1,077.25	759.75	663.00	xxx	xxx																								
FICA/Medicare	28,018.12					9,239.30	3,981.21	2,807.82	2,450.26	xxx	xxx																								
State & Federal Unemployment	6,592.50					1,595.79	687.63	484.96	423.20	xxx	xxx																								
Employee Benefits/Insurance	4,847.25					1,345.36	579.72	408.85	356.79	xxx	xxx																								
Workers' Compensation	0.00					-	-	-	-	xxx	xxx																								
Office Lease	9,000.00		2,400.00	2,100.00	2,500.00	2,000.00	861.80	607.80	530.40	xxx	xxx																								
Utilities	8,945.67		2,385.51	2,087.32	2,484.91	1,987.93	856.60	604.13	527.20	xxx	xxx																								
Telecommunications	3,008.16		401.68	333.75	554.37	1,718.36	740.44	522.21	455.71	xxx	xxx																								
Office Supplies	1,501.80					1,501.80	647.13	456.40	398.28	xxx	xxx																								
Medical Supplies	874.64				487.39	387.25	166.87	117.69	102.70	xxx	xxx																								
Insurance - Malpractice	1,050.87					1,050.87	452.82	319.36	278.69	xxx	xxx																								
Travel	387.98	204.65	54.36	35.74	84.97	8.26	3.56	2.51	2.19	xxx	xxx																								
Advertising	402.87	104.97				297.90	128.37	90.53	79.00	xxx	xxx																								
Miscellaneous	601.47	254.74				346.73	149.41	105.37	91.95	xxx	xxx																								
Totals	438,253.35	564.36	122,627.82	87,361.70	78,372.64	149,326.83	64,344.93	45,380.42	39,601.48	xxx	xxx																								

Labor Method Allocation Percentages:	Labor Costs	Percentage
Total River House	117,386.27	43.09%
Total Round Rock Safe House	82,804.89	30.39%
Total Home Finders	72,261.00	26.52%
	272,452.16	100.00%

# **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**

## **RAD Approved Allocation Methods**

### **Cost-to-Cost**

**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 Summary - COST-TO-COST**

**Adjusted Trial Balance  
As of XX/XX/XXXX**

Expenses:	Total Costs	Disallowed	River House	Round Rock	Austin	Allocated Shared Costs			River House				
			(RTC)	Safe House (Emergency Shelter)	Safe House (Emergency Shelter)	41.39%	30.72%	27.89%					
			Direct Costs	Direct Costs	Direct Costs	Shared Costs	River House	Round Rock Safe House	Austin Safe House				
<b>Salaries</b>													
Administrative	125,347.28		}	}	}	125,347.28	51,881.24	38,506.68	34,959.36	xxx			
Houseparents	87,434.22					87,434.22			-	-	-	-	xxx
Director of Residential Services	65,238.41						65,238.41		-	-	-	-	xxx
Director of Children's Services	54,975.15							54,975.15	-	-	-	-	xxx
Licensed Professional Counselors	33,254.88					13,528.48	9,467.85	10,258.55	-	-	-	-	xxx
Contracted Social Workers	249.85							249.85	-	-	-	-	xxx
Consultants	2,500.00								2,500.00	1,034.75	768.00	697.25	xxx
FICA/Medicare	28,018.12					7,723.65	5,715.03	5,009.49	9,569.95	3,961.00	2,939.89	2,669.06	xxx
State & Federal Unemployment	6,592.50	Directly				2,524.07	1,494.13	978.51	1,595.79	660.50	490.23	445.07	xxx
Employee Benefits/Insurance	4,847.25	Charged				1,254.01	889.47	1,358.41	1,345.36	556.84	413.29	375.22	xxx
Office Lease	9,000.00	Costs				2,400.00	2,100.00	2,500.00	2,000.00	827.80	614.40	557.80	xxx
Utilities	8,945.67					2,385.51	2,087.32	2,484.91	1,987.93	822.80	610.69	554.43	xxx
Telecommunications	3,008.16					401.68	333.75	554.37	1,718.36	711.23	527.88	479.25	xxx
Office Supplies	1,501.80								1,501.80	621.60	461.35	418.85	xxx
Medical Supplies	874.64							874.64	-	-	-	-	xxx
Insurance - General Liability	1,254.00								1,254.00	519.03	385.23	349.74	xxx
Insurance - Malpractice	1,050.87								1,050.87	434.96	322.83	293.09	xxx
Travel	387.98	204.65	54.36	35.74	84.97	8.26	3.42	2.54	2.30	xxx			
Advertising	402.87	104.97				297.90	123.30	91.51	83.08	xxx			
Miscellaneous	601.47	254.74				346.73	143.51	106.52	96.70	xxx			
<b>Totals</b>	<b>435,485.12</b>	<b>564.36</b>	<b>117,705.98</b>	<b>87,361.70</b>	<b>79,328.85</b>	<b>150,524.23</b>	<b>62,301.98</b>	<b>46,241.04</b>	<b>41,981.21</b>				

