

**DEPARTMENT OF HEALTH AND MENTAL HYGIENE  
DIVISION OF COST ACCOUNTING  
FY 2010 LOCAL HEALTH DEPARTMENT COST REPORT**

**INTRODUCTION – AREA of NEW FOCUS and NEW SERVICE COUNT  
REQUIREMENT – THREE (3) YEAR HISTORY**

This cost report is prepared based on the principles and standards for cost determinations included in federal Circular OMB A-87, Cost Principles for State, Local and Indian Tribal Governments. This is not a departure from past local health department costing practices but rather a reinforcement of the cost principles and guidelines included in A-87 and their applicability to the local health department cost report. Local health department staff should download the Circular A-87 from the federal Office of Management and Budget web page to aid in their preparation of the cost report ([www.whitehouse.gov/omb/circulars](http://www.whitehouse.gov/omb/circulars)).

Particular attention should be paid to the following specific terms, guidelines and definitions as contained in OMB Circular A-87 in the completion of the cost report.

Section B. Definitions #11 - “Cost Objective”

Section C. Basic Guidelines #3 - “Allocable Costs”

Section D. Composition of Cost #1 – “Total Cost”  
#2 – “Classification of Costs”

Section E. Direct Costs

Section F. Indirect Costs

Attachment B. Selected Items of Cost – Table of Contents - #8 “Compensation of Personal Services”, Item h. “Support of salaries and wages”

Please note the inclusion of the Time Study Reference Document included with these instructions. This Document is included to provide guidance on the adequate documentation on the allocation of payroll costs in the satisfaction of A-87 requirements.

Please note the new requirement that the three most recent years of service counts must be provided as documentation for the count of services included in the cost report calculation for the FY 2010 charge. This service count history will validate the service utilization reflected in your charge calculations for this cost report. If the service was not provided for the previous three-year period, then the most recent historic service period counts for one or two years must be provided. The prior year service counts will be checked against previous cost report submissions by DCAR staff in the review of the FY 2010 cost report.

**COST REPORT FORMAT, SUBMISSION REQUIREMENTS & TIMELINE**

You must submit the cost report in the format of the attached samples of RVU cost based CPT fee calculations. Local health departments must use FY 2008 expenditures and statistics for this submission.

The following Excel files will be sent by email to the local health administrator:

- 1) The cost report (Excel) work sheets and,
- 2) The Medicare Physician Fee Schedule, which has the RVUs to be used in the cost report submission. Please use the Fully Implemented Non-Facility Total Column.

**Submission Requirements:**

- Affirmation of Correctness
- Do not send the 4411A, Schedule of Charges Signature Page at this time
- Cost Reports - Printout of worksheets and Schedule of Charges. Please include any written explanation and additional fiscal information, e.g., DHMH 440s that is necessary to validate your cost report.
- Please submit the completed cost report Excel worksheets and schedule of charges via email to Ms. Nedina Broy-Stevenson of this office at [NBStevenson@dhmh.state.md.us](mailto:NBStevenson@dhmh.state.md.us)

**Timeline and Basis for FY 2010 Rate Development:**

- ***Basis - FY 2008 Cost & FY 2008 Statistics (3 Year History)***  
Please note the new requirement that the three most recent years of service counts must be provided as documentation for the count of services included in the cost report calculation for the FY 2010 charge.
- **September 2008** - Issuance of Cost Report Instructions by DCAR
- **December 15, 2008** - Cost Report Submission by LHD to DCAR
- **December 15, 2008 to March 1, 2009** - DCAR review of cost reports and schedule of charges; communicate with LHD's administrator/fiscal staff
- **March 1, 2009 to June 30, 2009** - DCAR discussions with Medical Assistance on possible updates to the MA reimbursement system; DCAR obtains Secretary's approval of Schedule of Charges
- **July 1, 2009** – effective date of new schedule of charges; to remain in effect until June 30, 2010

