

DATE: December 30, 2024 (**revised March 3, 2025**)

Behavioral Health Information Notice No: 24-047
SUPERSEDES: [BHIN 20-020](#)

TO: California Alliance of Child and Family Services
California Association for Alcohol/Drug Educators
California Association of Alcohol & Drug Program Executives, Inc.
California Association of DUI Treatment Programs
California Association of Social Rehabilitation Agencies
California Consortium of Addiction Programs and Professionals
California Council of Community Behavioral Health Agencies
California Hospital Association
California Opioid Maintenance Providers
California State Association of Counties
Coalition of Alcohol and Drug Associations
County Behavioral Health Directors
County Behavioral Health Directors Association of California
County Drug & Alcohol Administrators

SUBJECT: Department of Health Care Services (DHCS) Behavioral Health (BH)
Cost Rate Policy for Federal Formulary and Discretionary Grants

REFERENCE: Title 2 CFR Parts [200](#) and [300](#) – Uniform Administrative Requirements,
Cost Principles, and Audit Requirements for Federal Grants.

PURPOSE: This Behavioral Health Information Notice (BHIN) informs subrecipients and contractors of updates to the Behavioral Health Indirect Cost Rate (ICR) Policy for Federal formulary Grants, Discretionary Grants, and Cooperative Agreements.

This policy applies to all subrecipients and recipients of federal funds from the Substance Abuse and Mental Health Services Administration (SAMHSA) through a pass-through relationship with DHCS. This includes, but is not limited to, the following federal programs:

- Substance Use Prevention, Treatment, and Recovery Services Block Grant;
- Community Mental Health Services Block Grant;
- Projects for Assistance in Transition from Homelessness;
- Strategic Prevention Framework – Partnerships for Success; and
- State Opioid Response.



BACKGROUND

Pursuant to Title 2 Code of Federal Regulations (CFR), Part 200, DHCS, as a pass-through entity, is required to ensure that each recipient/subrecipient has a certified federally recognized ICR. This rate must be negotiated between the recipient/subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity (DHCS) and the recipient/subrecipient or a *de minimis* ICR as defined in 2 CFR 200.414(f) must be established.

POLICY

The ICR policy for federal formulary and discretionary grants will be incorporated into all SAMHSA-funded contracts and agreements. Recipients/subrecipients who do not have a federally certified ICR must prepare and retain an Indirect Cost Rate Proposal (ICRP) for monitoring and audit purposes. This policy is effective October 1, 2024.

ICR CERTIFICATION SUBMISSION

To be eligible for recoupment of indirect costs, recipients/subrecipients must submit their certification to ICRcertification@dhcs.ca.gov for the following State Fiscal Year (SFY). Certifications will be valid for a period of three years. Entities must select one of the following options:

1. Federally Negotiated ICR: submit a copy of the federal approval with an attestation signed by the agency or department official and the county auditor or fiscal representative.
2. Up to 15 percent *de minimis* rate: Certify that the entity does not possess a federally negotiated ICR.
3. Negotiated rate:
 - Provide the ICR type, methodology type, and distribution base used to calculate the proposed ICR, as per [2 CFR Part 200 Appendix VII](#) (for States and Local Governments) and [Appendix IV](#) (for Non-Profit Entities).
 - **Any negotiated indirect cost rate is subject to a 25 percent cap. If less than 25 percent is calculated, the calculated rate is to be used.**
 - Submission for the proposed rate must be reviewed and signed by the agency or department official and the county auditor or fiscal representative.
 - Submit the ICRP, which will be reviewed by DHCS. If approved, a formal written agreement will be issued. The negotiated ICR will take effect in the following SFY.

If the recipient/subrecipient chooses to resubmit certification documents for SFY 2024-25 through 2025-26, they must be submitted by December 31, 2024, with retroactive

application starting October 1, 2024.

USE OF ESTABLISHED ICR

Once the ICR is established, it must be used consistently for all SAMHSA grants and cooperative agreements sub-awarded by DHCS. Recipients/subrecipients must retain their ICR calculations and supporting documentation in accordance with the records retention requirements in [2 CFR Part 200.334](#). These documents will be reviewed during monitoring and audits.

DIRECT CHARGE OF ADMINISTRATIVE COSTS

Administrative and clerical salaries are typically treated as indirect costs. However, they may be charged directly to grant if:

1. The services are integral to the project.
2. Individuals can be specifically identified with the project.
3. The costs are explicitly included in the program budget and segregated by type.
4. The costs have been previously certified by DHCS.
5. The costs have not already been recovered as indirect costs.

