

The reasonable allocation methodologies in this Attachment represent examples of approaches that **may** be used by counties to allocate various categories of indirect costs to the direct cost objectives (service costs, administration, and/or utilization review). These methodologies are not required to be used, as the methodology to allocate indirect costs should be commensurate with the results achieved through the allocation. Where that is the case, or where counties do not capture the statistics reflected in the allocation methodology examples, a simplified allocation methodology may be used based on either the salaries and benefits identified through a time study or the gross costs assigned directly to each cost objective. These simplified approaches may be used for one or more categories of indirect costs.

Item	Indirect Cost Center	Scenario	Why It's Indirect	Reasonable Allocation Methodology (Example)
1	Land	Land is bought by the county and is used by different departments, including the department of mental health. This building will house individuals who work on administration, utilization review/quality assurance (UR/QA), and direct services.	Although buying land is not one of the activities listed in the MHP contract, the department of mental health needs to be located on land, so buying land is necessary for its general operation. However, since administration, UR/QA, and direct services are all housed on the land, the costs cannot be readily allocated to a particular activity and are thus indirect.	<p>Square footage that relates to specific mental health activities. How much land costs is closely tied to its square footage. So, if 100 square feet are acquired and only 20 square feet is used by mental health administration, 20% of expenditures should be allocated to mental health-administration.</p> <p>A simplified time study or gross cost approach is appropriate when office space is used for multiple cost objectives (one staff member performs multiple cost objectives from a single office) or when the square footage attributable to each cost objective is not currently tracked by the county.</p>
2	Buildings and Improvements	A building is bought or improved by the county and is used for different departments, including	Although buying or improving a building is not one of the activities listed in the MHP	Square footage. The cost to acquire or improve a building is closely tied to its

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		<p>the department of mental health. This building will house individuals who work on administration, UR/QA, and direct services.</p>	<p>contract, the department needs to be located in a building and that building needs to be maintained and periodically improved. However, since administration, UR/QA, and direct services are all housed in the building, the costs cannot be readily allocated to a particular activity and are thus indirect.</p>	<p>square footage. So, if a building is 100 square feet and 20 square feet is used by mental health administration, 20% of expenditures should be allocated to mental health administration.</p> <p>A simplified time study or gross cost approach is appropriate when office space is used for multiple cost objectives (one staff member performs multiple cost objectives from a single office) or when the square footage attributable to each cost objective is not currently tracked by the county.</p>
3	Equipment	<p>Equipment, such as telephones, is bought by the county and is used for different purposes such as administration, UR/QA, and direct services.</p>	<p>Buying equipment such as telephones is not one of the activities listed in the MHP contract. Since individuals who work on UR/QA, administration, and direct services all use the equipment, the costs associated with it cannot be readily allocated to a particular activity.</p>	<p>Number of items or usage. It is anticipated that in larger counties, different programs purchase their equipment for their own use. In those circumstances, the allocation should be by number of items. So if the Department of Mental Health purchased 100 telephones (for example) and 20 of those were for administration, then 20% of expenditures should be allocated to mental health-administration. In smaller counties, it is anticipated that equipment may be purchased for general use but be used by different departments. In that situation, a time study or similar method could be used to document the percentage of time that any specific</p>

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				<p>department used the piece of equipment. So, if mental health administration used the equipment 20% of the time, 20% of expenditures should be allocated to mental health administration.</p> <p>A simplified time study or gross cost approach is appropriate when equipment is used for multiple cost objectives (a telephone is used by a staff member who performs multiple cost objectives) or when the number of items or usage attributable to each cost objective is not currently tracked by the county.</p>
4	Rents and Leases-Equipment	Equipment, such as telephones, is rented by the county and is used for different purposes, such as administration, UR/QA, and direct services.	Renting equipment such as telephones is not one of the activities listed in the MHP contract. Since individuals who work on UR/QA, administration, and direct services all use the equipment, the costs associated with it cannot be readily allocated to a particular activity.	Number of items or usage. It is anticipated that in larger counties, different programs rent or lease their equipment for their own use. In those circumstances, the allocation should be by number of items. So if the Department of Mental Health rented/leased 100 telephones (for example) and 20 of those were for the administration, then 20% of expenditures should be allocated to mental health-administration. In smaller counties, it is anticipated that equipment may be rented/leased for general use but be used by different programs. In that situation, a time study or similar method could be used to document the

