



C A L I F O R N I A D E P A R T M E N T O F
Mental Health

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September 28, 2011

DMH LETTER NO.: 11-01

TO: LOCAL MENTAL HEALTH DIRECTORS
LOCAL MENTAL HEALTH PROGRAM CHIEFS
LOCAL MENTAL HEALTH ADMINISTRATORS
COUNTY ADMINISTRATIVE OFFICERS
CHAIRPERSONS, LOCAL MENTAL HEALTH BOARDS

SUBJECT: SHORT-DOYLE/MEDI-CAL (SD/MC) AND HEALTHY FAMILIES
PROGRAM QUARTERLY CLAIM FOR REIMBURSEMENT –
ADMINISTRATIVE COSTS

REFERENCE: Welfare and Institutions (W&I) Code, Section 5724
Supersedes DMH Letter 05-10

The purpose of this letter is to update mental health plans (MHPs) regarding changes being made to the method and process by which MHPs claim reimbursement for administrative costs. This letter does not pertain to claims for utilization review/quality assurance and mental health Medi-Cal administrative activities, which are claimed on form MH 1982 C and MH 1982 D respectively. The Department of Mental Health (DMH) revised 1) the form used to claim reimbursement for administrative costs (MH 1982 B) requiring allocations from indirect costs on an equitable basis; 2) the instructions for completing the claim form; 3) the frequency with which the State will accept claims for reimbursement; and 4) the definition of administrative costs appropriate to include on the claim form.

Claim Form

DMH revised the claim form to require MHPs separately claim administrative costs associated with the Medicaid Children's Health Insurance Program (M-CHIP), Healthy Families, and other SD/MC services. These revisions are made to comply with the Centers for Medicare and Medicaid Services' (CMS) requirement to separately report administrative costs associated with M-CHIP and allow MHPs to separately claim reimbursement for Healthy Families administrative costs. DMH is also revising the cost report to conform to the guidance contained in this letter.

Instructions

DMH revised the instructions for completing the claim form to clarify that the claim must include actual costs incurred. CMS, in its Financial Management Review (FMR) entitled "California's Medicaid Mental Health Care Services Program," determined that some MHPs were claiming reimbursement for administrative costs based on estimated rather than actual costs. The State is issuing revised instructions to clarify that claims must be based upon the actual cost of providing administrative activities as defined herein and incurred by the MHP during the reporting period.

Frequency

DMH revised the frequency with which MHPs may submit claims for reimbursement of administrative costs. MHPs may currently submit claims for reimbursement on a monthly basis. Beginning July 1, 2011, MHPs are required to submit claims for reimbursement of administrative costs on a quarterly basis using this new form. The first claims for reimbursement of administrative costs using this new form must be submitted to DMH for the quarter ending September 30, 2011.

Description

DMH revised the description of administrative costs currently contained in DMH Letter 05-10 to implement a CMS recommendation in its FMR. CMS determined that the State's cost reporting process did not provide assurance that the process determined administrative costs in a manner consistent with CMS administrative cost policies, including Office of Management and Budget (OMB) Circular A-87. The definition of administrative costs contained in DMH Letter 05-10 includes both indirect costs and the direct cost of administering the mental health plan. CMS informed the State that separately identifying indirect costs and allocating those costs between the cost of providing medical assistance and administration of the mental health plan would be more consistent with CMS administrative cost policies. MHPs should use the following definition of direct service costs, indirect costs, and administrative costs to properly allocate their costs and claim federal financial participation.

Direct Costs

OMB Circular A-87 defines a direct cost as those costs that can be identified specifically with a particular final cost objective. Therefore, direct costs are those costs that can be identified specifically with the provision of mental health services, utilization review/quality assurance activities, or administration of the mental health plan. Typical direct costs include:

- Compensation of employees for the time devoted and identified specifically with the delivery of a mental health service, performing utilization review/quality assurance activities, or administration of the mental health plan.
- Cost of materials acquired, consumed, or expended specifically for the purpose of delivering a mental health service function, performing utilization review/quality assurance activities, or administration of the mental health plan.
- Cost of maintaining facilities used to deliver mental health services, perform utilization review/quality assurance activities, or administer the mental health

plan.

- Depreciation or lease costs of buildings and equipment used to deliver mental health services, perform utilization review/quality assurance activities, or administer the mental health plan.
- Cost of services provided by contract.
- Travel expenses incurred specifically to deliver a mental health service, perform utilization review/quality assurance activities, or administer the mental health plan.

Direct costs typically do not include:

- Capital improvements (unless amortized).
- Purchase or construction of buildings.
- Compensation to members of a local mental health board (except for reimbursement of expenses per W&I Code 5604.3).

Please refer to the OMB Circular A-87 for guidance regarding direct costs.

Indirect Costs

OMB Circular A-87 defines an indirect cost as those costs that are 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. Therefore, indirect costs are those costs that are incurred for a common or joint purpose benefitting the provision of a mental health service, utilization review/quality assurance activity, or administration of the Specialty Mental Health Services Waiver and therefore may only be allocated to these three cost centers. Typical indirect costs include:

- Compensation of county mental health employees for time not devoted and identified specifically with the delivery of a reimbursable activity, performance of a specific administrative activity, or performance of a specific utilization review/quality assurance activity.
- Legal services.
- Personnel administration.
- Procurement.
- Depreciation expense.

Indirect costs must be allocated to direct service, administrative, and utilization review/quality assurance cost centers on an equitable basis consistent with OMB A-87, including an indirect cost rate plan developed in accordance with OMB A-87. Indirect costs may not be shifted to administrative cost centers without regard to an equitable basis. An equitable basis for allocating indirect costs to administrative cost centers must include the identification of allowed activities in the following paragraph.

Indirect costs which may be claimed at administrative cost centers must be identified specifically with the performance of activities that are necessary for the administration of the mental health plan, such as:

- Outreach.
- Eligibility intake.
- Contract administration.
- Program planning and policy development.
- Administrative case management.
- Claims administration.
- Medicaid management information system development and operation.

Form MH 1982 B captures the administrative costs for SD/MC and M-CHIP which is limited to 15% of SD/MC and M-CHIP treatment costs while administrative costs for the Healthy Families Program is limited to 10% of Healthy Families Program treatment costs. Treatment costs for SD/MC, M-CHIP, and the Healthy Families Program include all costs incurred to provide mental health services to SD/MC, M-CHIP, and Healthy Families Program beneficiaries respectively.

Please refer to OMB Circular A-87 for guidance regarding indirect costs.

Sincerely,

Original signed by

CLIFF ALLENBY
Acting Director

Enclosure