



DEVELOPMENTAL DISABILITIES ADMINISTRATION
Olympia, Washington

TITLE: RESIDENTIAL PROGRAMS COST REPORTING POLICY 6.04

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TITLE: RESIDENTIAL PROGRAMS COST REPORTING POLICY 6.04

Authority: [Chapter 71A RCW](#) *Developmental Disabilities*
[Chapter 388-825 WAC](#) *Developmental Disabilities Services*
[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 the Developmental Disabilities Administration (DDA) contracted residential programs.

SCOPE

This policy applies to the following DDA contracted residential service programs for adults:

- Supported Living (SL)
- Group Homes (GH)
- Group Training Homes (GTH)

DEFINITIONS

Administration means the DSHS Developmental Disabilities Administration (DDA) and its employees.

Administrative Staff means owners, officers or employees of the service provider, 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 service provider.

Arm’s-Length Transaction is an accounting term that 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 DDA to receive residential services described in [Chapter 388-101 WAC](#).

Contract means a contract between DDA and a service provider for certified community residential services to clients as described in [Chapter 388-101 WAC](#).

Cost of Care Adjustments (COCA) means the payments intended to cover the necessary costs of ISS staff support and/or operating/administrative costs to continue uninterrupted services to clients when there is a temporary absence of a household member.

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

Group Home (GH) Program is a certified residential service as per [Chapter 388-101 WAC](#) which is also licensed as an Adult Family Home or Assisted Living Facility.

Group Training Home (GTH) means a certified and non-profit residential program that meets requirements of [RCW 71A.22.020](#) and [WAC 388-101-3170](#).

Housing Costs Paid by Service Providers means the service provider's costs for a dwelling or portion of a dwelling used by staff when working 24-hour or longer duty shifts for the live-in model. This is an administrative cost incurred by the program for housing, not to be reported as Instruction and Support Services compensation.

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 service provider 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 service provider whose primary job function is the supervision of ISS staff.

Metropolitan Statistical Area (MSA): Relatively freestanding metropolitan area (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.

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.

DSHS currently recognizes the following counties as MSA counties in Washington: Asotin, Benton, Chelan, Clark, Cowlitz, Douglas, Franklin, Island, King, Kitsap, Mason, Pierce, Skagit, Snohomish, Spokane, Thurston, Whatcom, and Yakima. Final determination for MSA designations are made by DSHS. All other counties are considered as Non-MSA.

Related Organization is either an entity, which is under common ownership, and/or control with, has control of, or is controlled by, the service provider. 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 service provider.

Residential Professional Services are provided by service provider staff and are included as part of the daily residential rate. These services could include RNs, LPNs, physical or speech therapists, language translators, and Dialectical Behavioral therapy. Reimbursement for professional services is at department established rates where they exist, or at a non-standard rate as determined by the Resource Manager Administrator.

Service provider means an entity contracting with the DDA to provide certified community residential services to clients as described in [Chapter 388-101 WAC](#).

Staff Add-On for Client-Specific Need means a short-term staffing increase above and beyond the individual instruction and support hours required and allowed in the standard rate provision of a contract, enabling a service provider to increase the individual instruction and support hours provided to a specific client when a client's safety and well-being are seriously threatened and/or when a client is at risk of losing residential support services.

Staff Lodging means supported living 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 a contracted and certified residential service as described in [Chapter 388-101 WAC](#).

POLICY

- A. Service providers shall report costs of operations for the purpose of certifying the costs of services provided and to determine any settlements due.
- B. DDA shall:
 - 1. Set standard rates for each cost center for programs covered within this policy;
 - 2. Describe allowable costs and specify the reporting requirements;
 - 4. Describe the settlement process as it applies to residential programs;

PROCEDURES

I. REPORTING

A. Cost Reports

- 1. In order for a service provider to receive payments under the residential reimbursement system, the service provider must submit an annual DDA cost report covering the completed calendar year.
- 2. If a service provider's contract for community residential services is terminated, the former service provider shall submit a final annual DDA cost 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 Cost 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. If an extension is needed, the service provider must submit a written notification to the DDA Rates Unit in Office of Rates

Management requesting the additional time that is required to complete the report. The notification shall include a brief explanation of the circumstances that require the extension. A thirty (30) day extension beyond the date specified above may be granted by DDA Rates Unit.

