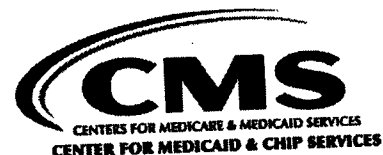


DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S2-26-12  
Baltimore, Maryland 21244-1850



---

JUN 13 2013

Ms. Beverly D. Mackereth, Acting Secretary  
Commonwealth of Pennsylvania  
Department of Public Welfare  
Office of Medical Assistance Programs  
PO Box 8046  
Harrisburg, PA 17105

RE: State Plan Amendment 13-010

Dear Ms. Mackereth:

We have completed our review of State Plan Amendment (SPA) 13-010. This SPA modifies Attachment 4.19-A of Pennsylvania's Title XIX State Plan. Specifically, the amendment modifies the basis of interim reimbursement rates to state-operated psychiatric hospitals and adds DSH redistribution language for excess DSH payments made to state-operated psychiatric hospitals.

We conducted our review of this SPA according to the statutory requirements at sections 1902(a)(3), 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act (the Act) and the regulations at 42 CFR 447 Subpart C. We are approving state plan amendment 13-010 effective April 1, 2013. We are enclosing the HCFA-179 and the amended plan pages.

If you have any questions, or require additional information, please call Gary Knight at (304) 347-5723.

Sincerely,

Cindy Mann  
Director

Enclosures

**TRANSMITTAL AND NOTICE OF APPROVAL OF  
STATE PLAN MATERIAL**

1. TRANSMITTAL NUMBER:  13-010	2. STATE  Pennsylvania
3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
4. PROPOSED EFFECTIVE DATE  April 1, 2013	

FOR: HEALTH CARE FINANCING ADMINISTRATION

TO: REGIONAL ADMINISTRATOR  
HEALTH CARE FINANCING ADMINISTRATION  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

5. TYPE OF PLAN MATERIAL (Check One):

NEW STATE PLAN       AMENDMENT TO BE CONSIDERED AS NEW PLAN       AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:  
  
42 CFR 447 C

7. FEDERAL BUDGET IMPACT:  
a. FFY 2013 \$0.00  
b. FFY 2014 \$0.00

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  
  
Attachment 4.19A, pages 15, 15a, 15b, and 15c

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):  
  
Attachment 4.19A, pages 15 and 15a

10. SUBJECT OF AMENDMENT:  
  
Revised Cost Reimbursement Methodology for Payments to State-Operated Psychiatric Hospitals and Facilities

11. GOVERNOR'S REVIEW (Check One):

GOVERNOR'S OFFICE REPORTED NO COMMENT       OTHER, AS SPECIFIED:  
 COMMENTS OF GOVERNOR'S OFFICE ENCLOSED      Review and approval authority has  
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL      been delegated to the Department of  
Public Welfare

12. SIGNATURE OF STATE AGENCY OFFICIAL:  
  
13. TYPED NAME: Beverly D. Mackereth  
14. TITLE: Acting Secretary of Public Welfare  
15. DATE SUBMITTED: MAY - 6 2013

16. RETURN TO:  
Commonwealth of Pennsylvania  
Department of Public Welfare  
Office of Medical Assistance Programs  
Bureau of Policy, Budget and Planning  
P.O. Box 8046  
Harrisburg, Pennsylvania 17105

**FOR REGIONAL OFFICE USE ONLY**

17. DATE RECEIVED:      18. DATE APPROVED: JUN 13 2013

19. EFFECTIVE DATE OF APPROVED MATERIAL: APR 1 2013      20. SIGNATURE OF REGIONAL OFFICIAL: [Signature]

21. TYPED NAME: [Name]

22. REMARKS: [Remarks]



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF PUBLIC WELFARE

MAY - 6 2013

Mr. Francis McCullough  
Associate Regional Administrator  
Department of Health and Human Services  
Centers for Medicare and Medicaid Services  
150 South Independence Mall West  
Suite 216, The Public Ledger Building  
Philadelphia, Pennsylvania 19106

Dear Mr. McCullough:

The Department of Public Welfare (Department) is submitting State Plan Amendment (SPA) Transmittal Number (TN) 13-010 for approval, in response to your email dated January 29, 2013, in which the Centers for Medicare and Medicaid Services (CMS) directed the Department to submit a SPA to resolve deferral PA/2012/2/E/04/MAP related to State-operated Psychiatric Hospitals.

SPA TN 13-010, which updates Attachment 4.19A, pages 15 and 15a, further clarifies the cost reimbursement methodology for payments to State-operated Psychiatric Hospitals.

In addition to clarifying cost reimbursement methodology, paragraph (f) has been added to the Disproportionate Share (DSH) Payment Adjustment section previously approved under SPA TN 94-10. The section pertaining to DSH has been moved from 15a to 15c. Paragraph (f) relates to redistributing excess DSH payments to State-operated Psychiatric Hospitals that have not reached their hospital specific DSH limit.

