



DIVISION OF DEVELOPMENTAL DISABILITIES  
Olympia, Washington

TITLE: RESIDENTIAL PROGRAMS COST REPORTING POLICY 6.04

Table of Contents

	<u>Page</u>
<b><u>AUTHORITY</u></b> .....	1
<b><u>PURPOSE</u></b> .....	1
<b><u>SCOPE</u></b> .....	1
<b><u>DEFINITIONS</u></b> .....	1
<b><u>POLICY</u></b> .....	5
<b><u>PROCEDURES</u></b> .....	5
<b>I. REPORTING</b> .....	5
A. Cost Reports.....	5
B. Due Date of Report.....	6
C. Completing Reports and Maintaining Records.....	6
D. Report Certification.....	7
E. Improperly Completed or Late Reports.....	8
<b>II. REIMBURSABLE COSTS</b> .....	8
A. Reimbursable Costs Definition.....	8
B. Depreciable Assets.....	8
C. Equipment and Building Expenses.....	9
D. Reporting Depreciable Assets.....	9
E. Interest.....	10
F. Donations and Contributions.....	10
G. Related Organization/Party Costs.....	11
H. Joint Program Costs.....	12

I. Transportation Costs .....12

J. Instruction and Support Services .....13

K. Fringe Benefits.....13

**III. SETTLEMENT**.....13

A. Settlement Definition .....13

B. Settlement Determination .....14

C. Administrative Staff Hours Counted as ISS for Settlement Purposes .....15

D. Programs Combined for Settlement.....16

E. Cost Shifts.....16

F. Settlement Process .....17

G. Optional Two-Year Settlement Process.....18

**EXCEPTIONS**.....18

**SUPERSESSION**.....19



DIVISION OF DEVELOPMENTAL DISABILITIES  
Olympia, Washington

---

TITLE: RESIDENTIAL PROGRAMS COST REPORTING POLICY 6.04

---

Authority: Chapter 71A RCW *Developmental Disabilities*  
Chapter 388-101 WAC *Certified Community Residential Services and Support*

**PURPOSE**

This policy establishes procedures and criteria for cost reporting and the settlement process for Division of Developmental Disabilities (DDD) contracted residential programs.

**SCOPE**

This policy applies to DDD contracted and certified residential programs, which means Supported Living (SL) programs, Group Homes (GH), and Group Training Homes (GTH).

**DEFINITIONS**

**Administrative Staff** means owners, officers or employees of the contractor, including executive directors, administrators, accountants, bookkeepers, clerical support and/or secretaries whose primary job functions require a majority of time for administrative, management and/or operational support. Administrative staff may also include corporate staff whose time is allocated to the contractor.

**Arm's-Length Transaction** means a transaction resulting from good faith bargaining between a buyer and seller who hold adverse positions in the market place. Arm's-length transactions are presumed to be objective transactions between disinterested parties (meaning neither the buyer nor the seller has a financial incentive to buy or sell at a price more or less than market value).

**Client** means a person who has a developmental disability and is:

1. Eligible under RCW 71A.10.020; and

2. Authorized by DDD to receive residential services described in Chapter 388-101 WAC.

**Client-Specific Staff Add-On** means a staffing increase above and beyond the individual instruction and support hours required and allowed in the standard rate provision of a contract, enabling a contractor to increase the individual instruction and support hours provided to a specific client.

**Contract** means a contract between the department and a contractor for certified community residential services to clients as described in Chapter 388-101 WAC.

**Contractor** means an entity contracting with the department to provide certified community residential services to clients as described in Chapter 388-101 WAC.

**Cost-of-Care Adjustment** means a reimbursement adjustment intended to cover the necessary costs of non-variable staff support and administration to provide services to residents during a time when their residence is temporarily not at full capacity.

**Department** means the Department of Social and Health Services (DSHS) and its employees.

**Division** means the DSHS Division of Developmental Disabilities and its employees.

**Fringe benefits** means benefits provided at the employer's expense to all employees who qualify. These may include sick leave, health insurance, paid vacation, holiday pay, retirement plan, and other benefits.

**Full Time Equivalent (FTE)** means a total of 2,080 hours (52 weeks x 40 hours) worked by one or more employees during a twelve-month period.

