

# Rate Methodology Task Force Act 55

February 25, 2015

## Agenda for Today:

- Introduction of Task Force Members
- Purpose and Goals
- Background
- Development of the Framework
- Pennsylvania Rate Methodology Framework
- Recommendations
- Questions & Answers

# Our Vision and Mission

*Our Vision is to see Pennsylvanians living safe, healthy and independent lives.*

*Our Mission is to improve the quality of life for Pennsylvania's individuals and families. We promote opportunities for independence through services and supports while demonstrating accountability for taxpayer resources.*

## Legislation:

- Pursuant to Act 55 of 2013, DHS is required to convene a Task Force to develop recommendations for a methodology to determine reimbursement for actual and projected costs of child welfare services which are reasonable and allowable
- The Task Force shall provide written recommendations as to the methodology for the purchase of out-of-home placement services from providers and related payments to the General Assembly by April 30, 2014
- The Task Force shall provide written recommendations for other purchased services by December 31, 2014



## Development of the Framework:

- Establishment of the Steering Committee
- Development of the Charter
- Emphasis on the collaboration of Task Force members



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## County Child Welfare Agency Benefits:

- Assists in our partnership for assuring services are provided to our clients
- Assists in our partnership for assuring that taxpayer dollars are spent effectively
- Assures that providers will be able to serve clients we are mandated to serve
- Creates an improved basis for consistency



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## What Commissioners Need to Know:

- Standards will enhance local relationships
- Contracting process will improve and require less administrative time
- Predictability assists with local budget considerations
- Counties have been partners from the start



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## **Review of other state methodologies:**

- California, Colorado, Florida, Georgia, Iowa, Maryland, Michigan, Missouri, New York (and New York City), North Carolina, Ohio and Wisconsin

## **Review of other Pennsylvania human services agency methodologies:**

- Department of Drug and Alcohol Programs
- Department of Human Services, Office of Developmental Programs

**The reviewed states have yet to develop a final methodology for other purchased services—several are currently in the process.**

**The following states current processes provided interesting ideas for the Task Force:**

- Georgia's Division of Family and Children Services has specific rates for other purchased services based on local industry rates and comparable Medicaid service rates
- Iowa's Child Welfare Services Division bases rates for services on the type of service provided. For example, for Safety Plan Services provided during child abuse assessments, there is a defined unit rate and unit of service (15 calendar days)
- New York City funds Purchased Preventative and Rehabilitative Services on a line-item, per-slot basis and time-limits the services

## **The review of other state, city and agency methodologies helped frame a methodology for other purchased services, including:**

- Establishment of clear timelines for submission, review and final analysis of costs
- Utilization of a third party provider audit to support actual costs and practice decisions regarding allocation of costs
- Reinforcement of the value and need for individual provider and county negotiations
- Creation of an allowance for regional/county variations in rates reflecting geographic locations, contract specifications and county-specific requests
- Development of standard guidelines to support submission of needed information in a streamlined and efficient format
- Consideration of quality, outcomes and performance in the rate methodology process

## County and Provider-Specific Experiences

- Acknowledgment of the diversity of service provision in counties to meet the individualized needs of children and families while operating on a foundation of consistency to validate the appropriate use of public dollars
- Acknowledgment of the diversity of the private providers' responses to the needs identified by counties

## County-Specific Experiences

### Butler County

- Implementation of managed care model
- County-developed matrix for definitions of services, qualifications, unit definitions and rates
- Used existing rates as a guide
- Worked with providers on implementation and to gain support

## County-Specific Experiences

### Venango County

- Completed Service Mapping—service array was assessed for need, fit, capacity, resources, evidence and readiness relative to the identified needs of the target population
- Included a Needs Analysis collecting and comparing qualitative and quantitative data to identify the core needs of the target population
- Involvement of focus groups to identify what children and families need to heal, grow and recover
- Appreciative Inquiry method was utilized to obtain input from key stakeholders of the child welfare system
- Data was extracted from AFCARS

