

2022 DCS Rate-Setting Cost Allowances and Disallowances Report



Including information for each year
from 2018 to 2022

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Section 1 – Background

In 2021, the Indiana General Assembly enacted HEA 1532, which requires the Indiana Department of Child Services (DCS) to annually report certain information regarding rates and cost reports for:

- (1) Residential Treatment Services Providers (RTSPs); and
- (2) Licensed Child Placing Agencies (LCPAs).

The rate-setting processes for RTSPs and LCPAs are located in Indiana Administrative Code. For RTSPs, this process is found at 465 IAC 2-16 and for LCPAs this process is found at 465 IAC 2-17. (After July 1, 2022, the review portion of these processes can also be found in statute at IC 31-27-7.)

DCS rate setting for RTSPs and LCPAs is a cost-reporting model that establishes per-child daily rates to compensate providers for the DCS children in their care. For clarity, this process is not a reimbursement model wherein providers submit expenses to DCS for direct reimbursement of that specific expense. The purpose of a cost-reporting model is to establish a fair and predictable per-child daily compensation rate for providers for a calendar year.

Every year, providers submit a “cost report” to the department for the agency to calculate the next year’s per-child daily rate for that provider. These cost reports contain cost information from the most recently completed 12-month period. The department evaluates these cost reports, includes allowed costs incurred into the calculation for a rate and disallows costs that are prohibited or capped as established in Indiana Administrative Code and DCS rate bulletins.

Once a rate is calculated by DCS and communicated back to a provider, a provider has the opportunity to request an administrative review of the rate by DCS to assess its accuracy and fidelity to Indiana Administrative Code and DCS rate bulletins. The review is conducted by a review board, composed of 5 DCS staff from across several departments including Child Welfare Services, Legal, Administrative Services and Juvenile Justice Initiatives and Support. After the review board makes its

determination, a provider may request an administrative appeal to an administrative law judge (ALJ). After the ALJ issues a ruling, a provider also has the opportunity to request judicial review.

A provider's rate is communicated to them in the fall to apply for the upcoming calendar year. For example, the 2022 rates were determined in the fall of 2021 based on the costs incurred for all of 2020.

Pursuant to HEA 1532-2021, DCS is required to report on the following with regard to cost reports submitted to the department by RTSPs and LCPAs:

(A) The:

(i) amount; and

(ii) proportion, expressed as a percentage;

of submitted costs that were disallowed by the department.

(B) The proportion, expressed as a percentage, of the total amount of costs disallowed by the department that was disallowed under each category listed in

(i) 465 IAC 2-16-21(d)(1) through 465 IAC 2-16-21(d)(7) for RTSPs; and

(ii) 465 IAC 2-17-23(d)(1) through 465 IAC 2-17-23(d)(6) for LCPAs.

(C) The number of reviews requested under:

(i) 465 IAC 2-16-26 for RTSPs; and

(ii) 465 IAC 2-17-27 for LCPAs.

(D) Of the total number of rates for which review was requested under 465 IAC 2-16-26 and 465 IAC 2-17-27, the proportion, expressed as a percentage, of:

(i) rates increased upon review;

(ii) rates decreased upon review; and

(iii) rates neither increased nor decreased upon review.

This 2022 report includes information for rates each year from 2018 to 2022.

(Percentages are rounded to the nearest whole number.)