**Group Home (GH) Program** is included within the meaning of residential services described in Chapter 388-101 WAC and contract provisions. For purposes of this policy, "Group Training Home" is synonymous with "Group Home."

**Group Training Home (GTH)** means a certified non-profit residential program as per RCW 71A22.020.

**Housing Costs for Overnight Coverage** means the costs of providing an apartment unit or other dwelling used by staff when working 24-hour or longer duty shifts. The costs incurred by the program for these housing costs are client support costs, and not to be reported as Instruction and Support Services compensation.

**Indirect Client Support Costs (ICS)** include Maintenance/Repair expenses for client housing, Client Transportation Expenses, and non-Instruction and Support Services Housing Costs for Overnight Coverage.

**Instruction and Support Services (ISS)** means client services required by Chapter 388-101 WAC and contract provisions. ISS are provided by staff designated as ISS staff (see definition below). ISS may also be provided by the administrator as described in this policy and by other administrative personnel (such as bookkeepers, accountants or maintenance workers) if the provision of ISS is included in their job description.

**Instruction and Support Services (ISS) Staff** means employees (including counselors, instructors and/or trainers) of the contractor whose primary job function is the provision of instruction and support services to clients. ISS staff shall include employees (e.g., program managers and supervisors) of the contractor whose primary job function is the supervision of ISS staff.

**ISS Hours** include:

- On the job hours worked by staff designated as ISS staff, including related training time.
- For staff who perform both administrative functions and ISS, the agency may include that portion of the employee's hours that are dedicated to ISS functions.
- The administrator's hours worked as ISS as allowed under Section VII.C of this policy.
- Sleep hours may be counted as ISS for staff who are required to sleep over and are on duty in close proximity and are available to respond immediately in person at all times.
- Call back hours for ISS employees who are required to carry pagers or otherwise be on call outside of their normal work hours. The maximum number of hours that may be counted as ISS are the accumulation of hours per shift for those occurrences from the time a call was received until the employee has been able to return to his/her previous activities, rounded up to the nearest hour.
- The division may request verification of hours (e.g., time sheets, etc.) for all staff for which ISS hours are claimed.

**ISS Staff Compensation** for reporting purposes on the annual cost report includes:

- ISS staff salaries, wages, stipends and other compensation for staff that are designated as ISS, and prorated for those staff whose time is split between ISS and administrative functions;
- Employer paid payroll taxes relating the actual allowable ISS hours worked; for proprietary contractors, the portion of the Business and Occupation (B & O) tax applicable to the revenue received for ISS reimbursement may be included as payroll tax.
- Fringe benefits paid by the employer for ISS staff (prorated for those staff whose time is split between ISS and administrative functions);

- Staff lodging paid by the contractor and as defined in this section; and
- As provided for in Section VII.C.2. of this policy, compensation for the administrator time used performing ISS duties; for settlement purposes, compensation allowed at the benchmark compensation rate for contractors providing Supported Living (SL) services.

**MA (Non-MSA) and MSA Counties:** MSA means Metropolitan Statistical Area - A large population nucleus, together with adjacent communities that have a high degree of economic and social integration with that nucleus.

**MSA: Metropolitan Statistical Area:** Relatively freestanding MA that is not closely associated with other MAs. These areas typically are surrounded by non-metropolitan counties.

A MSA must include at least:

- One city with 50,000 or more inhabitants; or
- A Census Bureau-defined urbanized area (of at least 50,000 inhabitants) and a total metropolitan population of at least 100,000.

For purposes of determining reimbursement rates as stated in this policy, Counties recognized as MSA counties in Washington are Asotin, Benton, Chelan, Clark, Cowlitz, Douglas, Franklin, Island, King, Kitsap, Mason, Pierce, Skagit, Snohomish, Spokane, Thurston, Whatcom and Yakima.

Note: King County is recognized as having unique characteristics relative to other MSA counties for purposes of determining reimbursement rates as stated in this policy.

**Professional Services** are services provided by staff (either as employees or contracted personnel) including nurses, therapists and other licensed or specialized skills personnel and are reimbursed at a non-standard rate as specified in Exhibit B of the contract.

**Related Organization** is either an entity, which is under common ownership, and/or control with, has control of, or is controlled by, the contractor. An entity is deemed to "control" another entity if one entity has a five (5) percent or greater ownership interest in the other; or if an entity has the capacity (whether or not exercised) derived from a financial or other relationship to influence directly or indirectly the activities of the other.

