

September 19, 2011

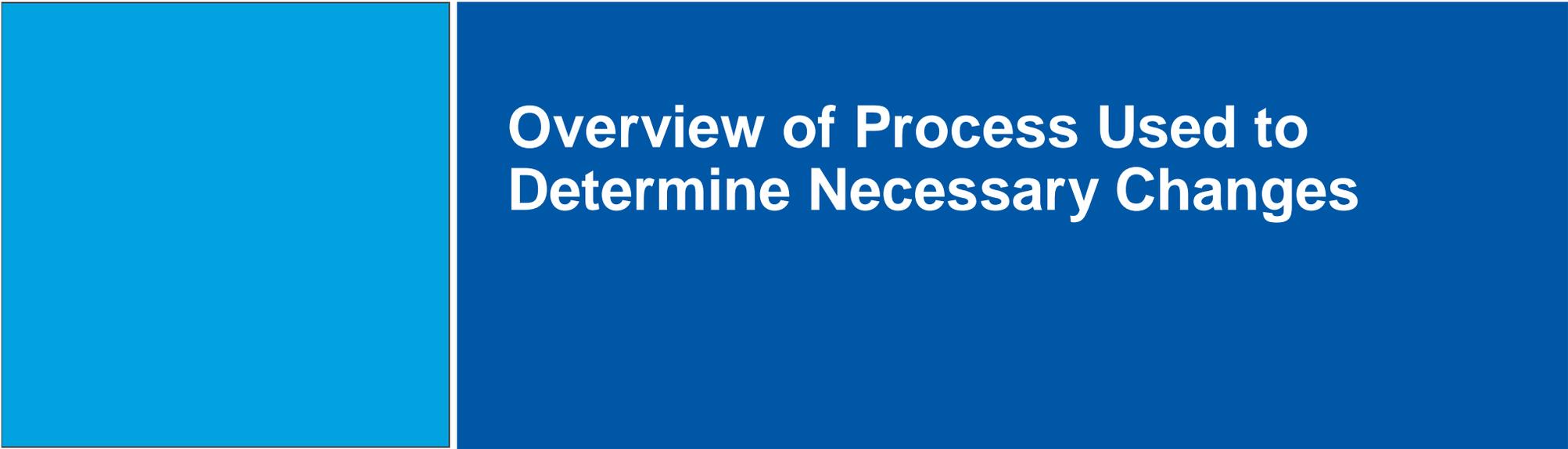
**Commonwealth of Pennsylvania
Office of Developmental Programs
Year 4 Cost Report for the Consolidated
and P/FDS Waiver Programs**

Training Session on Cost Report Changes for Year 4



Agenda

- Overview of Process Used to Determine Necessary Changes
- Key Changes to Instructions and Template for Year 4
 - Audit Requirements
 - Certification Page through Schedule F-1
 - Redesigned Schedule G (Related Party Transactions)
 - Schedule H through Provider Use Page
- Other Process Changes
- Additional Cost Report Training Sessions
- Technical Assistance Resources and Next Steps
- Questions



Overview of Process Used to Determine Necessary Changes

Overview of Process Used to Determine Necessary Changes

- Each spring, the Office of Developmental Programs (ODP) has conducted various review processes to determine if cost report changes are necessary for the upcoming year.
- Key items considered include the following:
 - After each cost reporting year ends in December, ODP conducts a survey of providers and AEs to understand the aspects of the process that went smoothly, as well as items that could be improved for future reporting years
 - ODP reviews provider questions sent to the Regional Fiscal Officers (RFOs) and the E-help desk to identify themes that require clarification within the instructions
 - ODP also reviews policy and rate-setting decisions that have been made since the prior year's cost report to determine if they will have an impact on the cost report instructions or template

Overview of Process Used to Determine Necessary Changes

- Based on the information reviewed, ODP develops an updated cost report instructions document and template that incorporate all necessary changes
- Feedback from Year 3 indicated that most providers were very familiar with the cost report instructions, template and overall process
- Providers requested ODP conduct a training session in Year 4 that focused solely on changes between Year 3 and Year 4, which is the purpose of today's session
 - Key changes are also highlighted in Appendix G of the cost report instructions, as well as throughout the cost report instructions document next to the headings **“The following is NEW”**
- Today's session aims to provide a high level overview of the key changes; ODP recommends providers review the cost report instructions in detail to ensure understanding of all updated requirements



