



**DEPARTMENT OF MENTAL HEALTH  
POLICY/PROCEDURE**

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<b>PROVISIONAL RATE SETTING</b>	<b>800.08</b>	<b>12/31/2012</b>	<b>1 of 8</b>
APPROVED BY:  Director	SUPERSEDES  <b>400.10</b> <b>12/31/2012</b>	ORIGINAL ISSUE DATE  <b>12/31/2012</b>	DISTRIBUTION LEVEL(S)  <b>1, 2</b>

**PURPOSE**

- 1.1 To provide guidelines, standards, and controls for the establishment of provisional rates for the billing and payment of mental health services provided in the Los Angeles County Department of Mental Health (LACDMH) Legal Entity Agreements.

**DEFINITION**

- 2.1 **Actual Allowable Costs:** Actual allowable costs include only those reasonable, necessary and proper actual expenses, subject to limitations specified in the LACDMH Legal Entity Agreement.
- 2.2 **Control Rates:** Actual cost per unit amounts by Service Function Code (SFC) Range as reported in the most recently filed Annual Cost Report that are used to support the Provisional Rate development per this policy.
- 2.3 **Cost Reimbursed Contracts:** Mental health services contracts that reimburse contractors based on the lower of actual costs, published charges (unless a nominal charge provider), or County Maximum Allowances (CMA).
- 2.4 **Cost Report:** The Annual Cost Report that is required by the State. Such Cost Report contains actual cost, revenue, and statistical information that are used to determine reimbursement for Legal Entity (LE) mental health services providers.
- 2.5 **County Maximum Allowances (CMA), also known as Exhibit C:** Maximum allowable reimbursement rates that are established by the LACDMH.
- 2.6 **Provisional Rates:** Interim rates that are established for billing and payment purposes and are subject to change upon request and approval. The goal of the



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provisional rates is to closely approximate final actual cost reimbursement rates to equitably enable ongoing payments for services rendered and billed.

- 2.7 **Provisional Rate Calculation Worksheet, also known as Exhibit B:** An alternative worksheet to be used by contractors that do not have a cost reporting history with LACDMH or any other means of developing provisional rates.
- 2.8 **Provisional Rate Request/Approval Form, also known as Exhibit A:** The formal document used by Legal Entity Contractors to request new provisional rates based on specified operating conditions and expenditure levels.
- 2.9 **Rate Table:** A financial table associated with each legal entity/provider number that contains a list of provisional billing rates by fiscal year and SFC. The Rate Table is used for calculating claimed services including Medi-Cal services billed to the State.

**POLICY**

- 3.1 All Provisional Rate Requests, including new fiscal year rates as well as mid-year rate changes, will be submitted utilizing the Provisional Rate Request/Approval form (see Exhibit A).
- 3.2 Provisional rates are to closely approximate final actual cost per unit rates for allowable costs as reported in the year-end cost report.
- 3.3 Provisional payments for mental health services are to closely approximate final payments to ensure that neither the County nor a Contractor have large sums due or owed at cost report settlement.
- 3.4 All approved provisional rates, including new fiscal year rates and mid-year rate changes, will only be effective prospectively from the time the approved Provisional Rates are entered into the rate table of the County's claiming system.
- 3.5 Within 30 calendar days of approving the Provisional Rates, LACDMH Chief Information Office Bureau (CIOB) shall update the Provisional Rates within the rate table in the County's claiming system. The date the rate table is updated will be considered the effective date of the rate change.



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- 3.6 Provisional rate approvals are subject to the CMA that is in effect at the time the Provisional Rate Request is received by LACDMH. (See Exhibit C for the current CMA schedule).