Cost-to-Cost Allocation Percentages:	Total Costs	Percentage
Total River House	117,705.98	41.39%
Total Round Rock Safe House	87,361.70	30.72%
Total Austin Safe House	79,328.85	27.89%
	<b>284,396.53</b>	<b>100.00%</b>

# **Allocation Methods**

## **RAD Approved Allocation Methods Salaries**

- **If allocation based on Units of Service is 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)**
  
- **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**

## **RAD Approved Allocation Methods Salaries**

**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 XX/XX/XXXX

Expenses:	Total Costs	Disallowed	Adjusted Trial Balance			Shared Costs	Allocated Shared Costs			Lake House	
			Lake House (RTC)	Austin Safe House (Emergency Shelter)	River House (RTC)		41.91% Lake House	31.05% Austin Safe House	27.04% River House		
			Direct Costs	Direct Costs	Direct Costs						
Salaries											
Administrative	125,347.28					125,347.28	52,533.05	38,920.33	33,893.90	xxx	
Houseparents	87,434.22	Salary Costs	87,434.22			-	-	-	-	xxx	
Director of Residential Services	65,238.41			65,238.41		-	-	-	-	xxx	
Director of Children's Services	54,975.15				54,975.15	-	-	-	-	xxx	
Licensed Professional Counselors	33,254.88			13,528.48	9,467.85	10,258.55	-	-	-	-	xxx
Contracted Social Workers	1,268.37			522.86	495.66	249.85	-	-	-	-	xxx
Consultants	2,500.00					2,500.00	1,047.75	776.25	676.00	xxx	
FICA/Medicare	28,018.12		7,723.65	5,715.03	5,009.49	9,569.95	4,010.77	2,971.47	2,587.71	xxx	
State & Federal Unemployment	6,592.50		2,524.07	1,494.13	978.51	1,595.79	668.80	495.49	431.50	xxx	
Employee Benefits/Insurance	4,847.25		1,254.01	889.47	1,358.41	1,345.36	563.84	417.73	363.79	xxx	
Office Lease	9,000.00		2,400.00	2,100.00	2,500.00	2,000.00	838.20	621.00	540.80	xxx	
Utilities	8,945.67		2,385.51	2,087.32	2,484.91	1,987.93	833.14	617.25	537.54	xxx	
Telecommunications	3,008.16		401.68	333.75	554.37	1,718.36	720.16	533.55	464.64	xxx	
Office Supplies	1,501.80					1,501.80	629.40	466.31	406.09	xxx	
Medical Supplies	874.64				487.39	387.25	162.30	120.24	104.71	xxx	
Insurance - General Liability	1,254.00					1,254.00	525.55	389.37	339.08	xxx	
Insurance - Malpractice	1,050.87					1,050.87	440.42	326.30	284.16	xxx	
Travel	387.98	204.65	54.36	35.74	84.97	8.26	3.46	2.56	2.23	xxx	
Advertising	402.87	104.97				297.90	124.85	92.50	80.55	xxx	
Miscellaneous	601.47	254.74				346.73	145.31	107.66	93.76	xxx	
<b>Totals</b>	<b>436,503.64</b>	<b>564.36</b>	<b>118,228.84</b>	<b>87,857.36</b>	<b>78,941.60</b>	<b>150,911.48</b>	<b>63,247.00</b>	<b>46,858.01</b>	<b>40,806.46</b>		