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				<p>percentage of time that any specific department used the piece of equipment. So, if administration used equipment 20% of the time, 20% of expenditures should be allocated to mental health-administration.</p> <p>A simplified time study or gross cost approach is appropriate when rented or leased equipment is used for multiple cost objectives (a telephone is used by a staff member who performs multiple cost objectives), or when the number of items or usage attributable to each cost objective is not currently tracked by the county.</p>
5	Rents and Leases-Buildings and Improvements	A building is rented/leased or improved by the county and is used for different departments, including the Department of Mental Health. This building will house individuals who work on administration, UR/QA, and direct services.	Although renting/leasing or improving a building is not one of the activities listed in the MHP contract, the department needs to be located in a building and that building needs to be maintained and periodically improved. However, since administration, UR/QA, and direct services are all housed in the building, the costs cannot be readily allocated to a particular activity and are thus indirect.	<p>Square footage. Rents and leases as well as improvements are largely a function of square footage, so the allocation factor for renting/leasing should be based on the number of square feet each program/activity occupies.</p> <p>A simplified time study or gross cost approach is appropriate when rented/leased office space is used for multiple cost objectives (one staff member performs multiple cost objectives from a single office), or when the square footage attributable to each</p>

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				cost objective is not currently tracked by the county.
6	Taxes and Assessments	A county entity needs to pay taxes to various entities (e.g., sales tax, federal tax). The cost of the taxes will then be divided amongst the various departments and the activities within those departments. In the case of mental health, those activities will include UR/QA, administration and direct services.	Taxes are not required by the MHP contract but need to be paid in order for the programs to operate. Since the entire county and, by extension, the entire department of mental health needs to pay those taxes, it is not clear how to allocate the tax costs between UR/QA, administration, and direct services. As a result, these costs are indirect.	Program's fiscal size. To the extent a county department of mental health pays taxes, the size of the taxes will mostly depend on the program's budget. This means that the factor for allocating taxes paid should be the program's budget as a percentage of the overall mental health budget. So if administration is 20% of the mental health budget, 20% of the taxes should be allocated to administration.
7	Insurance	UR/QA, administration, and direct services need to take out various forms of insurance for their employees, such as general liability or malpractice insurance. The cost of insurance will then need to be divided between employees in UR/QA, administration, and direct services.	Insurance costs are not required by the MHP contract but need to be paid in order for the programs to operate. As the costs for this insurance typically come out of a single expense account in the county, it is not necessarily clear how much money was spent on UR/QA, administration and direct services employees. As a result, these costs are indirect.	<p>Number of employees (irrespective of time base). Insurance costs depend in large part on the number of people insured, so the allocation factor should be the number of people (i.e., employees) who have to be covered. If the department of mental health insures 100 people and 20 of those people work for administration, 20% of insurance expenditures should be allocated to mental health-administration.</p> <p>A simplified time study or gross cost approach is appropriate when insurance costs are not dependent on the number of employees (workers' compensation insurance costs are often based on the category of employee) or when the number of employees attributable to</p>

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				each cost objective is not currently tracked by the county.
8	Maintenance-Equipment	UR/QA, administration, and direct services all use equipment (such as Xerox machines), which then needs to be maintained and/or repaired.	Maintaining equipment such as Xerox machines is not part of the MHP contract. However, it is necessary for the programs to operate. As the costs for maintaining equipment typically come out of the same account and/or the equipment is used by multiple departments that are co-located, it is not clear how much of the expense should be allocated to UR/QA, administration, and direct costs. As a result, these costs are indirect.	<p>Utilization. Maintenance costs depend in large part on how often a piece of equipment is used. A time study or similar could be used to document the percentage of time that any specific program used the physical property. That time study could then become the basis of allocating costs across UR/QA, administration, and direct services.</p> <p>A simplified time study or gross cost approach is appropriate when equipment is used for multiple cost objectives (a single Xerox machine is used for multiple cost objectives), or when the utilization attributable to each cost objective is not currently tracked by the county.</p>
9	Maintenance-Buildings and Improvements	Buildings in which UR/QA, administration and direct services are located have to be maintained and, periodically, improved. For example, buildings may need improvements to comply with code provisions so as to better withstand an earthquake.	Maintaining and/or improving buildings (e.g., making sure they are up to code and can withstand an earthquake) is not part of the MHP contract. If UR/QA, administrative staff, and direct service staff are co-located in the buildings, it may not necessarily be clear how to allocate the funds between those activities. As a result, these costs are indirect.	Square footage. Facility maintenance depends in large part on the size of the facility, so the allocation factor for the maintenance of buildings and improvements is typically square footage. This means that the maintenance and improvements of buildings is allocated based on the number of square feet each program occupies. If a structure is 100 square feet and 20 square feet is used by administration, 20% of expenditures