Section 2 – Residential Treatment Services Provider (RTSP)

Cost Reports

Submitted Costs Allowed and Disallowed

Table 2.0 - Residential Treatment Services Provider (RTSP)	2018	2019	2020	2021	2022
Total Amount of costs submitted	\$278,940,944	\$287,709,388	\$282,562,133	\$345,883,347	\$298,960,291
Amount of costs allowed	\$269,073,898	\$277,581,338	\$272,588,674	\$333,250,077	\$283,691,211
% of submitted costs allowed	96%	96%	96%	96%	95%
Amount of costs disallowed	\$9,867,046	\$10,128,049	\$9,973,460	\$12,633,270	\$15,269,080
% of submitted costs disallowed	4%	4%	4%	4%	5%

Types of Disallowances

RTSP disallowances are outlined in 465 IAC 2-16-21. The rate setting process includes five categories of RTSP expenses that are capped. These five categories are: (1) Salary; (2) Fringe Benefits; (3) Staffing Ratio; (4) Administrative Costs; and (5) Occupancy and Excess Capacity. The caps for each of these expense categories are published each fall in the DCS Residential Treatment Service Provider Rate Bulletin. Expenses in excess of these caps are disallowed.

- (1) Salary

Salary cost limits are applied when salaries exceed the allowable limit. They are based on a tiering system, with higher-revenue RTSPs having a higher ceiling for salary limits. The salary cost limits were determined by the DCS Rate Setting team with consultation by a third party and a review of a study completed by the Child Welfare League of America. The tiers and their relative cost limits for 2022 are as follows:

Table 2.1 – RTSP Salary Tiers	Salary Cost Limit
(1) Less than \$1 million in Revenue	\$100,000
(2) Between \$1 million and \$5 million in Revenue	\$125,000
(3) Greater than \$5 million in Revenue	\$175,000

Table 2.2 – Salary Cost Limit	2018	2019	2020	2021	2022
Total disallowance amounts	\$9,867,046	\$10,128,049	\$9,973,460	\$12,633,270	\$15,269,080
Salary cost limit disallowance amounts	\$231,180	\$280,412	\$197,157	\$258,602	\$199,961
% of total disallowances due to salary cost limit	2%	3%	2%	2%	1%

- **(2) Fringe Benefits**

Fringe benefits are additional benefits that supplement an employee’s wages. This includes items such as retirement benefits as well as health, dental, vision, life and disability insurance. Fringe benefits are limited to a set percentage of total wage costs. This percentage is calculated based on the average of fringe benefits paid by all providers, plus an additional two standard deviations. Fringe benefits in excess of the cap are disallowed.

Table 2.3 – RTSP Fringe Benefit Cost Limit	2018	2019	2020	2021	2022
Total disallowance amounts	\$9,867,046	\$10,128,049	\$9,973,460	\$12,633,270	\$15,269,080
Fringe-benefit limit	42%	42%	42%	41%	44%
Fringe-benefit cost limit disallowance amounts	\$191,869	\$335,345	\$506,848	\$354,191	\$339,745
% of total disallowances due to fringe-benefit cost limit	2%	3%	5%	3%	2%

- **(3) Staffing Ratio**

For rate setting purposes, the staffing ratio provides parameters for the highest level of staff to children for which DCS will allow the cost. Staffing limits are based on the

lowest (highest-staffed) allowable licensing ratios. Additional staff allowance is added to all programs in the following manner:

- 1) one additional supervisor was added per six (6) direct care workers, and
- 2) one additional case manager was added per twenty-four (24) cases or children.

Additional staffing was factored for the programs with higher need, per consultation with program staff. The below chart outlines ratios required by licensing and the maximum staff ratios allowed for eligible costs. Additional staff are allowed on a case-by-case basis if it is determined a particular child's needs warrant additional staff.

Table 2.4 – Staff-to-Child Ratios by License Type			
License Type	Licensing Direct Care Staff-to-Child Ratio (range determined by children's needs)		Rate Setting Staffing-to-Child Ratio (range determined by program service category type)
	Daytime Hours	Sleeping Hours	
Group Homes	1:6 - 1:8	1:10	1:2 - 1:4.4
Child Caring Institutions	1:4 - 1:8	1:12	1:2 - 1:4.4
Private Secure	1:4	2 awake staff per unit	1:2 - 1:2.7