**INSTRUCTIONS FOR COST REPORT PREPARATION**

**Costs and Coding:**

- 1) As stated in the Local Health Department Costing Methodology for FY 2008 Guidelines - RVU Cost Based Fee, cost allocations must be traceable to financial statements (FMIS).
- 2) Include only costs reflected in the local health department financial statements
- 3) PCA Codes must be included for all services including Clinic, Public Health, Non-Eligible and Overhead defined services.
- 4) For this exercise, no charges are to be calculated for any public health activities or non-eligible activities (See List of Health Department Activities – Page 6).
- 5) Whenever possible, avoid including any costs associated with “Direct Clinic” in the “Overhead Cost Pool”, as reflected in the List of Health Department Activities and as guided by the OMB Circular A-87 principles on direct and indirect costs.
- 6) Please note, only chargeable services are to be costed in the FY 2010 cost report. Make certain that you exclude any part of a service that is non-chargeable. For example, addictions in-prison services (non-chargeable) should be excluded from other substance abuse services.
- 7) Exclude equipment and vehicle purchases from this costing exercise
- 8) Exclude subcontracted services from this costing exercise
- 9) Exclude indirect cost from this costing exercise
- 10) Exclude cost of drugs/vaccines from this costing exercise
- 11) Exclude laboratory services from this costing exercise
- 12) Methadone Services – defined by Medical Assistance to include face-to-face assessment, counseling and dispensing of methadone. To bill MA for Methadone Services, CPT Code 90899 must be included in the costing and include all Methadone Services.

**Cost Report Format** - All cost report submissions must be clear and in the exact format requested by DCAR. The health department must use the attached sample format.

**CPT Manual/Description of Services** - The 2008 Current Procedural Terminology (CPT) manual must be used for the FY 2010 cost report. Please use the CPT description of services as listed in the manual.

**Relative Value Units (RVU)** - The Medicare Physician Fee Schedule - Calendar Year 2008 Final Rule as published in the Federal Register for November 21, 2007 will be used for this cost report. Please use the Fully Implemented Non-Facility Total (5th column to the right of the service description) for the relevant RVU. An RVU file will be e-mailed by DCAR to each health department. CPT Codes and their descriptions are copyright protected by the American Medical Association, all rights reserved.

### **GUIDELINES - RVU COST BASED FEE**

- 1) All direct, clinic chargeable services should be costed out to compute a cost based fee for that service.
- 2) The cost allocation methodology must account for all LHD costs for FY 2008; the total must be traceable to financial statements (FMIS).
- 3) Costs must be separated into four basic activity areas (or cost pools), as follows:
  - (a) **Direct Clinic** - costs accumulated here would reflect those costs directly related to the delivery of individual health services delivered in a clinic setting. These would be costs related to patients for ongoing, routine type of services, e.g., clinician's staff time with the patient. In addition, this activity area would accumulate cost relative to the activities delineated on the attached list. These are activities which might not be directly related to "hands on" patient care but have been identified as costs related to the direct delivery of patient care. See the List of Health Department Activities by Cost Objective (Page 6) for examples. Guidance as contained in federal OMB Circular A-87 especially Sections D. Composition of Costs, E. Direct Costs and F. Indirect Costs must be considered in charging and allocating costs to the Direct Clinic cost pool.
  - (b) **Public Health** - costs accumulated here would reflect those costs related to the delivery of health care to the general population. This activity area would NOT accumulate costs related to the delivery of individual health services. The costing methodology would segregate public health costs but they would not be used for the development of a fee or charge. The LHD could use this cost information along with the relevant encounter data for internal management purposes.
  - (c) **Non-Eligible** - these activities and related costs are non-eligible in the sense that they are not areas subject to the development of cost based fees. Costs accumulated here would reflect costs for those activities, either not subject to COMAR 10.02.01.03 or costed out and reimbursed under a separate methodology, like home health.

- (d) **Overhead Cost Pool** - costs accumulated here would reflect the cost of activities, which benefit the provider's operations as a whole, but are not related to delivery of direct patient care. These are usually costs incurred for a common purpose, benefiting more than one functional area of the LHD's operation or are not readily assignable to a single function without undue effort. The overhead cost pool will be allocated to the three other activity areas of the LHD based on total direct costs for that activity area over the aggregate of direct costs for the entire LHD. Guidance as contained in federal OMB Circular A-87 especially Sections D. Composition of Costs, E. Direct Costs and F. Indirect Costs must be considered in charging and allocating costs to the Overhead Cost Pool.
- 4) The cost based fee calculation will include the use of relative value units or RVUs included the Physicians' Medicare Fee Schedule. RVUs form the basis for payment for physician services by Medicare. An RVU is a scientific calculation of the resources used in furnishing a service. The 2008 Physician Medicare Fee Schedule includes four components, intended to cover the resources needed to provide a given CPT based service. The four components are: (1) Physician work, (2) Non-facility practice expense (3) Facility practice expense, and (4) Malpractice expense. The health department will use the "Non-facility total" for costing services, which includes Physician Work, Non-facility practice expense and Malpractice expense (see attached). We will use RVUs in the costing methodology since it is a valid and scientific measure of the effort or cost which goes into the delivery of services defined at a CPT level.