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				<p>should be allocated to mental health-administration.</p> <p>A simplified time study or gross cost approach is appropriate when office space is used for multiple cost objectives (one staff member performs multiple cost objectives from a single office) or when the square footage attributable to each cost objective is not currently tracked by the county.</p>
10	Utilities	UR/QA, administration, and direct services pay for electricity, heating and cooling supplies, natural gas, butane, fuel oil, sewage disposal, and water. If utilities are not paid in a timely manner, the programs will not be able to operate.	Paying for utilities is not part of the MHP contract. However, if electricity or water is turned off, the program will not be able to continue. The bills for these expenses do not come to discrete programs but to the building in which these programs are housed. It is therefore not always clear how to allocate the expenses. As a result, these costs are indirect.	<p>Square footage. Utilities' costs depend in large part on the size of the facility, so the allocation factor for utility costs should be square footage. If a building is 100 square feet and only 20 square feet of it is used for mental health-administration, then only 20% of the overall cost of utilities (e.g., water, electricity, gas) is used for administrative purposes. In that situation, 20% of the overall expenditures for utilities should be assigned to mental health-administration.</p> <p>A simplified time study or gross cost approach is appropriate when office space is used for multiple cost objectives (one staff member performs multiple cost objectives from a single office), or when the square footage attributable to each</p>

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				cost objective is not currently tracked by the county.
11	Household Expense	UR/QA, administration, and direct services incur expenses for items such as custodial services, toilet tissue, and drinking water. If these expenses are not paid in a timely manner, the programs will not be able to operate.	Paying for household expenses is not part of the MHP contract. However, if custodial services or toilet tissue is no longer available, the program will not be able to continue. The bills for these expenses do not come to discrete programs but to the building in which these programs are housed. It is therefore not always clear how to allocate the expenses. As a result, these costs are indirect.	<p>Square footage. Household expenses depend in large part on the size of the facility, so the allocation factor should be the square footage allocated to the different mental health programs.</p> <p>A simplified time study or gross cost approach is appropriate when office space is used for multiple cost objectives (one staff member performs multiple cost objectives from a single office), or when the square footage attributable to each cost objective is not currently tracked by the county.</p>
12	Interest in Bonds	From time to time, the county will issue bonds for various mental-health related purposes. Interest on those bonds will need to be paid by the county and, by extension, by all of mental health, including UR/QA, administration, and direct services.	Paying for interest on bonds is not part of the MHP contract. However, if the county/mental health department defaults on its payments, it may not be able to continue to operate. Further, the payments typically come out of a single account that is not tied to UR/QA, administration, or direct services. As a result, these costs are indirect.	<p>Program fiscal size. Expenditures for interest on bonded debt are closely related to the program's budget. This means that an appropriate allocation factor to use would be the budget of the various cost objectives of the mental health program relative to the overall mental health budget.</p> <p>A simplified time study or gross cost approach is appropriate when program fiscal size attributable to each cost objective is not easily identified through existing county fiscal records.</p>

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13	Interest in Other Long-Term Debt	From time to time, the county will borrow funds for various mental-health related purposes. Interest on this long-term debt will need to be paid by the county and, by extension, by all of mental health including UR/QA, administration, and direct services.	Paying for interest on long-term debt is not part of the MHP contract. However, if the county/mental health department defaults on its payments, it may not be able to continue to operate. Further, the payments typically come out of a single account that is not tied to UR/QA, administration or direct services. As a result, these costs are indirect.	<p>Program fiscal size. Expenditures for interest in long-term debt are closely related to the fiscal size of the program. This means that an appropriate allocation factor to use would be the fiscal size of the various programs' budgets relative to the overall county mental health budget.</p> <p>A simplified time study or gross cost approach is appropriate when program fiscal size attributable to each cost objective is not easily identified through existing county fiscal records.</p>
14	Contracts Administration	From time to time the department of mental health will enter into contracts for the provision of various services that cannot be done internally. Those contracts will need to be put out to bid and, once awarded, administered.	Contract administration is not part of the MHP contract. However, they are necessary to the mental health program, and the extent to which UR/QA, administration, and direct services benefit from the contracted activities may not be clear. As a result, these costs are indirect.	<p>Number of contracts. Contract administration costs depend in large part on the number of contracts entered into. This means that the number of contracts is an appropriate allocation factor. For example, if the contracts unit processes 100 contracts and 20 of those pertain to mental health-administration, 20% of the cost of the contract administration should be allocated to mental health-administration.</p> <p>A simplified time study or gross cost approach is appropriate when a single contract is used for multiple cost objectives (janitorial contract for a building in which multiple cost objectives</p>