**Related Party** is a spouse; natural parent, child or sibling; adopted child or adoptive parent; stepparent, stepchild, stepbrother, stepsister; father-in-law, mother-in-law, son-in-law, daughter-in-law; grandparent or grandchild; uncle, aunt, nephew, niece or cousin of the contractor.

**Residential Services Program** means a contractor's Group Home and Group Training Home or Supported Living (SL) residential program providing services in accordance with Chapter 388-101 WAC and contract provisions.

**Staff Lodging** means SL programs that provide the primary residence for a staff person as a part of their compensation package and may include the cost of the residence as ISS cost for cost reporting purposes. Staff lodging does not include the cost of maintaining a residential unit for the use of overnight staff when it is not their primary residence. The reporting of staff lodging cost for this purpose must be consistent with Internal Revenue Service (IRS) rules for reporting housing to employees as income.

**Supported Living (SL)** is included within the meaning of residential services as described in Chapter 388-101 WAC and contract provisions.

## **POLICY**

- A. Contractors shall report costs of operations for purposes of providing data to the division and to determine any settlements due.
- B. The division shall:
  - 1. Set standard rates for each cost center for programs covered within this policy;
  - 2. Describe allowable costs and specify the reporting requirements;
  - 3. Describe the rate setting methodology and principles that apply to programs;
  - 4. Describe the settlement process as it applies to residential programs;
  - 5. Describe the summer program requirements and payment procedures; and
  - 6. Provide information on billing and payment requirements and procedures.

## **PROCEDURES**

### **I. REPORTING**

- A. Cost Reports
  - 1. In order for a contractor to receive payments under the residential reimbursement system, the contractor must submit an annual DDD cost report covering the completed calendar year.
  - 2. If a contractor terminates from the residential program, the former contractor shall submit a final annual report covering the period the

contract was in effect during the calendar year. The final annual report shall be used for determining a settlement for the final period.

B. Due Date of Report

1. The cost report shall be submitted on or before March 31 of the year following the calendar year covered in the report.
2. Cost Report Extension Provisions
  - a. A thirty (30) day extension beyond the date specified above will be granted to contractors upon written notification to the Office of Rates Management (ORM) that the additional time is required to complete the report. The notification shall include a brief explanation of the circumstances that require the extension. An approval from the department will not be required for this thirty (30) day extension.
  - b. The department, upon a written request setting forth reasons for the necessity of an extension beyond the thirty (30) day extension specified above, may grant an additional thirty (30) day extension for submitting the cost report. The request must be written and received by the ORM prior to the due date as specified in 1. and 2.a. above. The ORM will respond to this request within ten (10) working days from the date of receipt.

C. Completing Reports and Maintaining Records

1. Reports shall be completed in accordance with instructions provided by the department. If no specific instruction covers a situation, generally accepted accounting principles shall be followed.
2. The department may analyze the submitted cost report and financial statement of each contractor to determine if the information is correct, complete, and reported in conformance with generally accepted accounting principles and the requirements of this contract and those policies, rules and regulations referenced therein. If the analysis finds that the cost report or financial statements are incorrect or incomplete, the division may make adjustments to the reported information.
3. A schedule of adjustments shall be provided to contractors in writing and shall include an explanation for the adjustments and dollar amounts of the adjustments.



- a. If a contractor disagrees with an adjustment made under this section, the contractor shall, in writing, identify specifically the grounds for his/her contention that the adjustment is erroneous and include any documentation that supports the contractor's position.
  - b. If the contractor wishes to challenge the division's determination of the contractor's contention from subsection a., the contractor may request an administrative review pursuant to Chapter 388-101 WAC and/or the dispute clause as described in the general terms and conditions of the contract.
4. Contractors shall submit a single cost report that includes all business activities related to the cost of providing contracted services.
  5. Facilities with joint residential program costs shall allocate and report shared costs to each residential program in accordance with allocation policies prescribed or approved by the department.
  6. If a contractor fails to maintain records adequate for audit purposes or fails to allow inspection of such records by authorized personnel, the department may suspend all or part of subsequent payments due under the contract until compliance is forthcoming. Upon compliance, the department shall resume contract payments and shall release suspended payments pursuant to the contractor's contract.
  7. Contractors shall maintain cost reports and records adequate for audit purposes. If, at the end of the contract retention period as specified in the work order, there are unresolved audit questions, the report will be retained until such questions are resolved.

