CALIFORNIA DEPARTMENT OF
Mental Health

1600 9th Street, Sacramento, CA 95814
(916) 654-2309

October 31, 2007

DMH LETTER NO.: 07-10

TO: LOCAL MENTAL HEALTH DIRECTORS
LOCAL MENTAL HEALTH PROGRAM CHIEFS
LOCAL MENTAL HEALTH ADMINISTRATORS
COUNTY ADMINISTRATIVE OFFICERS
CHAIRPERSONS, LOCAL MENTAL HEALTH BOARDS

SUBJECT: FISCAL YEAR (FY) 2006-07 COST REPORT POLICY

REFERENCE: Supersedes DMH Letter 06-07
Fiscal Year (FY) 2005-06 COST REPORT POLICY

This letter outlines the submission and reporting requirements for the fiscal year (FY) 2006-07 cost report. To the extent that there are differences between this letter and other prior California Department of Mental Health (DMH) publications, the requirements contained in this letter will prevail. Technical details regarding reporting and submission procedures and requirements are included in the FY 2006-07 Cost and Financial Reporting System (CFRS) Instruction Manual available on the DMH Information Technology Web Services (ITWS). ITWS is accessed through the DMH website at www.dmh.ca.gov.

I. SUBMISSION REQUIREMENTS

A. Cost Report Submission

The FY 2006-07 Cost Report automated templates are available through the DMH ITWS - CFRS. Counties are to submit one hard copy of the cost report (summary and county detail only) and an original signed MH1940, Year End Cost Report, and certification package to the Department through the U.S. mail by December 31, 2007. Welfare and Institutions Code (WIC) Section 5718(c) requires county mental health facilities, clinics and programs to submit fiscal year-end cost reports by December 31, following the end of the fiscal year.

The FY 2006-07 year end county cost report packages from county mental health agencies are to be submitted to DMH by December 31, 2007. Cost report submission for FY 2006-07 involves both electronic and hard copies. The electronic submission process involves uploading the complete cost report through DMH's ITWS system. Detailed requirements regarding naming conventions, downloading templates, and uploading completed cost reports are included in Appendix F of the FY 2006-07 CFRS Instruction Manual. The cost report package must be received within 10 working days of the upload to validate the submission through ITWS.

Mail to:

California Department of Mental Health
Cost Reporting and Financial Support (CRFS) Unit
Attn: (Your CRFS Analyst)
1600 9th Street, Room 120
Sacramento, CA 95814

Counties are to continue accessing ITWS information through **CFRS** until further notice.

B. Cost Report Forms

Changes to the FY 2006-07 cost report forms are as follows:

Summary Cost Report:

MH 1901 Schedule C, Column E- Eligible Direct Cost – Non-Medi-Cal costs for Modes 45 and 60 may now be entered in Column E.

MH 1908, Supplemental State Resource Data - Addition of a new funding source: 4440-104-0001 Mental Health Services AB 3632.

MH 1909 - AB 3632 Supplemental Cost Report Data by Program Category- Addition of a new MH1909 to identify State General Fund (SGF) allocation and expenditures for: 4440-104-0001 Mental Health Service AB3632. Counties are to continue to complete the MH 1912 Supplemental Cost Report Data for Special Education Program (SEP) in addition to the MH 1909 for AB 3632.

MH 1940 – Year End Cost Report – Addition of a new funding source: 4440-104-0001 Mental Health Services AB 3632 on Line 12.

MH 1940 County Certification – The Mental Health Services Act (MHSA) regulations have been incorporated into the certification language.

MH1940S – Year End Cost Report – The DMH-only portion located at the bottom of the original certification page has been relocated to the new MH 1940S.

Cost Report Instruction Manual:

MH1992 – Summary Funds Sources – Enter revenues expended from grants for appropriate modes of service on Lines 4 through 7 of MH 1992. The word accrued has been changed to expended.

C. Amendments or Revisions

Major amendments or revisions to the cost report are not allowed after December 31, 2007. Corrections identified by DMH, which are necessary to facilitate processing or to prevent undue hardship to counties, can be made. Unapproved revisions made after December 31, 2007, will be placed in the county's cost report file for audit purposes.

D. Supporting Documentation

The list of supporting documents necessary for the FY 2006-07 cost reports is as follows:

1. Auditor-Controller's Report
   Reference to the page(s) of the county's Auditor-Controller's Report containing mental health data used in the cost report. The Auditor-Controller's Report itself is not required; however, counties should maintain work papers that reconcile the amount reported on the MH1960, Calculation of Program Costs, Line 1, Column 3 as total mental health expenditures.