## County-Specific Experiences

### Erie County Office of Children and Youth

- Timeline of the process begins with a meeting of each provider and includes the distribution of the budget packet, Tentative Allocation Letter, instructions for completion and the budget forms
- Budgets submitted by providers indicate the tentative allocation and supporting documentation, utilization, cost allocation and the calculation of the rate for the service
- Budget hearings are then conducted with each provider—budget and contract negotiations are conducted, rates are adjusted and approved, services are defined and outcomes are reviewed

### **Provider-Specific Experiences**

- Presentations from private providers (urban, suburban and rural), non-profit and for-profit
- Support for the relationship of the provider to the counties, employees, community and clients, Board of Directors
- Budgets built on actual costs from the prior year, current cost trends and projections, including increased costs of doing business
- Risks involved in operating programs that are not program or grant-funded
- Need for retained revenue
- Audit from a third-party organization

# Quality and Outcomes

## Counties:

- Are accountable for outcomes identified in the Needs-Based Plan and Budget
- Share responsibility with providers for tracking and reporting data with providers

## Allocation of Public Dollars validated by:

- Impact and success of interventions
- Accountability and transparency

## Quality and Outcomes

Deliverables of services purchased by counties should reflect:

- Quality practice standards
- Quality safety, permanency and well-being outcomes (CFSR)
- Quality accountability, competency development and community safety (BARJ)

## Quality and Outcomes

Connecting assessments to interventions to outcomes:

- The Family Advocacy and Support Tool (FAST)
- Child and Adolescent Needs and Strengths (CANS)
- Pennsylvania Juvenile Justice System Enhancement Strategy
  - Youth Level of Service (YLS)
  - Case Management Inventory (CMI)
  - Standardized Program Evaluation Protocol (SPEP)

## Quality and Outcomes

### Long Term Rate Methodology Goals:

- Incorporate of standards for performance and practice
- Clear criteria for assessing success
- Tracking defined outcome data elements
- Protocol to incorporate quality expectations in contract negotiations

Refinement of CQI expectations needs to continue beyond the lifespan of the Task Force.

**Bureau of Financial Operations** provided clarification of direct costs and indirect costs in regard to cost reporting

Ultimately, providers control the basis for allocating costs within their programs and services

- Must adhere to accounting principles generally accepted in the United States
- May be subject to an independent audit that includes examining the classification of costs for consistency and compliance with the provider's policies regarding direct and indirect costs

### **OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards contained in 2 CFR § 200.412 - 200.414:**

- 2 CFR § 200.56 defines indirect costs, in part, as “those costs incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved...”
- 2 CFR § 200.412 states: There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system...it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost...”
- 2 CFR § 200.413 (a) states: “Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal Award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.”