D. Report Certification

1. Each required report shall be accompanied by a certification signed on behalf of the contractor responsible to the department during the report period. If the contractor files a federal income tax return, the certification shall be executed by the person normally signing this return. If the report is prepared by someone other than an employee of the contractor, that person's name and contact information shall be included with the certification.
2. If a contractor knowingly files a report containing false information, such action constitutes cause for termination of the contractor's contract with the department. Contractors filing false reports may be referred for prosecution under applicable statutes.

**E. Improperly Completed or Late Reports**

1. An annual cost report must be completed in accordance with applicable department regulations and instructions. An annual cost report deficient in any of these respects may be returned in whole or in part to the contractor for proper completion.
2. If a report is not properly completed or is not received by the division on or before the due date of the report, including any approved extensions, all or a part of any payments due under the contract may be held by the department until the improperly completed or delinquent report is properly completed and received by the division.

**II. REIMBURSABLE COSTS****A. Reimbursable Costs Definition**

Reimbursable costs are documented costs that are necessary, ordinary and related to the provision of client support, training and activities as prescribed in Chapter 388-101 WAC and contract.

**B. Depreciable Assets**

The following costs shall be reported as depreciable assets:

1. Expenditures for equipment, furnishings or vehicles with historical acquisition cost in excess of \$5,000 per unit and a useful life of more than one (1) year from the date of purchase;
2. Expenditures for equipment or furnishings with historical acquisition value of less than \$300 per unit if the item was acquired in a group purchase where the total acquisition cost exceeded \$5,000 and has a useful life of more than one (1) year from the date of purchase;
3. Expenditures for building, land and/or leasehold improvements which are in excess of \$5,000 and which extend the useful life of the asset; and
4. Expenditures for assets as described above with historical acquisition value less than \$5,000 may be reported as depreciable assets, or expensed in the year they were purchased.

C. Equipment and Building Expenses

The following costs shall be reported as expenses:

1. Those expenditures for equipment, furnishings, or building, land, or leasehold improvements not subject to classification as a depreciable asset; and
2. Repairs (damages) or maintenance (upkeep) costs that do not extend the useful life or increase the value of the building, equipment, furnishings or vehicles.

D. Reporting Depreciable Assets

1. Depreciable assets may include the following:
  - a. *Building* - The basic structure or shell and additions.
  - b. *Fixed Equipment* - Attachments to the building such as wiring, plumbing, and heating system.
  - c. *Movable Equipment* - Such items as furnishings, beds, stoves, refrigerators, silverware, and dishes.
  - d. *Vehicles* - Such items as automobiles or vans used to transport residents to activities, training, or work.
  - e. *Land Improvements* - Such items as paving, on-site sewer and water lines, parking areas, shrubbery, fences, government assets, etc., where replacement is the responsibility of the Group Home and Group Training Home.
  - f. *Leasehold Improvement* - Improvements and additions made by the lessee (contractor) to the leased property, which become the property of the lessor after the expiration of the lease.
2. Land is not a depreciable asset. Land includes the cost of such items as off-site sewer and water lines, the cost of permanent roadways, curbs and sidewalks, and utility hookups.

3. Depreciable assets shall be reported as follows:
- a. The base used to calculate depreciation shall be:
    - (i) The historical cost to the contractor in acquiring the asset or capitalized expense from an unrelated organization less the estimated salvage value, if any; or
    - (ii) The fair market value of the donated or inherited asset or asset purchased with restricted donation at the time of donation or death less goodwill and salvage value, if any; or
    - (iii) Assets or capitalized expenses acquired from a related organization, which shall not exceed the lower of cost to the related organization or the cost of comparable assets purchased elsewhere.
  - b. The lives used to calculate depreciation expenses shall be:
    - (i) Building - Not less than thirty (30) years.
    - (ii) Building Improvements - The remaining useful life of the building as modified by the improvement.
    - (iii) Other Assets - Lives no shorter than guideline lives published by the IRS or by the American Hospital Association.
    - (iv) Lives shall be measured from the date of the most recent arm's-length acquisition of the asset.
  - c. The depreciation expense methodology used shall be acceptable by generally accepted accounting principles and the IRS methodology for the asset class being depreciated.
  - d. Changes in depreciation methodology during the life of the asset must be disclosed on the annual cost report.