2. Disclosures
   Explanations of unusual situations or anomalies to the regular cost reporting requirements should be disclosed in this section for audit purposes. A worksheet in the detail cost report workbook is available for such disclosures.

3. Maintenance of Records and Systems
   All accounting and management information system reports used to verify detailed data reported in the cost reports must be maintained for future audit purposes. In addition, counties must maintain an internal reporting system to track the SD/MC units and revenues that were approved and are valid. Complete reliance on the SD/MC Explanation of Balance (EOB) reports is not sufficient because certain approved claims, later deemed inappropriate, cannot be eliminated from these EOB reports. These reports can be used to verify internal records but should not be used in lieu of an internal reporting or tracking system.

The above documentation will meet federal Centers for Medicare and Medicaid Services (CMS) requirements, ensure counties of the continued availability of Federal Financial Participation (FFP), and enable DMH Local Program Financial Support staff to perform a desk review.

II. COST REPORT POLICY

A. Legal Entity Number

All county and contract providers must have a valid and current provider number, which must be associated with a legal entity number issued by DMH for use during the cost reporting year. While SD/MC certification and claims are submitted and processed using provider numbers, cost reports are submitted using legal entity numbers.

The Provider/Legal Entity (PRV/LE) data files for your county can be accessed through the DMH ITWS – PRV/LE system. If you do not have or need to verify a legal entity number, please call the Statistics and Data Analysis Section at (916) 653-5939.

B. Transaction Service Period

Units of service and related revenues reported on the FY 2006-07 cost reports must reflect services and transactions occurring during the period of July 1, 2006 through June 30, 2007 only.

C. Federal Financial Participation Percentages

Direct service costs are apportioned to SD/MC clients based on units of service at the service-function level. During FY 2006-07, the federal/state sharing ratio is as follows:

Fiscal Year (July 1, 2006 through June 30, 2007)

Regular SD/MC: FFP = 50.00%; State Share = 50.00%
Enhanced Children SD/MC: FFP = 65%; State Share = 35%
Healthy Families: FFP = 65%; State Share = 35%
Enhanced SD/MC Refugees: FFP = 100%; State Share = 0%
Regular SD/MC Administration: FFP = 50%; State Share = 50%
Regular Quality Assurance/U.R.: FFP = 50%; State Share = 50%
Skilled Professional Medical Personnel (SPMP) Quality Assurance/U.R.: FFP = 75%; State Share = 25%
Regular MAA: FFP = 50%; State Share = 50%
Skilled Professional Medical Personnel (SPMP) MAA: FFP = 75%; State Share = 25%
Healthy Families Admin.: FFP = 65%; State Share = 35%

D. Reimbursement Limitation Policy

In accordance with state laws and regulations, DMH established a Schedule of Statewide Maximum Allowances (SMA) that details the SD/MC maximum allowable rates for FY 2006-07 (DMH Letter 06-06). These rate limits apply to all SD/MC eligible services. Please refer to Enclosure A.

E. Categorical Funding

Categorical funds must be used for the purpose for which they were appropriated in the Budget Act of 2006. Non-State General Funds used to match FFP for each program category should be reported under Other Fund Sources on form MH1909, Supplemental Cost Report Data by Program Category.

The MH1909 should identify each budget item, categorical fund expenditure and units of service by legal entity, mode, and service function. Include a completed MH1909 for each budget item (except for Managed Care Funds, Budget Item 4440-103-0001, reported on MH1994, see section I) with your cost report package to assist DMH in properly accounting for funds in the correct Budget Act appropriation. Expenditures in excess of the State

General Fund allocation should be entered in the appropriate column of "County Matching Funds," "Medi-Cal FFP Share," or "Other Fund Sources."

Categorical State General Funds used as a match for FFP do not require county matching funds.

The MH1912 is designed to identify total SEP costs, regardless of funding source. The MH1912 will be used for reporting total program costs associated with the SEP mandate to the California Legislature and the California Department of Education.

F. Rollover Categorical Funds

A county may retain unexpended allocated categorical State General Funds not expended during the fiscal year of allocation for 12 months for expenditure for mental health services.

Any categorical funds not spent within two years of allocation are taken back from the county. A separate MH1909 for each fund category must be completed for reporting roll-over funds from FY 2005-06 expended during FY 2006-07.