Salary Method Allocation Percentages:	Salary Costs	Percentage
Total Lake House	101,485.56	41.91%
Total Austin Safe House	75,201.92	31.05%
Total River House	65,483.55	27.04%
	<u>242,171.03</u>	<u>100.00%</u>

# **Allocation Methods**

## **RAD Approved Allocation Methods**

### **Total-Costs-Less-Facilities-Costs**

- **The Total-Cost-Less-Facility-Cost allocation method can be used if allocation based on Units of Service is not acceptable, and 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**
- **Allocation is based upon the ratio of each contract's total costs less that contract's facility/building costs to the provider's total costs less facility/building costs for all contracts**

# **Allocation Methods**

## **RAD Approved Allocation Methods Total-Costs-Less-Facilities-Costs**

The facility costs that are required to be removed from the total costs are identified in the “Facility Costs” section of the RC 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**

## **RAD Approved Allocation Methods Total-Costs-Less-Facilities-Costs**

**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 XX/XX/XXXX

Expenses:	Total Costs	Disallowed	Lake House	Home Finders	Shared Costs	Allocated Shared Costs		CR Line Items	
			(RTC)	(CPA)		59.33%	40.67%	Lake House	Home Finders
			Direct Costs	Direct Costs		Lake House	Home Finders	Lake House	Home Finders
Salaries									
Administrative	125,347.28				125,347.28	74,368.54	50,978.74	xxx	xxx
Social Workers	157,288.47		87,434.22	69,854.25	-	-	-	xxx	xxx
Director - Child Services	33,254.88		25,458.97	7,795.91	-	-	-	xxx	xxx
Contracted Admin. Employees	4,572.08		2,712.62	1,859.46	-	-	-	xxx	xxx
Consultants	2,500.00				2,500.00	1,483.25	1,016.75	xxx	xxx
FICA/Medicare	24,165.63		8,843.84	6,082.49	9,239.31	5,481.68	3,757.63	xxx	xxx
State & Federal Unemployment	5,686.03		2,822.33	1,553.00	1,310.70	777.64	533.06	xxx	xxx
Employee Benefits/Insurance	4,847.25		1,254.01	889.47	2,703.77	1,604.15	1,099.62	xxx	xxx
Office Lease	9,000.00	Facility Costs	2,400.00	2,100.00	4,500.00	2,669.85	1,830.15	xxx	xxx
Utilities	8,945.67		2,385.51	2,087.32	4,472.84	2,653.73	1,819.10	xxx	xxx
Ad Valorem Taxes	3,256.88		842.64	1,834.64	579.60	343.88	235.72	xxx	xxx
Maintenance & Repairs	1,846.74		246.25	1,041.67	558.82	331.55	227.27	xxx	xxx
Telecommunications	3,008.16		401.68	333.75	2,272.73	1,348.41	924.32	xxx	xxx
Office Supplies	1,501.80				1,501.80	891.02	610.78	xxx	xxx
Medical Supplies	874.64				874.64	518.92	355.72	xxx	xxx
Insurance - General Liability	1,254.00				1,254.00	744.00	510.00	xxx	xxx
Insurance - Malpractice	1,050.87				1,050.87	623.48	427.39	xxx	xxx
Travel	387.98	237.65	54.36	35.74	60.23	35.73	24.50	xxx	xxx
Advertising	402.87	104.97			297.90	176.74	121.16	xxx	xxx
Miscellaneous	601.47	254.74			346.73	205.71	141.02	xxx	xxx
<b>Totals</b>	<b>389,792.70</b>	<b>597.36</b>	<b>134,856.43</b>	<b>95,467.70</b>	<b>158,871.21</b>	<b>94,258.29</b>	<b>64,612.92</b>		