E. Interest

1. Interest is defined as necessary and ordinary interest for working capital and capital indebtedness, which must be incurred for a financial need related to resident care, training, and activities.

2. Interest cost shall be at a rate not in excess of what a prudent borrower would have to pay at the time of the loan in an arm's-length transaction in the financial market.
3. Interest paid to a related organization shall not be reported in excess of the cost to the related organization of obtaining the use of the funds.

F. Donations and Contributions

1. Donations or contributions are classified as:
  - a. *Restricted:* Grants, gifts, and income from endowments in the form of purchasing power which must be used only for specific purposes designated by the donor. Items whose nature restricts its use, such as food, supplies, equipment, vehicles or building space.
  - b. *Unrestricted:* Grants, gifts, and income from endowments in the form of cash or purchasing power given to the facility without restriction by the donor.
  - c. Volunteer time and donated consultant time.
2. Donations or contributions are reported as follows:
  - a. The value of a restricted donation/contribution shall not be reported as an expense on the cost report;
  - b. The value of an unrestricted donation/contribution shall be reported in the expense account for which it was used through the contractor's normal recording of transactions; and
  - c. The value of the volunteer/donated time shall not be reported as an expense on the cost report.

G. Related Organization/Party Costs

1. Costs of services, facilities, and supplies furnished by related organizations to the contractor shall be reported at the lower of the costs to the related organization or the price of comparable services, facilities or supplies purchased elsewhere.
2. The cost of a related party lease shall be reported based on the lower of actual ownership cost (i.e., interest, depreciation, taxes, and insurance) to the related party or the arm's-length lease to the related party.

**H. Joint Program Costs**

1. Joint program costs are defined as expenses benefiting more than one program, or one program and any other entity.
2. Costs shall be allocated in accordance with cost reporting instructions.

**I. Transportation Costs**

1. Transportation costs are defined as:
  - a. Ordinary and necessary transportation of clients for training and activities.
  - b. Ordinary and necessary transportation of employees for program administration and operation.
  - c. Ordinary and necessary travel of employees for in-service training and education.
2. The following costs shall be reported:
  - a. The costs of operating vehicles limited to automobiles, vans, pickup trucks or buses that are used for the purposes defined in this section, including maintenance, repairs and operation. A mileage log shall be maintained detailing the usage of each vehicle not used one hundred (100) percent for the purposes defined in this section.
  - b. The costs of public transportation for clients, volunteers and staff, which are for the purposes defined in this section.
  - c. The costs of mileage reimbursement of employees and volunteers using their personal vehicle for actual mileage for the purposes defined in this section.
  - d. Commuting between an employee's residence and their primary place of employment shall not be included as transportation. If a vehicle is used by any staff for travel that is not defined above, these shall be fringe benefit costs for that employee.
3. The contractor shall not seek or accept additional compensation from or on behalf of a client for any or all contracted residential services except:
  - a. The contractor shall notify DDD in writing when the client contributes toward his/her costs for transportation.

- b. Costs incurred by the contractor associated with this provision are unallowable costs and shall not be reported on the annual cost report.

J. Instruction and Support Services

1. ISS compensation for performance of ISS duties by an individual shall be reported as ordinary compensation for necessary services actually performed.
2. Compensation is ordinary when it is within a reasonable amount usually paid to an individual with necessary qualifications for similar services within the same or comparable programs.
3. A service is necessary if it would have had to be performed by another person if the individual in question had not performed it.
4. The reported ISS compensation for an individual staff must not exceed the reasonable amount criteria per item 2 above.
5. The division may request job descriptions for employees to verify the primary duties of the positions. Paid hours worked and payroll costs charged to ISS for cost reporting purposes must be verifiable in the agency's records. The number of ISS paid hours reported for any individual employee or owner of an agency must not exceed 3,120 hours per year (designated live-in staff are exempt from this limitation). ISS staff shall also include contracted personnel whose job function is the provision of instruction and support services.