G. Realignment Funds and Maintenance of Effort Funds

The county's realignment funds (sales tax receipts, Vehicle License funds, and local program Maintenance of Effort (MOE) funds per WIC Section 17608.05) expended on mental health services during the reporting year should be identified on the MH1992, Line 21.

H. Negotiated Rate Legal Entities

Negotiated rate legal entities will be controlled to their negotiated SD/MC contract rates, which in no case will be greater than the SMA established by DMH. Negotiated rate entities reimbursement will be based on the lower of state-approved negotiated rate, SMA or published charge. If there is no negotiated rate approved by DMH, reimbursement will be based on the lower of cost, SMA or published charge. Please refer to DMH Information Notice No. 06-17 for more information on FY 2006-07 SD/MC negotiated rates.

I. Community Services - Other Treatment for Mental Health Managed Care - (County Only)

Report expenditures and utilization of these funds on the MH1994, as part of the county summary cost report. During FY 2006-07, roll-over from FY 2005-06 Mental Health Managed Care funds expended on Lines 2a and 2b of the MH1994 should also be included in the cost report.

J. Mental Health Services Act (MHSA)

The MHSA related expenditures must be reported on the cost report according to type and purpose of the expenditures. Counties may use MHSA funds to match other funding sources, such as Medi-Cal and Healthy Families Program.

K. Medi-Cal Administrative Activities (MAA)

Counties participating in MAA must have a state and federally approved Mental Health MAA claiming plan and must have all invoices for FY 2006-07 submitted to DMH by December 31, 2007. The MAA units reported on the cost report are not allowed to be modified during the SD/MC reconciliation process. Costs for MAA activities must be actual cost and, therefore, must be directly allocated. An eligibility factor is applied to certain MAA activities that may be provided on behalf of non-SD/MC as well as SD/MC clients. The FFP sharing ratio for regular MAA units is 50% and for SPMP the sharing ratio is 75%, as identified in Section II, Item C, above.

L. Inpatient Administrative Days

Inpatient administrative day costs must be reflected in Mode 05, Service Function Code 19 only. Form MH1991, Calculation of SD/MC Hospital Administrative Days, was designed to calculate the SD/MC maximum allowance plus physician and ancillary costs for administrative days. For FY 2006-07, the per diem Medi-Cal rate for administrative days is $299.80 for 7/1/06 – 7/31/06 and $310.68 for 8/1/06 – 6/30/07.

All legal entities with hospital administrative days should complete the MH1991 per the instructions. Procedures are in place to ensure that these costs are included in actual costs, published charges, and SMAs to ensure that the calculation of the lower of cost or charges principle is applied correctly.

The amount for physician and ancillary services is limited to the costs claimable under Section 51511(c), Title 22 of the California Code of Regulations (CCR). Since counties have not been reimbursed for ancillary and physician services provided to inpatients on administrative day status during the fiscal year, reimbursement for these services will be made through the cost report settlement process. Reflecting administrative day costs and related ancillary and physician service charges in Service Function Code 19 is presently the only procedure available for seeking SD/MC reimbursement.

Medicare does not recognize hospital administrative days as a reimbursable service; therefore, Medicare/Medi-Cal crossover units do not apply to hospital administrative days.

If a legal entity has a hospital administrative day published charge rate that is used to charge both Medi-Cal and non-Medi-Cal clients, then non-Medi-Cal units may be included on the MH1901 Schedule B, Worksheet for Units of Service and Revenues, by Mode and Service Function.

M. Medicare/Medi-Cal Crossover Units

In the FY 2006-07 cost report, Medicare/Medi-Cal crossover units are to be settled in the same manner as other regular SD/MC units. Consequently, they are on the MH1966, Allocation of Costs to Service Functions – Mode Total, subject to a comparison of lower of cost, published charge, SMA and negotiated rate (if applicable).

Such comparisons in aggregate with other SD/MC aggregates will determine the calculation of Medicare/Medi-Cal crossover gross reimbursement on the MH1968, Determination of SD/MC Direct Services and MAA Reimbursement.

N. County's Administrative Service Organization (ASO)

California Mental Health Director's Association (CMHDA) management of the ASO was discontinued effective June 30, 2004. Counties have the continued responsibility to ensure services to out-of-county foster children by the county of beneficiary. Counties have the option to contract for ASO services with other service providers or to manage their own programs within the county.

The ASO costs are to be reported as Program II – ASO expenditures on the county's detailed legal entity cost report only.

O. Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program

During FY 2006-07, State General Fund match for the EPSDT program of medically necessary services to full-scope Medi-Cal eligible beneficiaries under 21 years of age was provided to counties through monthly distributions (not an allocation). On the MH1992, this estimated state share of EPSDT expenditures should be reflected as revenue on Line 19 and shown on the MH1940, Line 16, for information only. Final calculation and settlement of EPSDT State General Fund match will occur after the final county cost report settlement, using SD/MC claim payments and settled SD/MC cost data.

P. Healthy Families

Healthy Families - Seriously Emotionally Disturbed (SED) units and associated costs that are the responsibility of county mental health agencies are to be specifically reported in the cost report. The claiming and reporting requirements and calculation of the FFP utilize the same reimbursement methodology as SD/MC services. However, the FFP sharing ratio is at an enhanced percentage as identified in Section II, Item C, above. The reimbursement for Healthy Families administration is limited to 10% of program cost; however, the FFP sharing ratio for Healthy Families administration is 65%.

Q. Therapeutic Behavioral Services (TBS)

TBS services should be reported under Mode 15, Service Function Code 58. Organizational providers that contract with county mental health agencies to provide ONLY TBS services are not required to submit cost reports. The county should settle costs with these providers and report these settled costs to DMH as actual cost to the county under their county legal entity detailed cost report in Program II - TBS costs. However, legal entities providing TBS ONLY services are required to complete a cost report. Contract organizational providers that provide other mental health services in addition to TBS services are required to submit a cost report. Contract organizational providers are restricted from using Program II -TBS and shall report any TBS services and costs under the regular Program I - CR, Mode 15, Service Function Code 58.

R. Mental Health Specialty (MHS)

Former Fee-For-Service/Medi-Cal (FFS/MC) MHS individual and group providers are to be paid and settled between the county and the providers. Counties should be billing Medi-Cal on behalf of all of these providers by utilizing a procedure code crosswalk to service functions (CCR 1840.304) and using a legal entity and provider number set up by providers' discipline. Individual and group providers do not submit cost reports for DMH purposes.

The MHS services are reported in the county's detailed legal entity cost report under Program II - MHS. The MHS method of reimbursement is actual cost for payments made to the FFS/MC provider for mental health specialty services.

S. California Work Opportunity and Responsibility to Kids (CalWORKS)

Services and expenditures of CalWORKS funds for mental health services are to be shown in the cost report. The funds received for these purposes are to be reported by mode of service on the MH1992. The settlement type CAW should be used to report CalWORKS units of service on the MH1901 Schedule B.

III. FEDERAL BLOCK GRANTS

A. Federal Block Grant Cost Reports

Counties receiving Substance Abuse and Mental Health Services Administration (SAMHSA) Federal Block Grants are required to submit separate cost reports for these federal funds. Such cost reports will be settled in the manner identified in DMH's policy and Federal Block Grant letters. Specific Federal Block Grant cost report instructions will be addressed in a separate SAMHSA letter.

B. Inclusion of Federal Grants in the Cost Report

Although a separate cost report is required to settle Federal Block Grant reimbursement, Federal Block Grant amounts must also be reported on the MH1992, on the appropriate grant line.

C. Federal First Dollar Policy

The "Federal First Dollar" policy established with DMH Letter No. 90-07 continues to apply in FY 2006-07. The expenditure of Federal Block Grant funds before the use of other governmental funds is termed the "Federal First Dollar" policy. DMH Letter 94-03 provides the guidelines for the claiming and reporting of FFP for the SAMHSA grant funded programs.

IV. SETTLEMENTS

A. Initial Settlement

If deemed necessary by DMH, an initial settlement of FFP funds may be performed to collect funds from those counties that have been paid amounts in excess of what the settlements determine prior to the SD/MC reconciliation process described below.

B. SD/MC Reconciliation

The SD/MC reconciliation process allows counties to add or reduce Medi-Cal units of service and revenue that have changed subsequent to the cost report submission for each legal entity. For FY 2006-07, this process is scheduled to occur between October and November of 2008 and due by the end of February of 2009.

C. Final Settlement

After completion of the SD/MC reconciliation, a final settlement of both federal and state funds is calculated and sent to the county and DMH Accounting for payment or collection.

If you have any questions, please contact your CRFS analyst or call (916) 654-2314.

Sincerely,

Original signed by:

STEPHEN W. MAYBERG, Ph.D.
Director

Enclosures