CALIFORNIA DEPARTMENT OF
Mental Health

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

November 13, 2008

DMH LETTER NO.: 08-09

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) 2007-08 COST REPORT POLICY

REFERENCE: SUPERSEDES DMH LETTER 07-10
FISCAL YEAR (FY) 2006-07 COST REPORT POLICY

This letter outlines the submission and reporting requirements for the fiscal year (FY) 2007-08 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 2007-08 Cost and Financial Reporting System (CFRS) Instruction Manual available on the DMH Information Technology Web Services (ITWS). ITWS is accessed through the DMH web site at www.dmh.ca.gov.

I. SUBMISSION REQUIREMENTS

A. Cost Report Submission

The FY 2007-08 Cost Report automated templates are available through the DMH ITWS - CFRS. Section 5718(c) of the Welfare and Institutions (W&I) Code 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.

Cost report submission for FY 2007-08 involves both electronic and hard copies. The electronic submission process involves uploading the complete cost report through DMH's ITWS system. To be in compliance with

Section 5718(c) of the W&I Code, counties must upload their electronic submission by close of business on December 31, 2008. Detailed requirements regarding naming conventions, downloading templates, and uploading completed cost reports are included in Appendix F of the FY 2007-08 CFRS Instruction Manual. Counties are to submit one hard copy of the cost report (summary and county detail only) and an original signed MH 1940, Year End Cost Report, and certification package to the Department. The cost report package must be received within ten working days of the upload to validate the submission through ITWS and must be postmarked no later than December 31, 2008.

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 2007-08 cost report forms are as follows:

MH 1901 Schedule A – Supplemental
Addition of a new MH 1901 Schedule A to identify revised Statewide Maximum Allowance (SMA) rates for the period of March 1, 2008 – June 30, 2008.

MH 1901 Schedule B – Supplemental
Addition of a new MH 1901 Schedule B to identify Medi-Cal, non-Medi-Cal units, and revenues for the period of March 1, 2008 – June 30, 2008.

MH 1901 Schedule C
Additional lines have been added to capture data from the MH 1901 Schedule B Supplemental.

MH 1966
To accommodate the reduced SMA period of March 1, 2008, through June 30, 2008, additional columns are added for each Mode and Service Function Code (SFC) reflecting the units of service reported for that time period.

MH 1940
The county certification language has been changed to reflect requirements under the Code of Federal Regulations.

C. Amendments or Revisions

Major amendments or revisions to the cost report that will affect total costs are not allowed after December 31, 2008. Any amendments or revisions identified after this date will be reviewed on a case-by-case basis.

D. Supporting Documentation

The list of supporting documents necessary for the FY 2007-08 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 MH 1960, 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. All records must be kept for a minimum of three years after the final determination of costs is made through the DMH reconciled cost report settlement process and retained beyond the three-year period if audit findings have not been resolved. In addition, counties must maintain an internal reporting system to track the Short-Doyle/Medi-Cal (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. EOB reports can be used to verify internal records but should not be used in lieu of an internal reporting or tracking system.

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.

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 a legal entity number or need to verify a legal entity number, please contact the Statistics and Data Analysis Section at (916) 653-5939.

B. Transaction Service Period

Units of service and related revenues reported on the FY 2007-08 cost reports must reflect services and transactions occurring during the period of July 1, 2007, through June 30, 2008, only.

C. Federal Financial Participation (FFP) Reimbursement Percentages

Direct service costs are apportioned to SD/MC clients based on units of service at the service-function level. During FY 2007-08, the federal reimbursement ratio is as follows:

Fiscal Year (July 1, 2007, through June 30, 2008)

- Regular SD/MC: FFP = 50%
- Enhanced Children SD/MC: FFP = 65%
- Healthy Families: FFP = 65%
- Enhanced SD/MC Refugees: FFP = 100%
- Regular SD/MC Administration: FFP = 50%
- Regular Quality Assurance/Utilization Review (UR): FFP = 50%
- Skilled Professional Medical Personnel (SPMP) Quality Assurance/UR: FFP = 75%
- Regular Medi-Cal Administrative Activities (MAA): FFP = 50%
- SPMP MAA: FFP = 75%

D. Reimbursement Limitation Policy

In accordance with state laws and regulations, DMH established a schedule of Statewide Maximum Allowances that details the SD/MC maximum allowable rates for FY 2007-08 (DMH Letter 07-24). These rate limits apply to all SD/MC eligible services. The enclosed FY 2007-08 SMA rate schedule reflects revised maximum reimbursement rates pursuant to the provisions of Assembly Bill X3 3, which amended the Budget Act of 2007. The revised rates reflect the elimination of the Home Health Market Basket Index Cost of Living Adjustment (COLA) for eligible services rendered March 1, 2008, through June 30, 2008, with the exception of 24-hour services (see Enclosure A).