K. Fringe Benefits

Fringe benefits provided at the employer's expense may include sick leave, health insurance, paid vacation, holiday pay, retirement plan, as well as other benefits, to all employees who qualify.

### III. SETTLEMENT

A. Settlement Definition

1. The settlement shall be for under utilization of contracted and paid service hours and dollars in the instruction and support service cost center.

2. Settlements shall be based on department payment system(s) reports, the contractor's financial reports, and/or other department-specified reports or documents.
3. The provisions of this section will apply to the settlement calculation for the entire calendar year in which the contract is effective.
4. A settlement as described in this section is considered an overpayment as defined in DSHS Administrative Policy No. 10.02, *Overpayments and Debts for Providers and Vendors*:

**“Overpayments and debts:** is any department payment or benefit to a vendor or provider in excess of the amount the provider or vendor was entitled to by law, rule, or contract.”

**B. Settlement Determination**

The contractor shall refund the greater of:

1. All amounts of ISS cost center rate reimbursement in excess of the allowable instruction and support service costs as defined in this policy, and as reported in the contractor's annual cost report and/or department-specified documents.
2. For calendar year 2009 only:
  - a. For purposes of this section (B.1), ISS reimbursement is limited to non-professional services (hours reimbursed at the benchmark rate).
  - b. Contractor payments for professional services personnel shall not be included as contractor ISS compensation in the settlement calculation.
3. Beginning in calendar year 2010 and thereafter:
  - a. Reimbursement amounts received from DDD for professional services and professional services compensation paid by the contractor shall be included in the settlement calculation.
  - b. For purposes of the settlement calculation, professional services reimbursement and compensation rates exclude administration amounts that may be included in the hourly professional service rate.



4. The total annual reimbursed hours for ISS and professional/licensed staff minus actual total annual paid hours worked as reported in the contractor's annual cost report and/or department-specified documents, multiplied by the weighted average reimbursement benchmark rate for ISS staff in effect during the settlement period.
5. Staff add-on reimbursements will be subject to the settlement provisions of this policy.
6. Nurse Delegation Core Training Staff Class Hours and dollars that are paid to an agency as reimbursement for agency staff time spent in attending training will be subject to the settlement provisions of this policy.
7. Contractors not using all of their contracted ISS hours must provide information as to why the hours were not used and document the attempts to provide those hours. A plan to prevent future occurrences must be submitted.
8. When submitting a cost report that includes a settlement, a contractor that has had extraordinary ISS costs during the year may request to apply those extraordinary costs toward the settlement. The agency making the request may submit narrative justification and a breakdown of associated costs to enable the division to analyze the request.
9. Beginning with the reporting year starting January 1, 2009, contractors that have Administrative/ICS or Non-ISS rates above the administrative rate standard for the reporting year will be required to return the administrative dollars associated with unused contracted ISS hours as determined by DDD. A worksheet showing the calculations to determine the settlement is available on the DDD Internet website in the Rates Management section of the Residential Provider Resources page at this address: [http://www1.dshs.wa.gov/ddd/res\\_provider\\_resources.shtml](http://www1.dshs.wa.gov/ddd/res_provider_resources.shtml). The contractor may elect to have a two-year option for the administrative rate settlement following the same criteria and procedures as described in item G of this section.

C. Administrative Staff Hours Counted as ISS for Settlement Purposes

1. GH and GTH program administrators may provide ISS hours.
2. SL and combined programs (GH, GTH and SL):

- a. For residential services programs that have twenty (20) or fewer FTE employees that support clients during the settlement period, settlements may include the program administrator's hours worked in an ISS staff capacity. The cost that may be applied in the settlement computation is the total hours worked as ISS staff multiplied by the benchmark compensation rate in effect during the period that the hours were worked.
- b. For residential services programs that have more than twenty (20) FTE employees that support clients during the settlement period, settlements may not include administrator's hours worked in an ISS staff capacity in their settlement computation.
- c. The hourly rate allowed for the administrator's cost shall not exceed the contractor's instruction and support staff compensation rate as specified in the contractor's contract and rate notification.
- d. An exception to item "b" above may be requested by any contractor. A copy of the approved exception to policy (ETP) must accompany the annual cost report if the administrative hours are reported as ISS for settlement purposes.