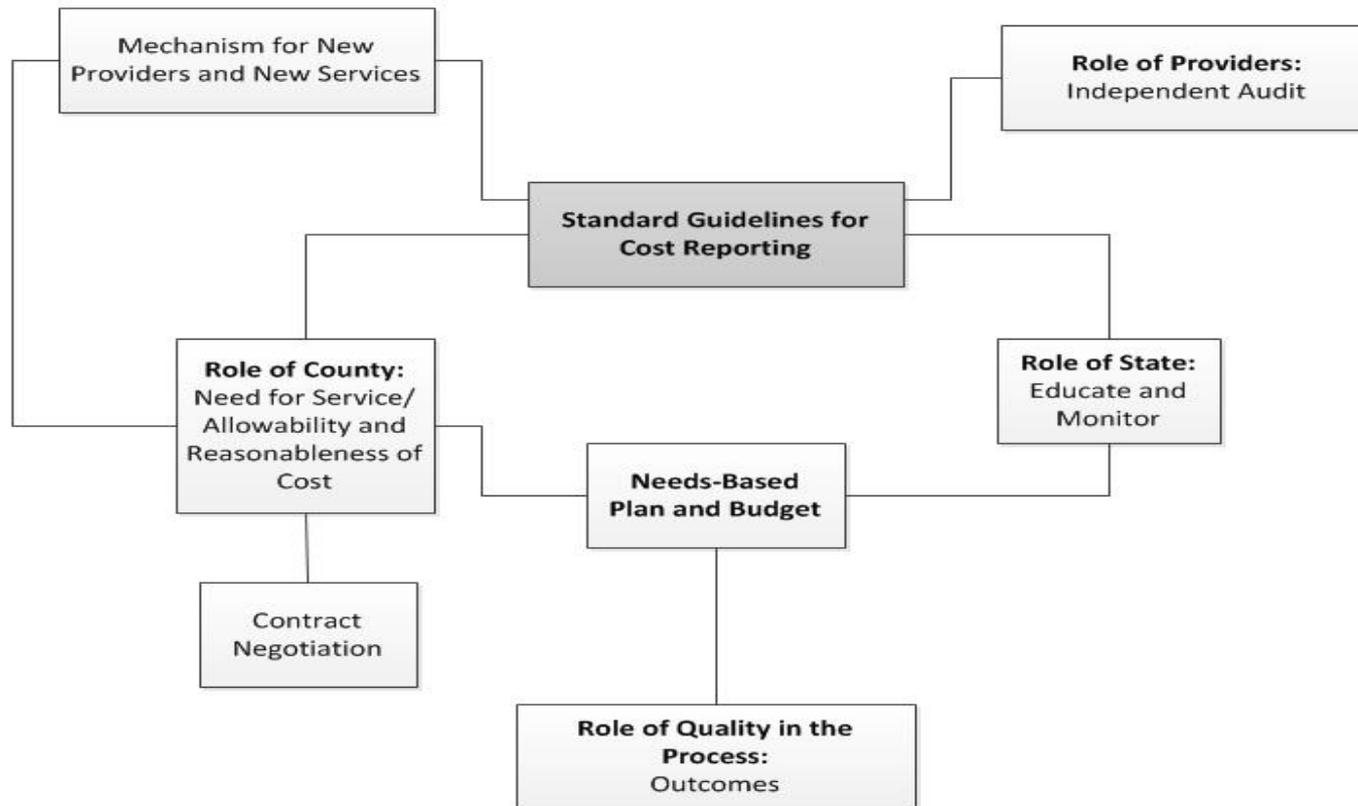
### **55 Pa. Code § 3170.60 provides additional clarification regarding administrative overhead/indirect costs:**

- Administrative overhead costs are those incurred for a common or joint purpose and are not readily assignable to one specific cost category...supportive activities which are necessary to maintain the direct effort involved in providing the services....
- ...the cost of general supportive activities provided to a program or another unit of a program's organization shall be apportioned into the services as an administrative overhead of indirect cost. The overall objective of the allocation process is to distribute the administrative overhead costs of the organization to its various services or cost categories
- The basis for allocating these costs is at the discretion of the program; however, this basis shall result in a fair and equitable distribution of costs, in direct relation to actual benefits accruing to the services to which costs are charged...

## **Key components of the Pennsylvania model:**

- Role of the providers—use of an Independent Audit
- Role of the state—educate and monitor
- Role of the county—need for the service and the reasonableness of costs
  - Needs-Based Plan and Budget
  - Contract Negotiation
- Mechanism for new providers and new services
- Role of quality and measurable outcomes in the process

## PENNSYLVANIA



# **Role of the County— Need for Service Reasonableness of Costs**

### **Objective:**

- Develop a transparent county review and negotiation process that aligns the need for services, provider quality and the reasonableness of costs as essential elements, while taking into account the timing of the Needs-Based Plan and Budget submission

### **Process Development:**

- County reviews cost report submission for reasonableness, federal and state funding allowability, need for the service and outcomes
- Engagement with provider for questions/answers
- County rate proposal to provider
- Agreement reached, negotiation
- Provider cost resulting from rate agreement included in implementation and Needs-Based Plan and Budget
- If funding is approved by the Department through the Needs-Based Plan and Budget, the county can contract with providers at the rate which will cover the costs as submitted in the Needs-Based Plan and Budget

### **Key Dates in the Process:**

- Counties send letters to providers indicating intent to contract: March 1<sup>st</sup> of the upcoming fiscal year
- Providers submit cost reports to the county: March 31st
- County review of cost reports and negotiations: starting March 31st
- Submission of Needs-Based Plan and Budget with costs included: August 15th