- b. If an additional extension is needed, the service provider must submit a written request stating the reasons. The request must be received by the DDA Rates Unit prior to the due date. DDA Rates Unit will consult with the Regional Resource Manager Administrator and Community Residential Services Program Manager. An extension may be granted for up to an additional thirty (30) days. DDA Rates Unit will respond to this request within ten (10) working days from the date of receipt.

C. Completing Cost Reports and Maintaining Records

1. Cost reports shall be completed in accordance with instructions provided by DDA. If no specific instruction covers a situation, generally accepted accounting principles shall be followed.
2. DDA Rates Unit will analyze the submitted cost report and financial statement of each service provider to determine if the information is correct, complete, and reported and conforms with generally accepted accounting principles and the requirements of this contract and the referenced policies, rules, and regulations. If the analyst finds that the cost report or financial statements are incorrect or incomplete, DDA may make adjustments to the reported information or request that the service provider makes revisions.
3. Adjustments made to the cost report by DDA Rates Unit will be provided to service providers in writing and will include an explanation and dollar amounts of the adjustments.
 - a. If a service provider disagrees with an adjustment made under this section, the service provider will identify the specific area of disagreement and include any supporting documentation.
 - b. DDA will respond to the disagreement with a determination.
 - c. If the service provider wishes to challenge DDA's determination of the service provider's contention from subsection 'a' above, the service provider 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. Service providers shall submit a cost report that includes all business activities related to the cost of providing services per contract.
5. Agencies with more than one service within a contract shall allocate and report shared costs to each residential program in accordance with allocation policies prescribed or approved by DDA.
6. Service providers shall maintain reports and records adequate for cost reporting and audit for six (6) years after the expiration or termination of the contract.
7. If a service provider fails to maintain records adequate for audit purposes or fails to allow inspection of such records by authorized personnel, DDA may give written notice and suspend all or part of subsequent payments due under the contract until compliance is forthcoming. Upon compliance, DDA shall resume contract payments and shall release suspended payments pursuant to the service provider's contract.

D. Cost Report Certification

1. Each cost report must include a certification of the accuracy of the report. If the service provider 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 service provider, that person's name and contact information shall be included with the certification.
2. If a service provider knowingly files a report containing false information, such action constitutes cause for termination of the service provider's contract with DDA. Service providers filing false reports may be referred for prosecution under applicable statutes.

E. Improperly Completed or Late Cost Reports

1. An annual cost report must be completed in accordance with applicable regulations and instructions. An annual cost report deficient in any of these respects may be returned in whole or in part to the service provider for proper completion.
2. If a report is not properly completed or is not received by the DDA 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 DDA until the improperly completed or delinquent report is properly completed and received by DDA.

II. COST REPORT COMPONENTS

The Cost Report documents expenses that are necessary, ordinary, and related to the provision of client support, training, and activities as prescribed in [Chapter 388-101 WAC](#) and contract.

A. 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 worked.
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. The reported ISS compensation for an individual staff must not exceed the reasonable amount criteria.
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. DDA may request job descriptions for employees to verify the duties of the positions. Paid hours worked and payroll costs charged to ISS for cost reporting purposes must be verifiable in the service provider's records, including time sheets and schedules for actual worked hours. The number of ISS paid hours reported for any individual employee or owner of a service provider must not exceed 3,120 hours per year (designated live-in staff are exempt from this limitation).
5. ISS staff may also include purchased-service personnel whose job function is the provision of professional instruction and support services. Subcontracting must be approved per the Contract.
6. The cost report will include schedules to report summary totals of employee hours and costs. The provider must maintain on file the details by employee, as this information may be requested by DDA.
7. Allowable ISS Hours include:
 - a. Actual paid hours worked by staff designated as ISS staff, including related training time;
 - b. For staff who perform both administrative functions and ISS, the service provider may include that portion of the employee's hours that are dedicated to ISS function;