Enclosed is Attachment 4.19A page 15-15c, which corresponds with SPA TN 13-010.

The Department believes the enclosed SPA will resolve the deferral in question, as well as any related deferrals that resulted in quarters beyond the initial deferral. If you have any questions concerning SPA TN 13-010, please contact Ms. Wendy L. Nagle, Director, Bureau of Financial Reporting at (717) 772-2236.

Sincerely,

Beverly D. Mackereth  
Acting Secretary

Enclosure

cc: Mr. Vincent Gordon, Deputy Secretary, Office of Medical Assistance Programs  
Ms. Leesa Allen, Chief of Staff, Office of Medical Assistance Programs  
Mr. Robert J. Gardner, Director, Bureau of Policy, Analysis and Planning

OFFICE OF THE SECRETARY

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES-INPATIENT HOSPITAL CARE

Capital costs related to replacement beds are not allowable unless the facility received a Certificate of Need or letter of nonreviewability for the replacement beds. To be allowable, the replacement beds must physically replace beds in the same facility and the capital costs related to the beds being replaced must have been recognized as allowable.

In addition to the above criteria, to receive payment for capital costs related to new, additional or replacement beds, the project must have been substantially implemented within the effective period of the original Section 1122 approval or the original Certificate of Need, including one six-month extension.

State-Operated Psychiatric Hospitals and Facilities

The Department of Public Welfare claims the Federal Share of reimbursement for:

1. Inpatient psychiatric hospital services for individuals age 65 and older, and;
2. Inpatient psychiatric facility services for individuals under 21.

The claim for the Federal Share for each eligible patient is based on the established per diem rate subject to an annual adjustment to costs.

Cost Finding

All state-operated psychiatric hospitals and facilities participating in the Medical Assistance program are required to use the direct allocation method of cost finding. The facility distributes costs to either direct service level of care or shared service cost categories. A multi-level care facility will further allocate shared service costs to direct level of care based upon statistical data. The allocated portion of shared costs are added to the costs which can be directly identified with each level of care to arrive at a total cost of operations. Allowable depreciation and interest on capital indebtedness is identified by the facility and is also allocated based upon specified statistical data. Specific details related to the use of statistical data are outlined in Section 8, Apportionment Bases, of the Cost Apportionment Manual for State Mental Hospitals, Intellectual Disability Centers, and Veteran Homes.

Indirect costs represent those costs incurred for the administration and support services provided by field and central offices, as well as other Commonwealth agencies. Such costs are allocated based on the Department's cost allocation plan to each facility.

Allowable costs and the result of the cost finding process are reported electronically on the MA Cost Apportionment Report. All facilities are required to maintain records for a minimum of four years.

---

TN# 13-010  
Supersedes  
TN# 02-004

Approval Date JUN 13 2013

Effective Date: April 1, 2013

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES-INPATIENT HOSPITAL CAREAllowable Cost Standards

In identifying items of allowable costs for state-operated psychiatric facilities, Pennsylvania's "Cost Apportionment Manual for State Mental Hospitals, Intellectual Disability Centers, and Veteran Homes" (Manual) will be used where applicable. If the manual does not address a particular cost, the federally approved Departmental Indirect Cost Allocation Plan/Statewide Indirect Cost Allocation Plan (DICAP/SWICAP) will be followed. If none of these addresses a particular cost, Medicare full cost principles will be used.

Cost Reports

All state-operated psychiatric hospitals and facilities must complete an MA Cost Apportionment Report each year. Each facility submits a year end cost report, with all supporting schedules, to the Bureau of Financial Reporting by September 30<sup>th</sup>. The report provides a detailed listing of direct charge items and where applicable, distributes shared costs to various levels of care.

The MA Cost Apportionment Reports for state-operated psychiatric hospitals and facilities are prepared using the cash basis of accounting. Expenditures are accumulated throughout the year in the SAP system and downloaded directly to the MA Cost Apportionment Report.

In conjunction with the MA Cost Apportionment Report, the facility prepares a Building Utilization Report every year. This report is due to the Bureau of Financial Reporting by July 31<sup>st</sup>. The report categorizes the square footage of each building as facility space, space that is vacant or space that is leased to outside sources. Costs that are not patient related are deemed unallowable.

A worksheet of adjustments allows the facility to deduct any unallowable costs and add in any additional allowable expenses that may not have been captured in the SAP download of expenses.

The Bureau of Financial Operations, Reimbursement Operations Section, provides each facility with information related to total patient days, MA patient days and patient pay figures.

Once the report is completed, the CEO at each facility signs and dates the report. By signing the report the CEO certifies that information contained in the report is correct and expenditures reported have been stated according to the procedures manual developed by the Department of Public Welfare and Generally Accepted Accounting Principles.