### Other Considerations

- The recommendation is not to include caps in the review process
  - Various factors within each geographic area can contribute to line item fluctuation from county-to-county and provider-to-provider
- Counties are encouraged to select desired areas for improved outcomes based on individual county data and identification of local need
  - The selection of outcomes remain the decision of each county based on identification of local need
- Timeline—cost reports for other purchased services are due March 31<sup>st</sup>, providing time between this and the December 31<sup>st</sup> deadline for placement providers



# **Role of the Provider— Cost Reporting Independent Audit**

## **Ad Hoc Workgroup Formed**

- Explored creation of a cost report format
- Purpose—assist in the determination of allowable and reasonable costs

## **Standardized Guidelines**

- Prior year actual costs
- Current year budget costs
- Projected (tentative) year next year costs

### **Standard Guidelines:**

- Ensure that providers' actual and projected costs are reflected
- Provide a consistent format which makes review for reasonableness and allowability of costs easier

Providers and counties may still use existing processes for reporting costs if guideline standards are included.

Goal of the cost reporting process is to support the negotiation process between counties and providers.

The proposed methodology uses standard guidelines and the independent audit report as the basis for cost validation and rate negotiations.

### Key Component: Use of Independent Audits

- Independent audit documentation supports reporting of actual costs incurred and validates the classification of direct and indirect costs

# Cost Reporting Ad Hoc Workgroup

## Information Reviewed:

- Examined several county processes including Allegheny, Bucks, Chester, Erie, Northampton, Philadelphia
- Examined practices outside of Pennsylvania
- Reviewed providers' Statements of Functional Costs
- Provider Audits
- Retained Revenue

# How is a format transparent, reasonable and allowable?

- Based on program prior years actual costs with justifiable projected future increases/decreases
- Most organizations have audit process to support actual costs of care and can project costs based on trends (e.g. insurance, health care, staffing)
- Negotiations between county and provider for RFP process, program-funded or similar arrangement for specific services or new programs

## Three Outputs:

- Other Purchased Services Cost Reporting Guidelines
- Other Purchased Services Cost Reporting Definitions
- Sample Other Purchased Services Cost Reporting Tool (optional)

## **Standardized Guidelines:**

Standard Cost Reporting Guidelines provide counties and providers with standard guidance for the cost reporting of other purchased services.

Guidelines include:

- Coversheet
- Expenditures by Program
- Detailed Narrative

## Standard Guidelines:

- Ensure providers actual and tentative projected costs are presented to counties in a format that assists with determinations of reasonableness and allowability of costs for state or applicable federal funding
- Providers and counties may follow existing process for reporting costs for other purchased services as long as that process includes reporting standards in the guidelines

## **Use of Independent Audits:**

The proposed methodology utilizes the standard guidelines in conjunction with the independent audit report as the primary source of cost validation and becomes the basis of rate negotiation between the counties and the providers.

- Supports the reporting of actual costs incurred by the provider
- Validates the classification of direct and indirect costs

## Cost Report:

- Will be completed for the period of July 1 through the following June 30 and for each annual reporting period thereafter
- The Department—provide state-level oversight to ensure:
  - Accuracy
  - Transparency
  - Proper allocations
  - Allowability
- The 67 counties—determine the need for:
  - Reasonableness
  - Service
  - Service enhancement necessity
  - Contract negotiation

### **New Providers and/or New Services:**

One exception to the Cost Reporting Guidelines is for new private providers and/or new services performed by private providers that have no historical costs.

New providers and/or new services will need to send to the county, the Projected Year Cost and the Detailed Narrative, along with Program Descriptions, to enable the counties to make a determination on the need for the service and the reasonableness of the costs.