Key Changes to Instructions and Template for Year 4

Key Changes to Instructions and Template for Year 4 Audit Requirements

- During the Year 3 cost reporting process, ODP gave providers advanced notice that audit requirements would be changing for Year 4
 - New requirements were previewed during the Year 3 training sessions and in the Year 3 Cost Report instructions
- In June 2011, ODP issued announcement #077-11 (available on ODP Consulting website under the Provider Information Center) that provides detailed guidance on the Year 4 audit requirements and clarifies various audit questions raised in prior years
 - The information contained in the announcement is the same information provided in Section 2 of the Year 4 instructions
 - Providers should review this information closely and contact their Regional Fiscal Officer or the ODP E-help desk with questions
- An overview of the key changes and clarifications is provided on the following slides

Key Changes to Instructions and Template for Year 4 Audit Requirements

- As previewed in Year 3, a new Waiver LOB requirement was added to the audited financial statement (AFS) requirements for Year 4
 - All providers required to submit an independent audit must include a supplemental schedule in their AFS that mirrors Columns E & F of Schedule A of the Cost Report.
 - The supplemental schedule must be consistent with and reflect the exact same level of detail as Schedule A, Columns E & F, Lines 1 through 18, 24 and 26. Note that contributions/revenue amounts on Line 17 of Schedule A are to be included as part of this supplemental schedule.
 - For providers who submit multiple Cost Reports, the total Waiver LOB expense on the supplemental schedule should reflect the Total Waiver expense (i.e., sum of the Waiver expenses in Columns E and F of Schedule A across of all of the provider's Cost Reports).

Key Changes to Instructions and Template for Year 4 Audit Requirements

- As previewed in Year 3, a new AFS reconciliation requirement was added
 - Regardless of the provider's fiscal year end, the AFS must include a supplemental schedule that reconciles the Cost Report **Waiver** expenses (Schedule A, Column F) and revenues (Schedule B, Column B) for the FY 2010/2011 reporting period, as reported in the Cost Report, to the **Waiver** LOB supplemental schedule of expenses and revenues identified in the audit.
 - This reconciliation of Waiver expenses shall replace the Year 3 requirement for a supplemental schedule containing a reconciliation of variances between the provider's audited financial statements and the provider's Total expenses reported in Schedule A, Column A and the provider's Total revenues reported in Schedule B, Column A, which was required to be submitted as a separate attachment.

Key Changes to Instructions and Template for Year 4 Audit Requirements

- Both of the newly required supplemental schedules described on the previous slides (Waiver LOB and reconciliation) must be subjected to the auditing procedures applied in the audit of the basic financial statements
 - The audit must include an opinion on whether these supplemental schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole, as described in AICPA Statement on Auditing Standards No. 29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents (SAS 29), as amended (AU §551)

Key Changes to Instructions and Template for Year 4 Audit Requirements

- Cost allocation plans
 - Providers are no longer required to upload a copy of their cost allocation plan as a supplemental schedule
 - For providers subject to audit, a separate audit opinion specific to the cost allocation plan is not required
 - Disclosure of the cost allocation plan in the notes to the financial statements as part of the overall financial statement presentation is sufficient
- Audit confirmation requests
 - Requests can now be sent via email to:
RA-QAPromiseConf@pa.gov

Key Changes to Instructions and Template for Year 4 Certification Page through Schedule F-1

- Certification Page
 - Line 7 regarding Accounting Basis has been modified to request the provider confirm their Cost Report was prepared on the accrual basis of accounting, rather than indicating the basis of accounting (i.e., cash, modified cash, accrual)
 - Line 12: Providers need to submit the same number of Cost Reports or fewer Cost Reports in Year 4, as compared to Year 3
 - Providers may request a change from prior years reporting in writing by sending the details and rationale for the change to the rate-setting mailbox at ra-ratesetting@pa.gov

Key Changes to Instructions and Template for Year 4 Certification Page through Schedule F-1

- Certification Page – Provider Service Locations Schedule
 - Due to fact that service locations open, close and change from year to year, the following requirement has been removed from the instructions for Year 4:
 - “Providers need to use the same procedure code and service location code groupings used in prior years. In subsequent years, providers must continue to use consistent procedure codes and service location code groupings in their Cost Report submissions from year to year.”
 - Example added to instructions, pages 35-36, to clarify how to report service locations that opened or closed during the reporting period and service locations where the service being delivered change during the reporting period (i.e., changed from 3-individual home to a 4-individual home).