### Total Costs-Less-Facility-Costs Allocation Percentages:

	Lake House	Home Finders	Totals
Total Costs	134,856.43	95,467.70	230,324.13
Less Facility Costs	(5,874.40)	(7,063.63)	(12,938.03)
<b>Total Costs Less Facility Costs</b>	<b>128,982.03</b>	<b>88,404.07</b>	<b>217,386.10</b>
Allocation Percentages	59.33%	40.67%	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**

## **Functional Allocation Methods**

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

- **Housekeeping**
- **Laundry**
- **Maintenance**
- **Wastewater treatment plant**
- **Security**

# **Allocation Methods**

## **Functional Allocation Methods**

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

- **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**

## **RAD Approved Allocation Methods Other Methods**

### **Other Examples:**

- **Laundry – number of loads**
- **Maintenance – service tickets**
- **Activities – attendance records**
- **Transportation – mileage logs**

# **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**

# **Allocation Methods**

## **Allocation Summary Documentation**

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

- 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**

# Time Sheets & Time Studies

## Types of Employees

- Only delivers **DIRECT SERVICES**



- **ADMINISTRATIVE** duties only



- Duties **CROSS-OVER**



# **Time Sheets & Time Studies**

## **Types of Employees Direct Service**

- **The hours worked by each employee or contracted individual must be documented.**
- **If an employee or contracted individual provides services to more than one program, contract or business entity, the direct time spent in each program must be documented by time sheets**
- **Examples: child-care workers, intake worker, psychologists, nurses, educational liaison, etc.**
- **Must be direct-costed**



# **Time Sheets & Time Studies**

## **Types of Employees Administrative Staff**

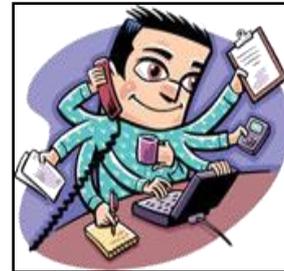
- **Does not work with clients**
- **Option of allocating or direct-costing salaries**
- **Time Studies are acceptable**



# **Time Sheets & Time Studies**

## **Types of Employees Cross-Over Staff**

- **Combination of Administrative and Direct Care**
- **Must keep exact amount of time spent with each client**
- **This time is direct-costed**
- **Administrative Time is allocated**
- **Time sheet by exception**



# **Time Sheets & Time Studies**

## **Time Sheet Requirements**

- **Start time**
- **Stop time**
- **Total Hours Worked**
- **Time worked providing direct services in the program (in increments of 30 minutes or less)**
- **Time worked performing other functions**
- **Paid time off**
- **Appropriate Signatures**



## DAILY TIME SHEET

EMPLOYEE NAME: Mary Smythe

DATE: July 11, 2008

Time (HH:MM)		Client Name	Duties / Activities Performed	Case Manager	LPC	Indirect / Shared Time
Beginning	Ending					
8:00 AM	8:30 AM		Travel to Round Rock Safe House			0:30
8:30 AM	9:30 AM	S. Jones	Case Management	1:00		
9:30 AM	11:15 AM	S. Jones	Behavioral Training		1:45	
11:15 AM	12:30 PM	A. White	Abuse Counseling		1:15	
12:30 PM	1:00 PM	C. Brown	Meeting Foster Family		0:30	
1:00 PM	1:30 PM		Lunch			
1:30 PM	2:30 PM	C. Brown	Discuss Adjustment to New Family		1:00	
2:30 PM	3:15 PM	M. Smith	Case Management	0:45		
3:15 PM	4:00 PM		Travel to Main Office			0:45
4:00 PM	4:30 PM		Vacation			0:30