Table 2.5 – Staffing Ratio Cost Limits	2018	2019	2020	2021	2022
Total disallowance amounts	\$9,867,046	\$10,128,049	\$9,973,460	\$12,633,270	\$15,269,080
Staffing-ratio cost-limit disallowance amounts	\$5,662,927	\$6,900,921	\$7,232,816	\$9,371,402	\$12,481,059
% of total disallowances due to staffing-ratio cost limit	57%	68%	73%	74%	82%

- **(4) Administrative Costs**

Administrative costs are those costs related to the administration of an RTSP, such as accounting and finance, office supplies, information systems, and human resources. Administrative costs are allowed up to a total percentage of total direct

expenditures. This percentage is calculated based on the average of administrative costs incurred by providers, plus an additional one standard deviation.

Table 2.6 – RTSP Administrative Cost Limits	2018	2019	2020	2021	2022
Total disallowance amounts	\$9,867,046	\$10,128,049	\$9,973,460	\$12,633,270	\$15,269,080
Administrative cost limit	40%	39%	41%	41%	43%
Administrative cost-limit disallowance amounts	\$2,719,863	\$1,739,786	\$1,224,787	\$1,401,421	\$1,189,054
% of total disallowances due to administrative cost limit	28%	17%	12%	11%	8%

- **(5) Occupancy and Excess Capacity**

Programs with available capacity in significant excess to their average monthly occupancy have a portion of their occupancy costs disallowed. The purpose of this is to limit the state from covering costs of a certain level of unused capacity. A percentage of facility-related costs are disallowed when a program has significantly less occupancy than capacity. These types of costs include depreciation of building, grounds and equipment; rent; mortgage interest; property taxes; property insurance; utilities; telephone; maintenance and repair of buildings, grounds and equipment; small equipment purchases; and leased and rented equipment. The occupancy cost limit is set at the average monthly occupancy levels per the same period in which costs were gathered.

Table 2.7 – Occupancy-Cost Limits	2018	2019	2020	2021	2022
Total disallowance amounts	\$9,867,046	\$10,128,049	\$9,973,460	\$12,633,270	\$15,269,080
Occupancy cost limit	70%	70%	67%	69%	62%
Occupancy cost limit disallowance amounts	\$1,061,207	\$871,586	\$811,852	\$1,247,655	\$1,059,262
% of total disallowances due to occupancy cost limit	11%	9%	8%	10%	7%

Summary of RTSP Disallowances

Table 2.8 - Residential Treatment Services Provider (RTSP)	2018	2019	2020	2021	2022
Total amount of costs disallowed	\$9,867,046	\$10,128,049	\$9,973,460	\$12,633,270	\$15,269,080
(1) Salary	\$231,180 (2%)	\$280,412 (3%)	\$197,157 (2%)	\$258,602 (2%)	\$199,961 (1%)
(2) Fringe Benefits	\$191,869 (2%)	\$335,345 (3%)	\$506,848 (5%)	\$354,191 (3%)	\$339,745 (2%)
(3) Staffing Ratio	\$5,662,927 (57%)	\$6,900,921 (68%)	\$7,232,816 (73%)	\$9,371,402 (74%)	\$12,481,059 (82%)
(4) Administrative Costs	\$2,719,863 (28%)	\$1,739,786 (17%)	\$1,224,787 (12%)	\$1,401,421 (11%)	\$1,189,054 (8%)
(5) Occupancy and Excess Capacity	\$1,061,207 (11%)	\$871,586 (9%)	\$811,852 (8%)	\$1,247,655 (10%)	\$1,059,262 (7%)

RTSP Administrative-Rate Review Information

Under 465 IAC 2-16-26, RTSPs may request a review of the administrative payments established by their cost reports. Reviews may be requested when the residential treatment centers believe errors were made in:

1. the cost report,
2. DCS' calculations, or
3. the reasonableness of any costs

or if the administrative payment established would have “a material adverse impact on child welfare in Indiana that an existing provider in the state of Indiana cannot adequately address.” The table below outlines the number of rate reviews requested by residential treatment centers and the outcome of those reviews. If information presented during a review would result in a lower rate, DCS gives providers the opportunity to withdraw their request for review. Because of this, DCS has never decreased a rate as a result of a review.