## **PROCEDURE**

- 4.1 In connection with Section 4.3 of this policy, Contractor may be required to propose provisional reimbursement rates based upon the Contractor's estimated actual allowable costs of mental health services and activities.
- 4.1.1 Determination of allowable costs for programs that include federal funding is also limited by the Centers for Medicare and Medicaid Services (CMS) Publications #15-1 and #15-2 (The Provider Reimbursement Manual Parts 1 and 2) and the Office of Management and Budget (OMB) Circular A-122.
- 4.1.2 For non-federal funds, allowable costs shall be governed by State and County rules, regulations, statutes, policy and procedures.
- 4.1.3 The Provisional Rate Requests will be evaluated based on the most recently completed Cost Report. **Consideration will be given for requests that include a 2.5% Cost of Living Adjustment (COLA) for each fiscal year that the most recently completed Cost Report precedes the Provisional Rate Request.** (i.e., 1 year = 2.5%, 2 years = 5%). Hereafter, this shall be known as the **Allowable COLA.**
- 4.1.3.1 No justification will be required if the Provisional Rate Request is less than or equal to the Allowable COLA.
- 4.1.3.2 Justification will be required for Provisional Rate Requests in excess of the Allowable COLA.
- 4.2 Contractor shall make its best effort to ensure that the proposed provisional reimbursement rates do not exceed the following:



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- 4.2.1 The Contractor's published charge(s) to the general public that are provided services under contract. This applies to outpatient, rehabilitative, case management, and 24-hour services;
- 4.2.2 The Contractor's actual costs; and
- 4.2.3 The CMA.
  - 4.2.3.1 In the event that LACDMH reduces the CMA during a fiscal year, any contractor provisional rates that subsequently exceed the CMA will need to be reduced to the CMA.
  - 4.2.3.2 Legal Entity Contractors will be notified of the CMA rate reduction by LACDMH and will be provided with a letter along with the new CMA Schedule.
  - 4.2.3.3 LACDMH Financial Services Bureau (FSB) will provide the revised Provisional Rates to CIOB requesting an update to the rate table to reflect the CMA reduction.
- 4.3 Following the completion of the annual Cost Report, FSB will perform an evaluation of the current provisional rates that are in the Rate Table.
  - 4.3.1 The provisional rate analysis will consist of a comparison of the actual cost rates from the recently completed cost report (Control Rates) to the current provisional rates in the Rate Table.
  - 4.3.2 The provisional rate analysis will result in one of the following outcomes:
    - 4.3.2.1 The provisional rates could deviate from the Control Rates by the Allowable COLA as stated in Section 4.1.3 of this policy or less.
      - This result will generally be considered acceptable.
      - Contractor may leave the current provisional rates unchanged; or



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- Contractor may request a provisional rate change by completing Exhibit A and providing sufficient justification, which documents changes in their organization that require provisional rates outside the range of the Control Rates plus the Allowable COLA.

4.3.2.2 The provisional rates could deviate from the Control Rates by more than the Allowable COLA. This result will generally be considered unacceptable.

- Contractor will be asked to submit a completed Exhibit A form that will include provisional rates that are within the Control Rates plus an Allowable COLA; or
- Contractor must provide sufficient justification, which documents their organization’s situation requiring the use of the current provisional rates that are outside the range of the Control Rates plus the Allowable COLA.

4.4 In requesting its Provisional Rates, Contractor shall calculate the rates in accordance with the following:

4.4.1 If the Contractor has at least one (1) full operating year of providing mental health services, Contractor shall base its rates on historical cost and statistical experience.

4.4.1.1 Provisional rates shall be based on the most recently filed cost report utilizing actual costs by SFC range (Control Rates).

4.4.1.2 To the extent that Contractor requests Provisional Rates that are greater than or less than the Control Rates plus the Allowable COLA, Contractor must provide justification detailing the changes that have occurred resulting in increased or decreased costs.

- Changes that may significantly affect the rates include, but are not limited to, utilization patterns, client profile shifts



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that impact cost of service delivery, salary and employee benefit changes, program design changes, and other unforeseen factors that impact the cost of service delivery.

- Quantifiable documentation must be provided by Contractor for County to evaluate such changes. Such documentation shall minimally include:
  - A) A brief program narrative identifying the changes since the most recently filed cost report that are expected to affect the rates for the current year causing the proposed cost reimbursement rates to change from the Control Rates.
  - B) A budget for the applicable fiscal year identifying the cost items included in developing the proposed Provisional Rates and the projected units by SFC. The budget should be developed from the most recent costs available projected for the year based upon both past and current trends.
  - C) A summary page comparing estimated costs and other data by major categories to the equivalent data contained in the most recently filed cost report, including total dollars and percentage change. At a minimum, the major categories shall include: (1) Salaries and Employee Benefits; (2) Services and Supplies; and (3) Occupancy Costs.
  - D) Detailed data must be provided for each of the above three (3) cost categories that Contractor defines as the cause for the proposed rates to change from the Control Rates by more than the Allowable COLA.