Daily Summary by Position	Time
Case Manager	1:45
LPC	4:30
Indirect / Shared Time	1:45
<b>Total Hours</b>	<b>8:00</b>

Signature: Mary Smythe

Date: July 14, 2008

# **Time Sheets & Time Studies**

## **Time Study Requirements**



**Time studies are acceptable only for allocating costs associated with administrative staff that perform multiple administrative functions across contracts.**

# **Time Sheets & Time Studies**

## **Time Study Requirements**

**“How long is a time-study”?**

- **Minimum of 4 weeks per year (one week randomly selected from each quarter)**
- **Can be performed for one continuous week during a quarter**
- **Can be performed over five or seven individual days throughout the quarter**



# **Completing the Cost Report in STAIRS**

# 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.

# 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

# 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

## Combined vs 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 Step 5**

## Days of Service and Revenue

### **Units of Service**

- Report the total number of bed hold days is Step 5a from the SSCC or to subcontractors
- Report all DFPS and all other Placement days referrals in Step 5b
- Report all Foster Family Pass Through in Step 5c
- Report all Revenue Offsets received from outside sources in Step 5e

# **STAIRS Step 6**

## Wages and Compensation

*Step 6a* - General Information

*Steps 6b* - Related Party

*Step 6c* - SSCC Subcontractors Payments

*Step 6d* - Non-Administrative and Operations  
Personnel

*Step 6e* – Administrative & Operations Personnel



# STAIRS Step 7

## Payroll Taxed and Workers' Compensation

Section 125 or Cafeteria Plan?

Texas Workforce Commission Reimbursement  
Employer?



Taxes and Workers' Compensation reported as

- Non-Administration and Central Office
- Administration and Central Office

# **STAIRS Step 8**

## Facility and Operations Costs

*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, Administrative and other Direct Care Costs

# STAIRS Steps 9, 10 & 11

## 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:

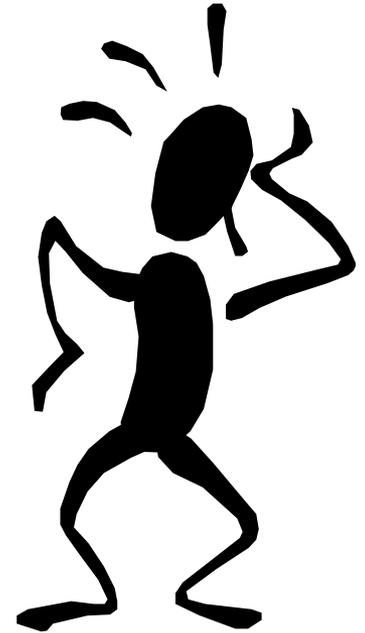
- Methodology
- Cost Report

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

# STAIRS Steps 9, 10 & 11

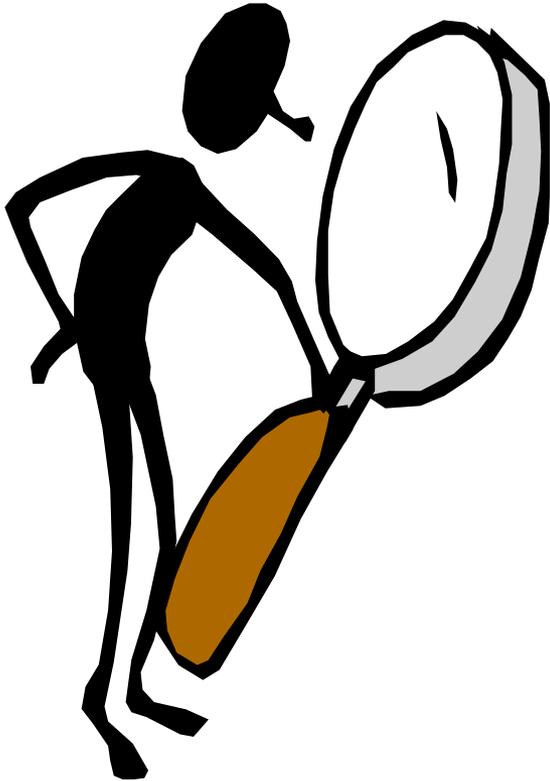
## Verification Summary and Certifications

- 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.