- c. The administrator's hours worked as ISS as allowed under this policy;
 - d. Sleep hours may be counted as ISS for settlement 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. If staff sleep hours are reflected in the rate assessment for nighttime support, a service provider can only count the adjusted hours and dollars authorized in the rate for ISS cost reporting settlement;
 - e. The maximum number of call back hours for ISS employees who are on-call outside of their normal work 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.
 - f. DDA may request verification of hours (e.g., time sheets, etc.) for all staff for which ISS hours are claimed.
8. Allowable ISS Staff Compensation for reporting purposes on the annual cost report includes:
- a. 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;
 - b. Employer paid payroll taxes relating the actual allowable ISS hours worked. For proprietary service providers, the portion of the Business and Occupation (B & O) tax applicable to the revenue received for ISS reimbursement may be included as payroll tax;
 - c. Fringe benefits paid by the employer for ISS staff (prorated for those staff whose time is split between ISS and administrative functions);
 - 1) 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. Fines for violating the Affordable Care Act are not considered a fringe benefit.
 - 2) The cost report will include a schedule to report summary of total wages and fringe benefits. The provider must

maintain on file the details by employee (excluding benefits), as this information may be requested by DDA.

- d. Staff lodging paid by the service provider and as defined in this policy; and
- e. As provided for in this policy, compensation for the administrator time used performing ISS duties. For settlement purposes, compensation is allowed at the benchmark compensation rate for service providers providing Supported Living (SL) services.

B. Transportation Costs

- 1. Transportation costs are defined as necessary and ordinary transportation with or on behalf of clients, program operation and training. Transportation costs include:
 - a. Client transportation expenses (including staff mileage reimbursement) include expenses related to miles calculated on the transportation assessment.
 - b. Administrative transportation expenses include all other operational related expenses not captured on the transportation assessment.
- 2. The following costs will be reported:
 - a. The costs of operating vehicles 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 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.

- e. The service provider must keep mileage information that indicates miles driven with or on behalf of the clients. The information must be separated for service provider owned/leased vehicles and for staff owned vehicles. The information will be summarized into annual mileage totals to be reported as line items on the cost report.
3. The service provider shall not seek or accept additional compensation from or on behalf of a client for any or all contracted residential services except as outlined in [DDA Policy 6.02](#), *Rate Setting for Residential Programs*, (IX. Billing and Payment, Section B.2). Costs incurred by the service provider associated with this provision are unallowable costs and shall not be reported on the annual cost report.

C. 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.

D. 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.

E. 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 (service provider) 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:
 - 1) The historical cost to the service provider in acquiring the asset or capitalized expense from an unrelated organization less the estimated salvage value, if any; or
 - 2) 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
 - 3) 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:
 - 1) Building: Not less than thirty (30) years.
 - 2) Building Improvements: The remaining useful life of the building as modified by the improvement.
 - 3i) Other Assets: Lives no shorter than guideline lives published by the IRS or by the American Hospital Association.
 - 4) 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.

F. 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 client supports and services, 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.

G. Related Organization/Related Party Costs

- 1. Costs of services, facilities, and supplies furnished by related organizations to the service provider 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.

III. SETTLEMENT

A. Settlement Definition

1. The settlement shall be for underutilization of contracted and paid service hours and dollars in the instruction and support service cost center.
2. Settlements shall be based on DDA payment system(s) reports, the service provider's financial reports, and/or other DDA-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 ~~in~~ effective.

B. Settlement Determination

The service provider 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 service provider's annual cost report and/or DDA-specified documents.
2. Reimbursement amounts received from DDA for professional services and professional services compensation paid by the service provider shall be included in the settlement calculation. 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.
3. The total annual reimbursed hours for ISS and professional/licensed staff minus actual total annual paid hours worked as reported in the service provider's annual cost report and/or DDA-specified documents, multiplied by the weighted average reimbursement benchmark rate for ISS staff in effect during the settlement period.
4. Staff add-on reimbursements will be subject to the settlement provisions of this policy.