Table 2.9 – RTSP Administrative Rate Review Information	2018	2019	2020	2021	2022
Total # of RTSP cost reports submitted	161	158	154	176	150
# of RTSP cost reports for which administrative review requested	56	46	30	11	72
% of RTSP cost reports for which administrative review requested	35%	29%	19%	6%	48%
# of administrative reviews leading to an increased rate (APPROVED)	26	11	10	4	61
% of administrative reviews leading to an increased rate (APPROVED)	46%	24%	33%	36%	85%
# of administrative reviews leading to no change to rate (DENIED)	30	35	20	7	11
% of administrative reviews leading to no change to rate (DENIED)	54%	76%	67%	64%	15%

Section 3 – Licensed Child Placing Agency (LCPA) Cost Reports

Submitted Costs Allowed and Disallowed

Table 3.0 – Licensed Child Placing Agencies (LCPA)	2018	2019	2020	2021	2022
Total amount of costs submitted	\$45,383,127	\$48,400,578	\$51,062,567	\$54,996,391	\$55,078,423
Amount of costs allowed	\$44,272,162	\$47,591,438	\$50,222,898	\$53,575,361	\$54,260,472
% of submitted costs allowed	98%	98%	98%	97%	99%
Amount of costs disallowed	\$1,110,965	\$809,140	\$839,669	\$1,421,030	\$817,951
% of submitted costs disallowed	2%	2%	2%	3%	1%

Types of Disallowances

LCPA disallowances are outlined in 465 IAC 2-17-23. The rate-setting process includes four categories of LCPA expenses that are capped. These four categories are: (1) Salary; (2) Fringe Benefits; (3) Caseload Ratio; and (4) Administrative Costs. The caps for these categories are published each fall in the DCS Licensed Child Placing Agency Provider Rate Bulletin. Expenses in excess of these caps are disallowed.

- **(1) Salary**

Salary cost limits are applied when salaries exceed the allowable limit. They are based on a tiering system, with higher-revenue programs having a higher ceiling for salary limits. The salary cost limits were determined by the DCS Rate Setting team with consultation by a third party and a review of a study completed by the Child Welfare League of America. The tiers and their relative cost limits for 2022 are as follows:

Table 3.1 – LCPA Salary Tiers	Salary Cost Limit
(1) Less than \$1 million in revenue	\$100,000
(2) Between \$1 million and \$5 million in revenue	\$125,000
(3) Greater than \$5 million in revenue	\$175,000

Table 3.2 – LCPA Salary Cost Limit	2018	2019	2020	2021	2022
Total disallowance amounts	\$1,110,965	\$809,140	\$839,669	\$1,421,030	\$817,951
Salary cost limit disallowance amounts	\$128,047	\$124,547	\$89,140	\$124,265	\$102,618
% of total disallowances due to salary cost limit	11%	15%	11%	9%	12%

- **(2) Fringe Benefits**

Fringe benefits are additional benefits that supplement an employee’s wages. This includes items such as retirement benefits as well as health, dental, vision, life and disability insurance. Fringe benefits are limited to a set percentage of total wage costs. This percentage is calculated based on the average of fringe benefits paid by all LCPA providers, plus an additional two standard deviations.

Table 3.3 – LCPA Fringe Benefit Cost Limit	2018	2019	2020	2021	2022
Total disallowance amounts	\$1,110,965	\$809,140	\$839,669	\$1,421,030	\$817,951
Fringe-benefit limit	37%	41%	42%	43%	45%
Fringe-benefit cost limit disallowance amounts	\$18,206	\$5,591	\$17,766	\$-	\$13,848
% of total disallowances due to fringe-benefit cost limit	2%	1%	2%	0%	2%

- **(3) Caseload Ratio**

For the purposes of administrative rate setting purposes, the caseload ratio provides parameters for the highest level of case managers to children for which DCS will allow the cost. The caseload-ratio cost limit is calculated separately and applied individually for each child placing agency cost report. It includes multiple variables such as caseworker-to-client ratio, supervisor-to-caseworker ratio, as well as licensed consultant-to-licensed home ratio.