# STAIRS Step 12

## 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

# STAIRS Step 12

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.



# STAIRS Step 12

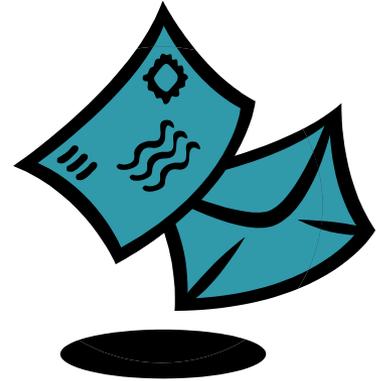
## Agree / Disagree

**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)

# STAIRS Step 12

Agree / Disagree



## Informal Review:

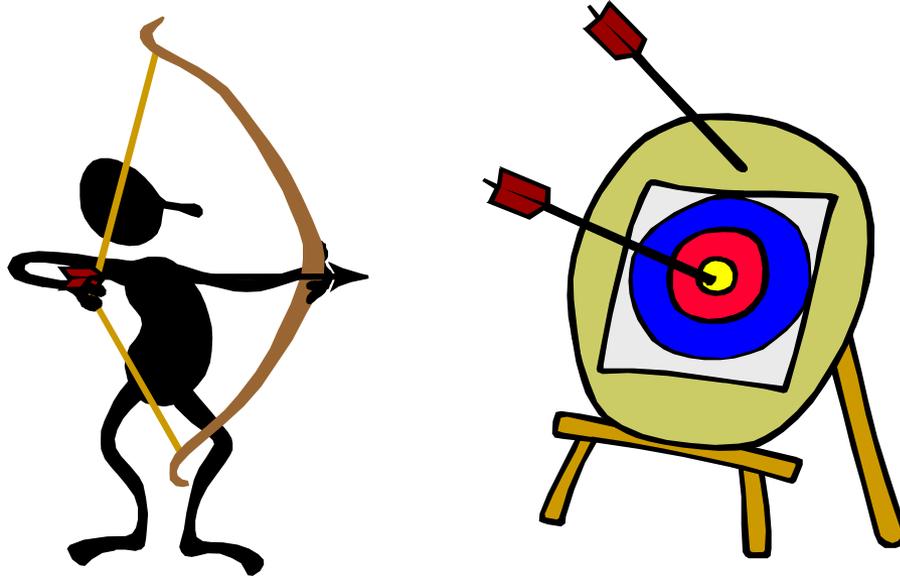
- Written request
- Signed by individual legally responsible for the conduct of the requesting entity
- Hand delivery, U.S. mail, special mail delivery or email (with certain requirements) – NO faxes

# **STAIRS Step 13**

## 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 15, 2016**

# Contact Information

## Staff Contacts

**Cost Report Completion and Policy Questions:**

**Guerin Heckman**

**[guerin.heckman@hhsc.state.tx.us](mailto:guerin.heckman@hhsc.state.tx.us)**

**Phone: (512) 707-6067**

**Fax: (512) 730-7475**

**Rate Analysis Helpline: (512) 490-3193**

# Contact Information

## Website

[www.hhsc.state.tx.us/rad/long-term-svcs/24rcc/index.shtml](http://www.hhsc.state.tx.us/rad/long-term-svcs/24rcc/index.shtml)



# **Contact Information**

## **Mailing Addresses**

### **Regular Mail:**

**Texas Health and Human Services Commission  
Rate Analysis Department, Mail Code H-400  
P. O. Box 149030  
Austin, TX 78714-9030**

### **Special Delivery:**

**Texas Health and Human Services Commission  
Rate Analysis Department, Mail Code H-400  
4900 North Lamar Blvd.  
Austin, TX 78751-2316**

**THANK YOU!!!**

**The End...**