



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



EDMUND G. BROWN JR.
GOVERNOR

DATE: December 4, 2015

MHSUDS INFORMATION NOTICE NO.: 15-050

TO: COUNTY BEHAVIORAL HEALTH PROGRAM DIRECTORS
COUNTY DRUG & ALCOHOL ADMINISTRATORS
COUNTY BEHAVIORAL HEALTH DIRECTOR'S ASSOCIATION
CALIFORNIA COUNCIL OF COMMUNITY MENTAL HEALTH
AGENCIES
COALITION OF ALCOHOL AND DRUG ASSOCIATIONS
SUD PROGRAMS LICENSED AND/OR CERTIFIED BY DHCS

SUBJECT: COST ALLOCATION FOR SUD SERVICES

Purpose

This notice conveys new requirements and guidance from the Department of Health Care Services (DHCS) to ensure that substance use disorder (SUD) providers properly allocate their SUD service expenses and report those expenses accurately on their annual cost reports. Beginning in Fiscal Year (FY) 2015-2016, all providers will be required to show in the cost report how direct and indirect costs are determined and how indirect costs are allocated by line item and by modality.

Background

On October 28, 2015, the Centers for Medicare and Medicaid Services (CMS) approved DHCS's Medicaid State Plan Amendment (SPA) 15-013 which updated the rate setting and reimbursement methodologies for Drug Medi-Cal (DMC) services previously included in SPA 09-022 (which sunset on June 30, 2015). As part of the SPA approval process, CMS required that California adjust its SUD cost report process to ensure that providers demonstrate how allowable costs are determined and allocated.

Discussion

Beginning in FY 2015-2016, all SUD providers will be required to have a cost allocation plan that computes allowable costs in accordance with applicable cost reimbursement principles in 42 CFR Part 413, CMS-Pub 15-1, and CCR Title 9 and Title 22. CMS requires that the cost report must identify, accumulate, and distribute allowable direct and indirect costs by line item and modality and identify the allocation methodology

used for distribution of indirect costs. For consistency, efficiency and compliance with federal laws and regulations, the new CMS-approved cost report identifies direct cost categories for each modality and establishes a standard methodology of percentage of total direct cost to allocate indirect costs. This methodology is a variation of the indirect cost rate methodology in 2 CFR Part 225 (OMB Circular A-87) and 2 CFR Part 230 (OMB Circular A-122). DHCS recognizes that there are other allocation bases (such as percentage of direct salaries and wages) that result in an equitable distribution of indirect administrative overhead. However, if a provider wishes to use an allocation basis other than the one prescribed in the cost report, the provider must obtain their respective county's prior approval. Before granting approval to the provider, the county must seek DHCS's approval and DHCS will make a final determination of the propriety of the methodology used. All allocation plans will still be subject to a review during a DHCS financial audit.

Over the next year, DHCS will provide regional training and/or training webinars to assist counties and providers improve accuracy and accountability in SUD cost reports. DHCS auditors will provide information on acceptable allocation methodologies and guidance on how to equitably distribute costs to various programs. DHCS fiscal analysts will demonstrate the new cost report forms and the process that will be used for the FY 2015-2016 cost report.

Questions/Maintenance

Questions regarding this notice may be directed to Sandra Yien, Chief, Fiscal Management and Accountability Branch, at (916) 327-2752 or sandy.yien@dhcs.ca.gov.

Sincerely,

Original signed by

Karen Baylor, Ph.D., LMFT, Deputy Director
Mental Health & Substance Use Disorder Services