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				are performed) or when the number of contracts attributable to each cost objective is not currently tracked by the county.
15	Legal and Accounting	The county needs to have legal advice to ensure it is adhering to the law and to handle any complaints raised. It also needs accounting services to keep track of funding.	Legal and accounting functions are not part of the MHP contract. However, these functions are necessary to the mental health program. Further, it is not necessarily clear to what extent UR/QA, administration, and/or direct services benefit from legal and accounting functions. As a result, these costs are indirect.	<p>Number of transactions. Accounting costs depend in large part on the number of transactions performed so it is appropriate to use number of transactions as an allocation factor. For example, if the Accounting Department processed 100 transactions and 20 of these pertained to mental health-administration, then 20% of the expenditures should be allocated to mental health-administration.</p> <p>Legal Services: The allocation factor should depend on what the main driver of the expense is for legal costs.</p> <p>A simplified time study or gross cost approach is appropriate when a single transaction is used for multiple cost objectives (payment of a janitorial contract for a building in which multiple cost objectives are performed) or when the number of transactions attributable to each cost objective is not currently tracked by the county.</p>

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16	Data Processing	Payment data, patient data, claims data, and outcomes data needs to be entered, processed and analyzed on a regular basis.	Data processing costs are not part of the MHP contract but the mental health program would not be able to operate if data was not processed. However, it is not clear to what extent UR/QA, administration, and direct services benefit from the same data processing transaction, as it can be used for any or all those purposes. As a result, these costs are indirect.	<p>Number of clients served or number of computers.</p> <p>Data processing costs can depend on the number of patients or clients served, so it is appropriate to use the number of patients/clients as an allocation factor. For example, if direct services serves 60 patients, UR/QA must make its reports available to 20 people, and administration must make its data available to 20 people, then data processing costs should be allocated as 60% direct services, 20% UR/QA, and 20% administration.</p> <p>A simplified time study or gross cost approach is appropriate when the number of people who utilize reports are not known.</p> <p>Number of computers.</p> <p>Alternatively, data processing costs can depend on the number of computers used for each cost objective. For example, if 80 computers out of a total of 100 computers are used by clinicians to document client services, 80% of the data processing costs would be allocated to direct services.</p>

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				<p>A simplified time study or gross cost approach is appropriate when computers are used for multiple cost objectives (computer used for documenting client services as well as generating reports for UR committee), or when the number of computers attributable to each cost objective is not currently tracked by the county.</p>
17	Personnel Administration	UR/QA, administration and direct services need to hire people, ensure that mandatory and other training is completed and undertake any disciplinary action as necessary.	Personnel administration costs are not part of the MHP contract. However, it is necessary to hire and retain people in order for the programs to operate. However, the payments for personnel services typically come out of an account that is not tied to UR/QA, administration or direct services. As a result, these costs are indirect.	Number of transactions or number of people hired. If Personnel Administration only hires people, then the allocation should reflect the number of people hired for the appropriate program in the Department of Mental Health. So if the Personnel Department was involved in 100 hires and 20 of them were for Administration then 20% of the expenditures should be allocated to mental health-administration. If the Personnel Department is involved in hiring, training, and ensuring employees take mandatory training, then the allocation should reflect the number of transactions. So if 20% of the hiring, training, mandatory training was for the benefit of the Mental Health Department-Administration, then the 20% of the expenditures should be allocated to mental health-administration.