D. Programs Combined for Settlement

1. Contractors that have contracts with the division for the operation of multiple residential programs within a single region may collapse those contracts into a single contract for any combination of GH and GTH and SL programs. The single contract will identify the type(s) of residential program(s) and all applicable rates.
2. Programs combined under a single contract will be treated as a single entity for purposes of the settlement provisions of this policy. The contractor may combine the total reimbursement for ISS hours and compensation amounts subject to settlement per the contract, and the combined total of paid ISS hours and compensation into a single settlement calculation.

E. Non-ISS Cost Shifts

Contracts that have Indirect Client Support/Administrative cost center costs greater than their Indirect Client Support/Administrative cost center reimbursement may submit a request to shift the excess cost to reduce a settlement for the period. All cost shifts are subject to approval of the Regional Administrator, whose decision may be appealed to the Division Director.

1. Indirect Client Support/Administrative cost center costs will not include that portion of the program administrator's hours and compensation that may be charged against the ISS cost component under the provisions of this policy.
2. For purposes of this section, allowable administrative costs including administrative staff salaries or other compensation (excluding payroll taxes and health benefits) shall not exceed six (6) percent over the level reported in the contractor's cost report, adjusted for increases in capacity from the previous year. If market conditions cause an increase in administrative costs exceeding six (6) percent from the previous year, the costs and conditions may be documented by the contractor and will be considered by the division.
3. It is recommended that the agency requesting a cost shift submit relevant documentation to enable the division to analyze the request.
4. The division may request additional information and documentation it deems necessary from the contractor to evaluate the Indirect Client Support/Administrative loss cost shift request.
5. A contractor whose weighted average administrative rate was at or above the administrative rate standard during the reporting period will not be considered for settlement relief through the cost shift process.
6. An Indirect Client Support/Administrative Loss Cost Shift request resulting from ISS hours not provided shall be reviewed with the assistance of the Central Office Rates and Reimbursement section. The Regional Administrator or designee may examine the contractor's records as necessary to assess the reasonableness of the proposed cost shift.
7. If a contractor requesting an Indirect Client Support/Administrative Loss Cost Shift was reimbursed for staff add-on hours during the reporting year, the amount of the settlement resulting from the add-on hours or dollars shall not be offset by the cost shift provisions of this section.

F. Settlement Process

The division will determine a settlement amount for each calendar year.

1. The contractor shall pay a settlement overpayment amount, or shall commence repayment in accordance with a schedule determined by the department, within thirty (30) days after receiving departmental notification of the overpayment amount. If a settlement determination is

contested, the contractor shall pay or commence repayment within thirty (30) days after such proceedings are concluded.

2. The department will pay any amount due the contractor as a result of errors in billing or payment disclosed on the settlement within thirty (30) days after issuance of departmental notification of the amount due the contractor.
3. If the contractor does not refund the overpayment or any installment when due, or after the final decision from any administrative or judicial remedy sought by the contractor regarding the amount due, the department may withhold payments from current billings until the overpayment is refunded.
4. A proposed settlement may be revised by the department on the basis of audit findings or DDD certification evaluation findings.

G. Optional Two-Year Settlement Process

1. The contractor may elect to have an optional two (2) year settlement. These settlements shall allow a collaborative process in order to minimize settlements due.
2. Contractors will indicate on their first year cost report whether or not they wish to participate in the optional two (2) year settlement process. Contractors may initiate the planning process with the region during the first year if preliminary data indicates that a settlement will materialize.
3. Information derived from the first year's cost report will be used to develop a joint plan for use of the unspent ISS dollars to be followed during the second year of the settlement period. These funds will be used to increase service capacity or extend services to additional people. Funds retained through this process would be expended on direct supports rather than agency administration costs.
4. A joint plan will be produced by June 15th of the second settlement year. If no plan is agreed upon by this date, the first year settlement amount is due according to the provisions of the previous settlement section.

**EXCEPTIONS**

Exceptions to this policy may be approved by the Division Director or her designee based upon information submitted on DSHS Form 05-010, *Rule Exception Request*.

---

TITLE:

RESIDENTIAL PROGRAMS COST REPORTING

POLICY 6.04

---

**SUPERSESSSION**

DDD Policy 6.04

July 1, 2008

Approved: /s/ Linda Rolfe  
Director, Division of Developmental Disabilities

Date: July 1, 2009