The end result of completing the MA Cost Apportionment Report is calculating the actual MA per diem for the year and determining an interim settlement of actual MA allowable costs eligible for federal reimbursement versus the federal dollars that were drawn down during the year.

Specific details of the MA Cost Apportionment Report are detailed in the Cost Apportionment Manual for State Mental Hospitals, Intellectual Disability Centers, and Veteran Homes.

---

TN# 13-010  
Supersedes  
TN# 94-10

Approval Date JUN 13 2013

Effective Date: April 1, 2013

#### Rate Setting

Separate rates of reimbursement are established for each state-operated psychiatric hospital and facility based on the cost finding performed for each facility on a yearly basis. Based on the final submission of the MA Cost Apportionment Report, the data available to calculate the rates is two years prior. State-operated psychiatric hospitals and facilities employ a single rate based on the actual Medicaid allowable costs. An interim per diem rate is used until the cost report for that year is finalized and a cost settlement can be performed.

A base per diem rate for the year of the applicable MA Cost Apportionment Report is calculated by taking all allowable Net MA reported facility costs and dividing by total facility MA patient days. An inflation factor, consisting of the percent increase in personnel costs, is applied to this base per diem rate to trend it forward to the payment year.

#### Payments

Payments are made to each state-operated psychiatric facility based on an interim Medicaid per diem rate multiplied by the number of Medicaid days of care provided to eligible clients. At the close of the fiscal year, payments are adjusted to reflect allowable costs as established for state-operated psychiatric facilities, and an interim settlement is calculated.

#### Interim Settlement

Federal funding is obtained for each facility via interim claiming. The claiming is based on the amount of MA days that are processed at the appropriate interim per diem rate.

After the cost report determines the actual per diem rate it is multiplied by the MA days to arrive at a Gross MA Cost.

Income received from patients and third party insurance carriers, including gross adjustments, is deducted from Gross MA Cost to arrive at Net MA Cost.

Net MA Cost is multiplied by the FFP rate applicable to each quarter to arrive at the Reimbursement Due based on actual costs for the fiscal year.

The Reimbursement Due is compared to the actual federal funds that were received during the interim claiming process. This results in an over/under claim of funds and an adjustment is submitted for inclusion on the CMS-64 Report.

#### Auditing and Final Settlement

The financial and statistical records for state-operated psychiatric hospitals and facilities are audited annually in accordance with Governmental Auditing Standards by the Comptroller's Office, and allowable financial costs relating to medical assistance are adjusted accordingly. Should an audit finding result in a dollar value discrepancy, a final settlement adjustment is submitted for inclusion on the CMS-64 report.

---

TN# 13-010  
Supersedes  
TN# New

Approval Date JUN 13 2013

Effective Date: April 1, 2013

Disproportionate Share Payment Adjustment

Effective July 1, 1994, the Department's method for establishing disproportionate share payments for State operated psychiatric hospitals is as follows:

- (a) A State operated psychiatric hospital is eligible for a disproportionate share payment if its low income utilization rate exceeds 25 percent. The low income utilization rate refers to services provided during the year to persons who were eligible for Medicaid under the State plan or who received uncompensated or publicly funded care. At least 1% of the hospital's total days must be Medicaid days to be eligible for disproportionate share hospital payment adjustments.
- (b) Payment for the State psychiatric facilities that qualify for disproportionate share payments will be equal to 100% of the uncompensated costs as defined by Section 1923(g)(1)(A) for care provided to low-income clients within each facility for the state fiscal year (i.e., July 1 through June 30).
- (c) For State fiscal year 1994/1995 (the transition year as defined in Section 1923(g)(1)(B)), those facilities which qualify as a high disproportionate share hospital will receive payments equal to 200% of the cost specified in (b) above.

Section 1923(g)(2)(A) defines a high disproportionate share hospital as one that has a Medicaid utilization rate at least one standard deviation above the mean Medicaid utilization rate of all hospitals receiving Medicaid payment in the State. Those facilities which do not meet the high disproportionate share test will receive payments as specified in (b) above.

- (d) The Commonwealth's aggregate disproportionate share hospital payments will not exceed its disproportionate share base allotment computed by CMS.
- (e) Disproportionate share payments for state-operated psychiatric hospitals shall be determined quarterly.
- (f) Excess or overpayments will be redistributed to state-operated psychiatric hospitals that have not reached their hospital-specific DSH limit. Redistribution will be calculated based on proportional DSH payments. Additional levels of redistribution will occur until either all facilities have reached their respective individual DSH limit or until all funds available for redistribution have been exhausted. Excess payments will only be redistributed to state-operated psychiatric hospitals. In the event that all facilities have reached their hospital-specific DSH limit, the excess will be returned to CMS.

TN# 13-010  
Supersedes  
TN# New

Approval Date JUN 13 2013

Effective Date: April 1, 2013