Key Changes to Instructions and Template for Year 4 Certification Page through Schedule F-1

- Schedule A
 - Several items were added to the list of examples of non-allowable expenses including:
 - Compensation paid to a non-provider employee who is a member of the corporate board
 - Goodwill
 - Federal, State and local income taxes, as well as unrelated business income taxes
 - Retained revenue/earnings and/or margin (note that amounts for retained revenue/earnings and margin are not to be reported as expenses in any of the Cost Report schedules)

Key Changes to Instructions and Template for Year 4 Certification Page through Schedule F-1

- Schedule B
 - Modified Schedule B, Column B to collect data for all service locations across all CRs, including data for fee schedule and outcomes-based only service locations that have been excluded from CRs. Note that this means Column C may not sum across multiple CRs to the amounts in Column B
 - Clarification added regarding how revenue reconciliation payments and recoupments are reported on this schedule
- Schedule D, D-1, D-2 and D-3
 - Clarification added to indicate that expenses for PTO and accrued PTO should not be separately itemized on any particular line within this schedule. Instead, these expenses should be included with the salary/wages expenses reported for each position

Key Changes to Instructions and Template for Year 4 Certification Page through Schedule F-1

- Schedule D-2
 - Drop down boxes with the FLH procedure codes have been provided on each line for consistent arrangement reporting by all providers
 - Clarification added that compensation limits also apply to contracted staff
- Schedule E through E-2
 - For “Depreciation recorded prior years,” clarification added to explain it is not just the amount from the prior year, but is meant to capture costs for all applicable years prior
 - Clarified that fixed assets acquired after July 1, 2009 that are below \$5,000 must be expensed

Key Changes to Instructions and Template for Year 4 Certification Page through Schedule F-1

- Schedule F
 - Requirement added that supporting detail must be provided for the following lines in cases where the expenses exceed \$10,000 or 5% of total “Other” expenses
 - Line 2: Professional Service expenses
 - Line 3: Advertising expenses
 - Line 7: Legal Fees
 - Clarification that taxes on Line 14 (Other) cannot include Federal, State and local income taxes or unrelated business income taxes, as these are non-allowable expenses

Key Changes to Instructions and Template for Year 4 Redesigned Schedule G – Related Party Transactions

- Schedule G was significantly redesigned for Year 4 to collect information at a more detailed level
- Key changes are summarized below but providers should review Section 15 of the instructions in its entirety to view all of the changes
- In prior years, providers reported total expenses associated with property and non-property related party transactions on this schedule
 - In cases where more than one property or non-property transaction existed, providers were asked to upload a supplemental schedule to detail the expenses specific to each property or transaction
- For Year 4, the template has been enhanced to collect detail specific to each property or non-property transaction

Key Changes to Instructions and Template for Year 4 Redesigned Schedule G – Related Party Transactions

- For each property, providers must provide specific information
 - Current rental expenses
 - Building type
 - Schedule where rental expenses are reported
 - Nature of relationship(s) involved
 - Name of related party
 - Confirmation that current rental expenses for each property meet certain requirements:
 - Expenses are the lesser of the actual expense of the property indicated in the Schedule of Lessor's Expenses or the amount paid to the related party by the provider
 - Expenses are not in excess of the rental charge published for the general public for similar space in the geographic area
 - If applicable, amounts in excess of the allowable rent expense are recorded on Schedule A, Column E, as a non-allowable expense

Key Changes to Instructions and Template for Year 4 Redesigned Schedule G – Related Party Transactions

- Non-property related party transactions include transactions for management services, administrative services, professional services and/or other services
- For each of these transactions, following information needs to be provided:
 - Type of service performed by related party
 - Nature of relationship(s) involved
 - Name of related party
 - Related party's actual cost for services provided during the cost reporting period
 - Amount paid to the related party by the provider for services provided during the current cost reporting period

Key Changes to Instructions and Template for Year 4 Redesigned Schedule G – Related Party Transactions

- For each of these non-property transactions, following information needs to be provided (continued):
 - Basis for allocation (if applicable)
 - Schedule where applicable expenses are reported
 - Confirmation that current related party expenses for each transaction meet the following requirements:
 - Allowable costs are limited to the lesser of the actual cost of the goods or services incurred by the related party or the amount paid to the related party by the provider.
 - If applicable, amounts in excess of the allowable expense are recorded on Schedule A, Column E, as a non-allowable expense

Key Changes to Instructions and Template for Year 4 Schedule H through Provider Use Page

- Schedule H
 - Clarification added to explain that Line 1 requests information on the allocation method across procedure codes, not LOB. Line 3 is LOB specific
 - Providers are no longer required to upload a copy of their cost allocation plan as a supplemental schedule
 - For providers subject to audit, a separate audit opinion specific to the cost allocation plan is not required
 - Disclosure of the cost allocation plan in the notes to the financial statements as part of the overall financial statement presentation is sufficient.
 - Areas where explanations are to be provided have been expanded for ease of use. Security settings have been modified to allow user to modify row and column width and height settings for ease of use

Key Changes to Instructions and Template for Year 4 Schedule H through Provider Use Page

- Schedule I
 - Requirement added that supporting detail must be provided for Other expenses (Line 7) exceeding \$10,000 or 5% of total transportation expenses

