



TOBY DOUGLAS  
DIRECTOR

State of California—Health and Human Services Agency  
Department of Health Care Services



EDMUND G. BROWN JR.  
GOVERNOR

**PPL 12-003**

**DATE:** March 2, 2012

**TO:** Local Educational Agency (LEA) and Local Governmental Agency (LGA) Coordinators

**SUBJECT:** Indirect Cost Rate for Community Colleges Claiming Reimbursement for School Based Medi-Cal Administrative Activities (SMAA)

This Policy and Procedure Letter (PPL) provides notification regarding the determination of indirect cost rates for community colleges claiming reimbursement for SMAA beginning July 1, 2012 and forward. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in OMB Circular A-87, Appendices C, D, and E.

Per OMB Circular A-87, the total cost of federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits. Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted without effort disproportionate to the results achieved.

There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. Typical examples of indirect costs may include: certain statewide and/or local central service costs, general administration of the grantee department or agency, accounting and/or personnel services performed within the grantee department or agency, depreciation or use allowance on buildings and equipment; and the costs of operating and maintaining facilities, etc.

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SMAA reimbursement claims can include indirect costs. To claim SMAA indirect costs, community colleges must follow OMB Circular A-87, Appendices C, D, & E and use their approved indirect cost rate (ICR) or approved Cost Allocation Plan (CAP). If a community college does not have an approved ICR or an approved CAP, a standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service.

If you have any questions or require further assistance regarding this PPL, please contact Geri Baucom, Chief of the Administrative Claiming, Local and School Services Branch, at (916) 552-9615 or [Gbaucom@dhcs.ca.gov](mailto:Gbaucom@dhcs.ca.gov).

Sincerely,

**ORIGINAL SIGNED BY GERI BAUCOM**

Geri Baucom, Chief  
Administrative Claiming, Local Schools and Services Branch

cc: Mr. Patrick Sutton  
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