Table 3.4 – Caseload Ratio Cost Limits	2018	2019	2020	2021	2022
Total disallowance amounts	\$1,110,965	\$809,140	\$839,669	\$1,421,030	\$817,951
Caseload-ratio cost limit disallowance amounts	\$340,526	\$389,775	\$164,605	\$873,930	\$531,193
% of total disallowances due to caseload-ratio cost limit	31%	48%	19%	61%	65%

- **(4) Administrative Costs**

Administrative costs are those costs related to the administration of an LCPA, such as accounting and finance, office supplies, information systems, and human resources. Administrative costs are allowed up to a total percentage of total direct expenditures. This percentage is calculated based on the average of administrative costs incurred by providers, plus an additional one standard deviation.

Table 3.5 – LCPA Administrative Cost Limits	2018	2019	2020	2021	2022
Total disallowance amounts	\$1,110,965	\$809,140	\$839,669	\$1,421,030	\$817,951
Administrative cost limit	86%	82%	78%	75%	87%
Administrative cost limit disallowance amounts	\$624,186	\$289,227	\$568,158	\$422,834	\$170,292
% of total disallowances due to administrative cost limit	56%	36%	68%	30%	21%

Summary of LCPA Disallowances

Table 3.6 – Licensed Child Placing Agency (LCPA)	2018	2019	2020	2021	2022
Total amount of costs disallowed	\$1,110,965	\$809,140	\$839,669	\$1,421,030	\$817,951
(1) Salary	\$128,047 (11%)	\$124,547 (15%)	\$89,140 (11%)	\$124,265 (9%)	\$102,618 (12%)
(2) Fringe Benefits	\$18,206 (2%)	\$5,591 (1%)	\$17,766 (2%)	\$- (0%)	\$13,848 (2%)
(3) Caseload Ratio	\$340,526 (31%)	\$389,775 (48%)	\$164,605 (20%)	\$873,930 (61%)	\$531,193 (65%)
(4) Administrative Costs	\$624,186 (56%)	\$289,227 (36%)	\$568,158 (67%)	\$422,834 (30%)	\$170,292 (21%)

LCPA Administrative Rate Review Information

Per 465 IAC 2-17-27, LCPAs may request a review of the administrative payments established by their cost reports. Reviews may be requested when the LCPA believes errors were made in:

1. the cost report,
2. DCS' calculations, or
3. the reasonableness of any costs

or if the administrative payment established would have “an adverse impact on child welfare in Indiana that an existing provider in the state of Indiana cannot adequately address.” The table below outlines the number of rate reviews requested by LCPAs and the outcome of those reviews. If information presented during a review would result in a lower rate, DCS gives LCPAs the opportunity to withdraw

their request for review. Because of this, DCS has never decreased an administrative payment rate as a result of a review.

Table 3.7 – LCPA Administrative Rate Review Information	2018	2019	2020	2021	2022
Total # of LCPA cost reports submitted	28	28	27	28	26
# of LCPA cost reports for which administrative review requested	4	5	3	2	3
% of LCPA cost reports for which administrative review requested	14%	18%	11%	7%	12%
# of administrative reviews leading to an increased rate (APPROVED)	2	-	1	1	1
% of administrative reviews leading to an increased rate (APPROVED)	50%	0%	33%	50%	33%
# of administrative reviews leading to no change to rate (DENIED)	2	5	2	1	2
% of administrative reviews leading to no change to rate (DENIED)	50%	100%	67%	50%	67%