

ENCLOSURE 1: REASONABLE ADMINISTRATIVE COSTS POLICY

This resource documents the California Department of Health Care Services' (DHCS) Reasonable Administrative Costs (RAC) Policy for the California Opioid Settlements. This RAC policy applies to all CA Participating Subdivisions receiving funds from the California (CA) Abatement Accounts Fund, as specified in the DHCS Behavioral Health Information Notice No.: 26-010 CA Abatement Accounts Fund.

Policy

Pursuant to the National Opioid Settlement Agreements, qualifying expenditures may include reasonable related administrative expenses.¹ Reasonable administrative expenses are those expenses incurred in administering the distributions for Opioid Remediation uses identified in [Exhibit E](#) and, as applicable, California's High Impact Abatement Activities (HIAA). DHCS considers administrative expenses not identifiable with a specific activity/program or benefitting more than one cost objective, such as overhead, general operations, or organization-wide activities of an agency, to be indirect costs. **For the purpose of this guidance, DHCS is interpreting administrative costs referenced in the settlements as indirect costs.** CA Participating Subdivisions with questions regarding the definition of terms may refer to the California Opioid Settlements Glossary (Enclosure 2).

Indirect Costs

CA Participating Subdivisions may use funds received from the CA Abatement Accounts Fund to cover indirect costs, both for the CA Participating Subdivision and any subrecipients contracted by the CA Participating Subdivision to implement allowable Opioid Remediation activities. Indirect costs are expenses that may support larger cost objectives but cannot be specifically assigned to an Opioid Remediation activity/program. Indirect costs may include proportional administrative or clerical

¹ Opioid settlements in this instance refers to final and proposed agreements between the State of California and opioid manufacturers Janssen Pharmaceuticals and Johnson & Johnson (collectively Janssen) , Teva, and Allergan; distributors McKesson, Cardinal Health, and AmerisourceBergen (collectively, Distributors); and pharmacies Walgreens, Walmart, and CVS (collectively, Pharmacies), as well as any future opioid settlement agreements which follow the structure.

salaries, general office supplies, insurance, and general overhead costs that cannot be directly tied to the Opioid Remediation activity/program. Total indirect costs for a CA Participating Subdivision and its funded subrecipients shall be reasonable and not exceed ten (10) percent of the total amount allocated to the Opioid Remediation activity/program. Indirect costs in excess of ten (10) percent of the total allocated to the Opioid Remediation activity/program are presumed unreasonable but may be allowed with proper supporting documentation to demonstrate the reasonableness of the costs incurred. Indirect costs claimed in excess of actual costs are not allowed.

Indirect costs are not considered to meet the intent of the HIAA outlined in the California State-Subdivision Agreements and the DHCS Behavioral Health Information Notice No.: -26-010 CA Abatement Accounts Fund. Therefore, indirect costs shall not be included in the calculations to determine if a CA Participating Subdivision has met the requirement that no less than 50% of the funds received from the CA Abatement Accounts Fund each year is spent on HIAA.

Direct Costs

CA Abatement Accounts Funds received by CA Participating Subdivisions may be used for direct costs to administer an Opioid Remediation activity listed in one or more of the areas described in [Exhibit E](#), and, as applicable, California's HIAA. Direct costs are expenses that can be directly attributed to a specific Opioid Remediation use listed in Exhibit E. These are costs that are necessary to implement an eligible Opioid Remediation activity and may be directly charged to the provision of those services, including related administrative activities. Direct costs may include personnel costs that are directly attributable to the Opioid Remediation activity/program either in whole or proportionately. [Exhibit E](#) provides examples of administrative activities that may qualify as a direct cost (see Section J (1-4)).

Expenses can be considered direct costs **only** if all the following conditions are met:

1. Costs that are incurred are directly chargeable and integral to an approved Opioid Remediation use, as listed in [Exhibit E](#), and as applicable, California's HIAA;
2. Costs can be specifically identified with the Opioid Remediation activity/program;
3. Costs are explicitly included in the activity/program budget and can be segregated by the type of expense (e.g., line items) with a high degree of accuracy;
4. Costs are not recovered as indirect costs (i.e., double charging);
5. Costs can be delineated by fund source (e.g., CA Abatement Accounts Fund vs. CA

- Subdivision Fund); and
6. Personnel costs must be directly attributable to the Opioid Remediation activity/program and must be reasonable and proportional to the time staff spend on the Opioid Remediation activity/program.

Reporting Costs

Both direct and indirect costs are required to be reported to DHCS annually. For financial reporting purposes, CA Participating Subdivisions must maintain books, records, documents, and other evidence to properly reflect the rationale for indirect and direct costs related to their Opioid Remediation activities funded by the CA Abatement Accounts Fund. Examples include, but are not limited to, timekeeping records, evidence of programmatic efforts (e.g., marketing for events hosted/attended), and local accounting policies, procedures, and practices. CA Participating Subdivisions should preserve their records for a minimum of five years after the expenditure is reported to DHCS. If DHCS determines that a CA Participating Subdivision's use of CA Abatement Accounts Funds is inconsistent with eligible uses, records may be requested as part of a meet and confer, an audit, or legal action.

Reference

[Distributors Settlement Agreement](#)

[Janssen Settlement Agreement](#)

[California State-Subdivision Agreement](#) – Allergan Settlement

[California State-Subdivision Agreement](#) – CVS Settlement

[California State-Subdivision Agreement](#) – Distributors Settlement

[California State-Subdivision Agreement](#) – Janssen Settlement

[California State-Subdivision Agreement](#) – Walgreens Settlement

[California State-Subdivision Agreement](#) – Walmart Settlement

[California State-Subdivision Agreement](#) – Teva Settlement

[Government Code \(GOV\), Title 2, Division 3, Part 2, Chapter 6, Article 2, Section 12534 – Opioid Settlement Fund](#)