## Summary:

- Develop a transparent, reasonable and allowable process through the use of historical and projected costs
- Improve efficiency and timeliness of contracting (March 31<sup>st</sup> submission)
- Recognize the diversity of 67 county processes while creating a reasonable baseline of financial information needed to contract across the state

## Recommendations:

- Implementation of standard Cost Reporting Guidelines for other purchased services
- Providers submit a detailed narrative explanation of costs, including reporting of off-setting revenues to include types and amounts
- The Cost Report for other purchased services be submitted to counties by March 31<sup>st</sup> of each year

# **Role of the State— Educate and Monitor**

## **Purpose:**

- Work in conjunction with the other ad hoc workgroups
- Develop recommendations which strengthen the existing Needs-Based Plan and Budget review process
- Determine the Department's role in educating and training providers and counties
  - Identify a means to complete the education and training
- Respect the Department's obligation and responsibility for Act 148 funds

## Development:

- Work focused on the recommendations and discussions of the other ad-hoc workgroups
- Resulted in identification of education and training needs
  - Needs-Based Plan and Budget process
  - Direct versus Indirect Costs
  - Allowable versus Unallowable Act 148 costs
  - Use of Audit Information in the Analysis of Budget Documentation
  - Retained Revenue and Program Losses

### **Recommendations:**

- Amend 55 PA Code § 3170.93 (e)(1) to include standard guidelines for a cost reporting document as an attachment to any contract or service agreement for other purchased services
- Upon regulatory change, the Department will release the proposed standard guidelines and the accompanying definitions and Excel Tool created by the Standardized Cost Report Ad Hoc Workgroup as a policy document to counties
  - The Department will be responsible for releasing updates and clarifications

## Recommendations to address education needs:

- Needs-Based Plan and Budget Process
  - The Department will continue to provide annual education opportunities to both counties and providers regarding the process
- Direct versus Indirect Costs
  - Attachment to the Standard Guidelines documentation
    - To be developed
- Allowable versus Unallowable Act 148 Costs
  - Attachment to the Standard Guidelines documentation
    - To be developed

### **Recommendations to address education needs:**

- Use of Audit Information in the Analysis of Budget Documentation
  - Attachment to the Standard Guidelines documentation
    - To be developed
- Retained Revenue and Program Losses
  - Workgroup to be convened

# Recommendations

## Regulatory:

The Department develops a process and timeline for revisions to 55 Pa. Code Chapter 3170 (Allowable Costs and Procedures for County Children and Youth) to incorporate inclusion of a cost reporting document that meets the standard guidelines proposed by the Cost Reporting Ad Hoc Workgroup

- 55 Pa. Code § 3170.84(a)(2) be repealed or permanently waived
  - Counties and providers should be able to negotiate without the constraint of having to maintain the same rate as other counties using this same provider
- 55 Pa. Code § 3170.93 (e)(1) be amended to include a cost reporting document as agreed upon by the Task Force as an attachment to any contract or service agreement for other purchased services

## **Administrative:**

- The county sends out a Letter of Intent to Contract to a provider by March 1<sup>st</sup>
- Convening of an additional workgroup to define and structure the relationship between desired outcomes, performance and payment as the basis for purchased services
- Convening a workgroup to discuss the issues of retained revenue and program losses
- The Department release the proposed standard guidelines, accompanying definitions and Excel Tool created by the Cost Report Ad Hoc Workgroup
- The Department address identified educational needs
- The Department plays a role in the presenting of the Task Force recommendations for other purchased services in a large public forum

### Timeline:

- OCYF requested the Legislature to continue the current process for SFY 2015-16

***OCYF cannot provide direction on the process until legislation is granted***

- **If** the legislation is granted as requested, OCYF intends to:
  - Offer extension opportunities on a provider-specific basis; considerations include, but are not limited to:
    - Prior extensions
    - New provider or service change
    - Change of existing provider
    - Technical assistance needs of the provider
  - Review all provider submissions

### Timeline:

**If** the legislation is granted as requested, OCYF intends to:

- Conduct training on the budget documentation and process
- Expand the Time Study Pilot
  - Four providers have/are participating in the pilot
  - Two providers are scheduled to begin the pilot
  - Five providers to be scheduled
  - Additional volunteers? Contact [ra-ocyfcontracts@pa.gov](mailto:ra-ocyfcontracts@pa.gov)



# Questions???