



COMMONWEALTH OF PENNSYLVANIA  
**DEPARTMENT OF PUBLIC WELFARE**  
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**KEVIN T. CASEY**  
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March 31, 2008

Dear Colleague:

In the March 27, 2008 letter from me concerning policy changes, I indicated that a draft cost report would be released for public comment. Attached is the draft cost report for your review and comment. Please provide comments to the Office of Developmental Programs (ODP), via e-mail with a subject line of 'Cost Report Comments', to [ra-ratesetting@state.pa.us](mailto:ra-ratesetting@state.pa.us), no later than Friday, April 11, 2008.

The Department of Public Welfare (DPW) will collect comments on the cost report and instructions, and incorporate any changes in April 2008. After the public comment period, in May and June 2008, we will be providing comprehensive training on the mechanics of the cost report and how to complete the cost report. During this process, we anticipate collecting additional feedback that will be considered in finalizing the cost report. To the extent additional training sessions are necessary, DPW is committed to providing those. The cost report, which must be completed by the fall of 2008, will be used to establish rates effective July 1, 2009.

A few years ago, there were significant changes in the rate setting process with the implementation of the rate setting spreadsheets. The development and implementation of the cost reporting process is the next step in that process. We understand that this is a change from the current process in terms of the format and level of detailed information required, as well as a shift from projecting future costs to reporting actual historical costs. In this process there is much to review and absorb. This level of detail is necessary for DPW to develop prospective rates, explain the variance in rates and comply with federal requirements. As you complete your review, we ask that providers consider this need for greater detail in providing feedback on the cost report. Please focus on the larger issues that would represent the most significant challenges to you. If you have additional concerns that come up during the training sessions, further revisions to the cost report can be incorporated into the final version.

As indicated in our last communication to you, under the Prospective Payment System (PPS), most providers participating in the Consolidated and Person/Family Directed Support (P/FDS) Waivers will be required to submit a uniform cost report for

services delivered. The cost report will be based on allowable costs outlined in the instructions, as defined by DPW. For each of the allowable cost categories, DPW will establish cost parameters on which the allowable costs will be evaluated. The uniform cost report will contain actual audited expenditures from a prior period, which will be trended forward to develop rates for each procedure code identified by the provider in the cost report. Provider rates calculated from the cost reports will be effective for an annual period and will be considered payment in full. With implementation of the PPS, DPW anticipates discontinuation of the reconciliation process, currently carried out by the Administrative Entities (AEs).

The attached cost report includes draft instructions, as well as the cost reporting schedules. It is recommended that the instructions be reviewed prior to reviewing the cost report schedules. Moreover, electronic viewing of the Excel-based cost report may provide better understanding of the cost report mechanics.

In December 2007, DPW issued a draft version of revised service definitions for which DPW received comments in January 2008. These service definitions are anticipated to be effective July 1, 2009, contingent upon approval from the Centers for Medicare and Medicaid Services (CMS). The attached cost report reflects the service definitions currently in place. Providers will be expected to complete the cost report based on the revised service definitions and therefore, the procedure codes currently included will be updated prior to finalizing the cost report. A crosswalk that provides a high-level overview of the current definitions and how they will change is also attached. This crosswalk is being provided so that you can evaluate the cost report in the context of the revised service definitions.

Providers will submit their first cost report in the fall of 2008 based on the revised service definitions. As such, providers will need to be able to identify historical costs that were previously attributable to one procedure code and assign those costs to the revised procedure code. The cost reports submitted by the providers in the fall of 2008 will be used to develop rates that will be effective July 1, 2009. The crosswalk is intended to provide you with additional detail that will inform preliminary decisions regarding the need for changes in your accounting system that may be necessary in order to properly evaluate expenditures under the revised service definitions. The crosswalk will be updated once feedback from CMS is received and the revised service definitions are finalized.

The following areas, for which instructions are included in the cost report, are still under review by DPW and may change:

- Allowable costs for Fixed Assets
- Procedure code changes based on revised service definitions

Colleague

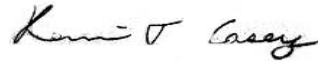
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Lastly, the cost report applies to both Waiver and base funded services for those services which are common to both the Waiver and base programs. For these services, the instructions and allowable cost definitions will apply to both the Waiver and base programs. For services specific only to the base program (for example, Family Aide), AEs may employ alternative cost reporting and allowable cost requirements that are consistent with Title 55 Pa. Code Chapter 4300.

Again, we understand that reviewing the cost report and instructions will likely involve a considerable effort. We appreciate your time and value your feedback. We look forward to receiving your comments.

Sincerely,

A handwritten signature in cursive script that reads "Kevin T. Casey".

Kevin T. Casey

Attachments