E. Categorical Funding

Categorical funds must be used for the purpose for which they were appropriated in the Budget Act of 2007. Non-State General Funds (SGF) used to match FFP for each program category should be reported under Other Fund Sources on form MH 1909, Supplemental Cost Report Data by Program Category.

The MH 1909 should identify each budget item, categorical fund expenditure, and units of service by legal entity, mode, and service function. Include a completed MH 1909 for each budget item (except for Managed Care Funds, Budget Item 4440-103-0001, reported on MH 1994, 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 SGF allocation should be entered in the appropriate column for Other Fund Sources.

The MH 1912 is designed to identify total Special Education Pupils (SEP) costs, regardless of funding source. The MH 1912 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.

The Department will recoup any categorical funds not spent within two years of allocation through the invoicing process. A separate MH 1909 for each fund category must be completed for reporting roll over funds from FY 2006-07 expended during FY 2007-08.

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 Section 17608.05 of the W&I Code) expended on mental health services during the reporting year should be identified on the MH 1992, 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. 07-22 for more information on FY 2007-08 SD/MC negotiated rates. (Please refer to DMH Information Notice 07-24 for the revised SMA rate schedule.)

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

Report expenditures and utilization of these funds on the MH 1994, as part of the county summary cost report. During FY 2007-08, roll over from FY 2006-07 Mental Health Managed Care funds expended on Lines 2a and 2b of the MH 1994 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 the 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. Invoices must be submitted quarterly and all final invoices for FY 2007-08 must be submitted to DMH by December 31, 2008. 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 reflect actual costs 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 this section, Item C, above.

L. Inpatient Administrative Days

Inpatient administrative day costs must be reflected in Mode 05, SFC 19 only. Form MH 1991, 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 2007-08, the per diem Medi-Cal rate for administrative days is $310.68 for the time period of 7/1/07– 7/31/07 and $318.19 for the period of 8/1/07 – 6/30/08.

All legal entities with hospital administrative days should complete the MH 1991 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) of Title 22, 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 SFC 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 MH 1901 Schedule B and MH 1901 Schedule B Supplemental worksheet for Units of Service

and Revenues by Mode and SFC.

M. Medicare/Medi-Cal Crossover Units

In the FY 2007-08 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 MH 1966, Allocation of Costs to SFC – 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 MH 1968, 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. The county of origin (the county where the child's Medi-Cal eligibility was determined) continues to have the responsibility of ensuring services to their children who are placed out-of-county. 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 2007-08, the SGF for EPSDT medically necessary specialty mental health services provided to full scope Medi-Cal eligibles under 21 years of age was provided to counties by DMH through a distribution (not an allocation) process. On the MH 1992, this estimated state share of EPSDT expenditures should be reflected as revenue on Line 19 and shown on the MH 1940, Line 16, for information only. Final calculation and settlement of EPSDT SGF 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 reimbursement ratio is at an enhanced percentage (65%), as identified in this section, Item C. The reimbursement for Healthy Families administration is limited to 10% of program cost.

Q. Therapeutic Behavioral Services (TBS)

TBS services should be reported under Mode 15, SFC 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 using Program II – TBS settlement type. Contract organizational providers that provide other mental health services in addition to TBS services are required to submit a cost report using Program I – CR settlement type. It should be noted that TBS may not be provided unless the child/youth is receiving other EPSDT specialty mental health services.

R. Mental Health Specialty (MHS)

Former Fee-For-Service/Medi-Cal (FFS/MC) Mental Health Services (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 MH 1992. The settlement type CAW should be used to report CalWORKS units of service on the MH 1901 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 MH 1992, 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 2007-08. 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. 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 2007-08, this process is scheduled to occur between October and November of 2009 and due by the end of February of 2010.

B. 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 CFRS analyst at (916) 654-2314.

Sincerely,

Original signed by

STEPHEN W. MAYBERG, Ph.D.
Director

Enclosure