ICR Methodology Types:

- **Simplified Method** – Where each of a recipient agency’s major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished under the simplified method in compliance with [2 CFR Part 200 Appendix VII](#) – States and Local Governments, and [Appendix IV](#) – Non-Profit Entities.
- **Multiple Allocation Base Method** – The multiple rate method is more suitable for recipient agencies where indirect costs benefit their major functions, as per [2 CFR Part 200 Appendix IV](#) and [VII](#). Additional information is available in the [Guidance for Federal Financial Assistance for State and Local Governments](#).

Detailed guidelines for calculating ICRs are available in 2 CFR Part 200 and the Guidance for Federal Financial Assistance for State and Local Governments.

DEFINITIONS

Disallowed Costs – Those charges to a federal award that the federal agency or pass-through entity determines to be unallowable, in accordance with the applicable federal statutes, regulations, or the terms and conditions of the federal award.

Direct Costs – Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a federal award or other internal or externally funded activity, or that can be directly assigned to such activities with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect.

Distribution Base or Direct Cost Base – The term “Base” refers to the accumulated direct costs (usually (a) total direct salaries and wages with or without fringe benefits, or (b) total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from those costs. Types of distribution bases are:

- **Direct Salaries and Wages** – This base includes only the direct salaries and wages incurred by the organization.
- **Direct Salaries and Wages plus Fringe Benefits** – This base includes only the direct salary and wages and the direct fringe benefits incurred by the organization.

Federal Agency – The term generally refers to the agency that provides a Federal award directly to a recipient unless the context indicates otherwise.

Indirect Cost – These are costs incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. It may be necessary to establish multiple pools of indirect costs to facilitate equitable distribution of indirect expenses to the cost objectives served. Indirect cost pools must be distributed to benefitted cost objectives on a basis that will produce an equitable result in consideration of relative benefits derived.

There is no universal rule for classifying certain costs as either direct or indirect; a cost may be direct with respect to some specific service or functions but indirect with respect to the federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances, either as a direct or indirect cost, in order to avoid possible double charging of federal awards. Guidelines for determining direct and indirect costs charged to federal awards are provided in [2 CFR Part 200: 200.1](#) (definitions of Modified Total Direct Cost, Equipment, and Supplies), [200.313\(e\)](#), [200.314\(a\)](#), [200.320](#), [200.333](#), [200.344](#), [200.414\(f\)](#), and [200.501](#).

Indirect Cost Pool – The indirect cost pool is the accumulated costs that jointly benefit two or more programs or other cost objectives. Indirect cost pool expenditures typically include administrative salaries and fringe benefits associated with overall financial and organization administration, operation and maintenance costs for facilities and equipment, and payroll and procurement services.

Indirect Cost Rate – A method used to fairly allocate indirect costs to each program. It

is the percentage ratio of total indirect costs to a designated direct cost base.

Indirect Cost Rate Proposal – The documentation prepared by a government entity or its subdivision to support its request for the establishment of an indirect cost rate.

Modified Total Direct Cost – Includes all direct salaries and wages, fringe benefits, materials and supplies, services, travel, and up to the first \$50,000 of each subaward (regardless of the subaward’s performance period). MTDC excludes equipment, capital expenditures, patient care charges, rental costs, tuition remission, scholarships and fellowships, participant support costs, and any portion of subawards over \$50,000. Other exclusions may apply only if necessary to prevent significant inequities in the allocation of indirect costs and with approval from the cognizant agency for indirect costs ([2 CFR 200.1](#)).

Pass-Through Entities – Pass-through entities are subject to the requirements in [200.332\(b\)\(4\)](#) and must accept all federally negotiated indirect costs rates for subrecipients.

Recipient – An entity that receives a federal award directly from a federal agency to implement an activity under a federal program. The term "recipient" does not include subrecipients or individuals who are participants or beneficiaries of the award.

Subrecipient – An entity that receives a sub-award from a pass-through entity to carry out part of a federal award. The term subrecipient does not include a beneficiary or participant. A subrecipient may also be a recipient of other Federal awards directly from a federal agency.

For a full list of definitions, please refer to [2 CFR 200.1](#).

If you have any questions regarding this policy, please email ICRcertification@dhcs.ca.gov.

Sincerely,

Original signed by

Marlies Perez, Chief
Community Services Division