- Schedule J
 - Clarified that allocation of some of Schedule D-3 expenses for administrative staff should likely be made to Schedule J
 - Requirement added that supporting detail must be provided for Other Personnel expenses (Line 6) exceeding \$10,000 or 5% of total personnel expenses
 - Requirement added that supporting detail must be provided for Other expenses (Line 29) exceeding \$10,000 or 5% of total operating expenses

Key Changes to Instructions and Template for Year 4 Schedule H through Provider Use Page

- Comments Page
 - Areas where explanations are to be provided in Comments Page have been expanded for ease of use
 - Security settings have been modified to allow user to modify row and column width and height settings for ease of use
 - Providers who upload supplemental schedules to support data reported in the Cost Report should include a note on the Comments Page to “see supplemental schedule ## of ##” as a means of facilitating the desk review

Key Changes to Instructions and Template for Year 4 Schedule H through Provider Use Page

- Provider Use Page
 - If the provider requires use of this page to supply relevant information to be reviewed or considered by ODP or its agent, a comment must be made on the Comments Page to alert the reviewer that information has been provided on the “Provider Use Page”
 - Any supporting information reported on this schedule must be clearly reported and formatted appropriately for ease of review

Other Process Changes

Other Process Changes

- Protected Health Information
 - Cost report schedules and supplemental schedules must not contain any Protected Health Information (PHI)
 - Examples include individuals' names, birth dates, diagnosis information, etc.
 - If ODP or AEs find this information in any of the files you upload to the website, you will be asked to remove the PHI and resubmit
- Timelines for Year 4
 - Cost Report website will open in early October
 - Cost Report upload attempt required for all providers by Thursday, October 27, 2011
 - All Cost Reports and supplemental schedules must be uploaded to ODP website by 11:59 PM on Thursday, November 3, 2011
 - Note that provider E-help desk closes at 5:00 PM on November 3, 2011
 - Desk reviews performed by AEs in November and December

Other Process Changes

- Cost Report Website
 - Cost report website has been modified to accept Excel 2007 and Excel 2010 Cost Report files in .xlsm or .xlsx format. These file types do not need to be converted to .xls format, as done in previous years
 - Technical specifications regarding upload process and IT troubleshooting tips added to Section 22 of the instructions
 - When working in the Cost Report template, providers should ensure their Excel calculation setting is set to “automatic” (rather than “manual”) to ensure the yellow cells with formulas are updating each time a change is made to reported values
 - Real-time edits have been updated based on changes to Year 4 Cost Report template
 - Mainly affects Schedule G – Related Party Transactions
 - A list of edits performed upon upload to the website is now included in the instructions (refer to Appendix H)



Additional Cost Report Trainings

Additional Cost Report Trainings

- ODP conducted an introductory Cost Report web-based training session on September 7, 2011
 - Audio replay and materials will be available on the ODP Consulting website under the provider information center (PIC)
- After today's session, ODP will be conducting two additional Cost Report training sessions that all providers are encouraged to attend
 - September 20, 2011: web-based session focusing on complex reporting items including depreciation and cost allocations (see Announcement #112-11 for registration information)
 - October 4, 2011: web-based session focusing on how to use the ODP Cost Report website to upload and submit completed Cost Reports and supplemental files (see Announcement #116-11 for registration information)



Technical Assistance Resources and Next Steps

Technical Assistance Resources and Next Steps

- Providers who have questions should contact their ODP Regional Fiscal Officer
 - Central Region RFO is Carol Harty at c-charty@pa.gov
 - Northeast Region RFO is Melanie Opalka at c-mopalka@pa.gov
 - Southeast Region RFO is Agnes Rudolf at c-arudolf@pa.gov
 - Western Region RFO is Reid Stewart at c-restewar@pa.gov
- Providers may also send a question to the ODP email help desk
 - Questions can be submitted in writing using the link on www.odpconsulting.net under the PIC and under the link titled “Click here to submit a Cost Report question”
 - Turnaround time for responses is generally 2 to 3 business days

Technical Assistance Resources and Next Steps

- Attend upcoming training sessions on September 20 and October 4
- Request a user account if you did not have one last year (i.e., for the Year 3 process)
 - Can be done by obtaining the user account request template that is posted on www.odpconsulting.net under the PIC
- Complete cost report and supplemental schedule reporting for your organization's historical experience during FY 2010/2011
- Begin uploading completed submissions when Cost Report website opens in early October
 - Cost Report upload attempt required for all providers by Thursday, October 27, 2011
 - All Cost Reports and supplemental schedules uploaded to ODP website by 11:59 PM on Thursday, November 3, 2011
 - Note that provider E-help desk closes at 5:00 PM on November 3, 2011

Questions?