5. The ISS hours and dollars that are paid for staff to attend Nurse Delegation Core Training, legislatively mandated training and continuing education will be subject to the settlement provisions of this policy.
6. When submitting a cost report that includes a settlement, a service provider that has had extraordinary ISS costs during the year may request to apply those extraordinary costs toward the settlement. The service provider making the request may submit narrative justification and a breakdown of associated costs to enable DDA to analyze the request.
7. Service providers that have administrative 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 DDA. A worksheet showing the calculations to determine the settlement is available on the DDA Internet website's Residential Provider Resources webpage at this address: <https://www.dshs.wa.gov/dda/counties-and-providers/residential-provider-resources>. The service provider may elect to have a two-year option for the administrative rate settlement following the same criteria and procedures as described in section F below.

C. Administrative Staff Hours Counted as ISS for Settlement Purposes

1. For agencies that only operate GHs or GTHs, the program administrators may include the program administrator's hours worked in an ISS staff capacity.
2. For agencies who provide SL or SL in combination with GHs or GTHs:
 - a. For residential services programs that report 41,600 or fewer total paid ISS hours during the settlement period (approximately twenty or fewer full time equivalent employees), 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 41,600 ISS hours 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 service provider's instruction and support staff

compensation rate as specified in the service provider's contract and rate notification.

- d. An exception to item "b" above may be requested by any service provider. 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. Service providers that have contracts with DDA 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 service provider 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. Settlement Process

DDA will determine if a settlement amount is due for each calendar year.

1. The service provider shall pay a settlement overpayment amount, or shall commence repayment in accordance with a schedule determined by DDA, within thirty (30) days after receiving DDA notification of the overpayment amount. If a settlement determination is contested, the service provider shall pay or commence repayment within thirty (30) days after such proceedings are concluded. Overpayments and debts are defined by DSHS Administrative Policy 10.02, *Overpayments and Debts for Providers and Vendors*, as any DDA payment or benefit to a service provider in excess of the amount the provider or vendor was entitled to by law, rule, or contract.
2. DDA will pay any amount due the service provider as a result of errors in billing or payment disclosed on the settlement within thirty (30) days after issuance of notification of the amount due the service provider.
3. If the service provider does not refund the overpayment or any installment when due, or after the final decision from any administrative or judicial remedy sought by the service provider regarding the amount due, DDA

may withhold payments from current billings until the overpayment is refunded.

4. A proposed settlement may be revised by DDA on the basis of audit findings or DDA certification evaluation findings.

F. Optional Two-Year Settlement Process

1. The service provider may request to have an optional two (2) year settlement. These settlements shall allow a collaborative process in order to minimize settlements due.
2. Service providers will indicate on their first year cost report whether or not they wish to participate in the optional two (2) year settlement process. Service providers may initiate the planning process with the region during the first year if preliminary data indicates that a settlement will materialize.
3. The request for a two-year optional settlement and plan must be sent in writing to the Regional Administrator for review and consideration no later than May 31 of the second settlement year. Example: For settlement calendar years 2015-2016, the request would be due by May 31, 2016.
4. Information derived from the first year's cost report will be used to develop a 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 service provider administration costs.
5. The plan will be submitted to DDA by June 15th of the second settlement year. If the plan is not received by June 15th or if an acceptable plan cannot be negotiated; 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 Deputy Assistant Secretary or designee based upon information submitted on [DSHS 05-010](#), *Rule Exception Request*.

SUPERSESSION

DDA Policy 6.04
Issued July 1, 2013

TITLE:

RESIDENTIAL PROGRAMS COST REPORTING

POLICY 6.04

Approved:

/s/ Donald Clintsman

Deputy Assistant Secretary
Developmental Disabilities Administration

Date: July 1, 2015