4.4.2 If Contractor has no historical cost experience, such as a new Contractor or an existing Contractor providing new services, provisional cost reimbursement rates will be based upon worksheets prepared by Contractor that detail the development of their requested Provisional Rates. An optional Provisional Rate Calculation Worksheet (see Exhibit B) is available to assist with the provisional rate development. Historical cost information must be for one (1) full operating year (12



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months of operations). The start-up year is not considered a full operating year.

- 4.4.3 When a service type is being eliminated during the year in question, the applicable costs and units of service shall be excluded from the calculation of the Contractor's service rates.
- 4.4.4 Contractor shall submit the Provisional Rate Request to the Lead District Chief.
- 4.4.5 The Lead District Chief will forward the Provisional Rate Request to FSB for concurrent analysis to expedite the review process.
- 4.4.6 If acceptable, the Lead District Chief will tentatively approve the proposed Provisional Rates and forward the signed Exhibit A form to the FSB for final approval within 15 calendar days.
- 4.4.7 The FSB will review the Provisional Rates for conformance with this Policy and approve or reject the Provisional Rates within 15 calendar days of receiving the Provisional Rate Request from the Lead District Chief. Final approval will be made by the Director of Finance or a designee.
  - 4.4.7.1 If FSB finds that the proposed Provisional Rates are not in conformance with this Policy and thus, rejects the proposed Provisional Rates, FSB shall notify the Lead District Chief who will notify the Contractor of such rejection and the reasons for this denial.
  - 4.4.7.2 Contractor shall have 15 calendar days from the date on the notice of rejection to submit a revised Provisional Rate Request.
- 4.4.8 Within 30 calendar days of approving the Provisional Rates, CIOB shall update the Provisional Rates within the rate table in the County's claiming system. The date the rate table is updated will be considered the effective date of the rate change.



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- 4.4.8.1 Upon approval of Provisional Rate requests, FSB will forward the approved requests, on a flow basis, to CIOB, requesting that the rate table be updated with the approved Provisional Rates.
- 4.4.8.2 CIOB will notify FSB and the Contracts Development and Administration Division (CDAD) after the rates are updated in the rate table by CIOB, or if there are any problems causing delays that need to be addressed first.
- 4.4.8.3 FSB will notify the Lead District Chief that the approved provisional rates have been updated in the rate table.
- 4.4.8.4 The Lead District Chief will send written notification (via e-mail) of the approved Provisional Rates to the Contractor.

- 4.5 If a Contractor requires mid-year changes in its Provisional Rates or adds new services and Provisional Rates, Contractor shall submit a completed Exhibit A form in compliance with the provisions of this policy.
- 4.6 All Provisional Rates approved and used for billing under this policy will be superseded during the pre-audit Cost Report Settlement process by actual cost rates as reported in the filed cost report.
- 4.7 Final reimbursement and further Actual Cost Rate adjustments are also subject to audit.

**AUTHORITY**

Applicable authorities include but are not limited to:

1. State Plan Under Title XIX of the Social Security Act Medical Assistance Program, TN No. 93-009;
2. The County Performance Contract with the State of California;
3. California Welfare and Institutions Code Division 5 Part 1 § 5651 (a) (4), 5664 (a), 5709, 5718 (c), and 5720;



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4. California Code of Regulations, Title 9, § 524, 571, 573, 1820.110 (4) (c), 1820.115 (a) (3), 1830.105.
5. Centers for Medicare and Medicaid Services (CMS) Publications #15-1 and #15-2 (The Provider Reimbursement Manual Parts 1 and 2)
6. Office of Management and Budget (OMB) Circular A-122

**EXHIBIT (HYPERLINKED)**

- A. [Provisional Rate Request/Approval Form](#)
- B. [Provisional Rate Calculation Worksheet and Instructions](#)
- C. [LACDMH Specialty Mental Health Services Maximum Reimbursement Rates Fiscal \(County Maximum Allowances\) Fiscal Year 2015-16](#)

**REFERENCE (HYPERLINKED)**

1. [LACDMH Specialty Mental Health Services Maximum Reimbursement Rates Fiscal \(County Maximum Allowances\) Fiscal Year 2014-15](#)

**RESPONSIBLE PARTY**

LACDMH Financial Services Bureau