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				<p>A simplified time study or gross cost approach is appropriate when employees are hired for multiple cost objectives (one staff member is hired to perform multiple cost objectives), or when the number of transactions attributable to each cost objective is not currently tracked by the county.</p>
18	Medical Records	UR/QA, administration, and direct services all need the data in patients' medical records. These records must be maintained.	Patient record costs are not part of the MHP contract. However, it is necessary to maintain patient records to run a mental health program. Further, although medical records are typically created by direct services, they are used throughout the mental health system. As a result, these are indirect costs.	<p>Utilization. Medical record maintenance costs depend in part on the degree to which they are used. If the mental health records are used by direct service personnel in the Department of Mental Health 60% of the time, 60% of expenses associated with maintaining those records should be allocated to direct services.</p> <p>A simplified time study or gross cost approach is appropriate when the number of transactions attributable to each cost objective is not currently tracked by the county.</p>
19	Professional and Specialized Services	UR/QA, administration and direct services contract for professional and specialized services such as sanitation staff. These services are necessary in order for the program to function.	Although professional and specialized services are not part of the MHP contract, they are necessary for the operation of UR/QA, administration, and direct services. However, the costs for these services typically come out of an account that is not tied to UR/QA, administration or direct	Allocation of expenditures should be based on time sheets/invoices showing actual time charged to the mental health program. So the time sheets should indicate how long a service (e.g., sanitation) was provided to UR/QA, how long to administration, and how long to direct services.

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			services. As a result, these costs are indirect.	A simplified time study or gross cost approach is appropriate when a single contract is used for multiple cost objectives and the contractor does not track the time attributable each cost objective (janitorial contract for a building in which multiple cost objectives are performed) or when the contractor time attributable to each cost objective is not currently tracked by the county.
20	Transportation and Travel	Staff need to make periodic business trips. They need to be reimbursed for their time and incidentals on those trips.	Transportation and travel are not part of the MHP contract. Further, business trips typically benefit more than one program, so it is not possible to readily allocate costs between UR/QA, administration, and direct services. As a result, these costs are indirect.	<p>Transportation costs depend in large part on the salaries of the people traveling, so the allocation factor for travel should be the portion of salary that is dedicated to the appropriate mental health program. If 20% of the salaries of people who took trips were paid by administration then 20% of travel costs should be allocated to administration.</p> <p>A simplified time study or gross cost approach is appropriate when the number of trips attributable to each cost objective is not currently tracked by the county.</p>
21	Communications	Staff need to communicate via cell phones, fax machines and other communication devices. For staff to communicate, the program needs to purchase these devices.	The cost of communication devices is not part of the MHP contract. Further, these devices are typically purchased from an account that is not necessarily tied to UR/QA, administration or direct services	Number of items or amount of usage. Communication costs depend in large part on the number of telephones and/or how much usage they get. This can be determined by the bills (e.g., phone bills)

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			<p>activities. In addition, it is entirely possible that a device used by direct services will (once the employee no longer need it) be handed over to someone in administration. It is there not possible to readily allocate costs between UR/QA, administration, and direct services. As a result, these costs are indirect.</p>	<p>that are paid by different departments. If, for example, administration is responsible for 20% of the overall cell phone bill, then 20% of the purchase of cell phone cost should be allocated to administration.</p> <p>A simplified time study or gross cost approach is appropriate when communication equipment is used for multiple cost objectives (a cellular telephone is used by a staff member who performs multiple cost objectives), or when the number of items or amount of usage attributable to each cost objective is not currently tracked by the county.</p>
22	Other	<p>There may be other indirect costs that are not properly classified in any of the available cost centers listed above.</p>	<p>These would be costs that are not part of the MHP contract and that are not easy to readily allocate between UR/QA, administration, and direct costs, but which are necessary for the mental health program to function.</p>	<p>The allocation factor should depend on what is the main driver of expense is for the "other" costs.</p> <p>A simplified time study or gross cost approach is appropriate when the other costs are attributable to multiple cost objectives (general office expenses are incurred by staff members who performs multiple cost objectives), or when determining the main driver of expenses attributable to each cost objective is not currently tracked by the county.</p>

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23	A-87 Allocation	These are the costs of control agencies (e.g., county health care agency and county department of finance) that each program has to pay.	The costs of county-wide control agencies and health care agency overhead are not part of MHP contract. However, for the county, and hence the mental health program, to keep operating these are necessary costs. These costs are not easy to allocate between UR/QA, administration, and direct services. As a result, these costs are indirect.	<p>Program's fiscal size. Control agencies' costs depend in large part on the fiscal size of the program, as that determines the program's budget, the number of employees a program has, and the amount of legal exposure it has. This means that the factor for allocating A-87 costs should be the program's budget as a percentage of the overall mental health budget. So, if administration is 20% of the mental health budget, 20% of control costs should be allocated to administration.</p> <p>A simplified time study or gross cost approach is appropriate when the program's fiscal size attributable to each cost objective is not easily identified through existing county fiscal records.</p>