



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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November 8, 2005

DMH LETTER NO.: 05-10

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 ADMINISTRATIVE COST CLAIMS

REFERENCE: Welfare and Institutions (W&I) Code, Section 5724  
Supersedes DMH Letter 94-01

EXPIRES: Retain until superseded

This letter is being issued to provide additional clarification to Mental Health Plans (MHPs) regarding claiming for administrative costs and direct service costs.

Pursuant to Welfare and Institutions (W&I) Code Section 5724 as amended by AB 218 (Chapter 788, Statutes of 1993), and the State Medicaid Plan, county administrative costs in the Short/Doyle/Medi-Cal (SD/MC) program are limited to fifteen percent (15%) of a county's claim or cost for direct SD/MC services. The 15% limit was created to demonstrate a cost containment effort to the federal government and to make SD/MC rates for direct services more comparable to rates paid by Part B Medicare.

Enclosed is a SD/MC Administrative Cost Claim form (MH 1982 B) to be used by local programs for cash flow purposes on a monthly basis. This claim should be completed according to the instructions on the form and submitted to the Department's Accounting Section. The administrative claim will be processed separately and more quickly than the direct service claims with their requisite edits and eligibility verifications.

The 15% limit will be applied to a county's total SD/MC claim for direct services for each month. That is, if a county submits a SD/MC claim for \$100,000 including both county-operated and contracted programs, the county may claim up to \$15,000 in administrative costs for that month. If a county anticipates that actual administrative costs will be less than 15% of direct service costs and wishes to avoid a payback at the end of the year, a lower percentage or estimated actual cost may be used on the monthly claim.

The 15% administrative cost limit applies only to SD/MC reimbursement and has no impact on county realignment funds used for anything other than the match for federal funds.

To provide further clarification, costs are divided into two broad categories: administrative and direct services. Each of these categories has subcategories of allowable and unallowable costs. Whether a cost is considered administrative or direct services, and either allowable or unallowable, is determined by the guidance provided below. The burden of proof is on the county or contracted provider when questions arise regarding whether costs have been properly determined to be direct services rather than administrative or allowable rather than unallowable. For this reason, proper documentation needs to be kept by the County to justify such determinations.

Costs should be considered as direct service costs only if there is a clear, direct, and documented relationship to services that are provided to mental health beneficiaries. Similarly, costs should be considered administrative only if they meet the tests specified below.

The following definitions of administrative costs and direct service costs will be utilized by DMH Audits and Cost Reporting and Financial Support for the claiming and cost report settlement processes:

### Administrative Costs

Agencies and departments of local governments and contractors providing a county's entire mental health program often furnish programs of services to consumers with administrative services necessary to their operation. The cost of such administrative services are included as allowable to the extent they are 1) reasonable, 2) related to services provided by direct service providers, 3) allowable under Medicare regulations, and 4) allocated on an acceptable basis.

Allowable administrative costs include services such as:

- Health Care Service agency
- Local Mental Health Directors (in some counties the Local Mental Health Directors provide direct services to mental health consumers and, therefore, the cost of this time should go into direct services rather than administration)
- Accounting and Budgeting
- Auditing
- Data processing
- Employee retirement system administration
- Legal services
- Motor pool

- Personnel administration
- Procurement
- Maintenance and operation of central or home office
- Research and evaluation
- Medical records

Administrative costs claimed must be determined through an acceptable allocation method, as described in the Centers for Medicare and Medicaid Services (CMS) Publication 15-1, to fairly represent the services and benefits received by the patient care service provider.

Approved A-87 costs are allowable. County overhead costs that are not part of the approved A-87 plan are unallowable and would include such costs as:

- General administrative costs of local government, such as public services (fire, sanitation, water, tax administration and collection, etc.) and the general expenses in carrying out the coordinating, fiscal, and administrative functions of government.
- The salary and expenses of the chief executive of a political subdivision, such as the city mayor.
- Salaries and expenses of the local government lawmaking bodies, such as the county board of supervisors and the city council.
- Tax anticipation warrants and property tax functions.

Accounting for Quality Assurance/Utilization Review costs should be carried out as specified in DMH Letter 05-11. Medi-Cal Administrative Activity (MAA) claiming should follow instructions in the MAA claiming manual.

Costs incurred in preparation for a purely fiscal audit should be accounted for as administrative services costs. Costs incurred in preparation for Program Service audits should be accounted for according to the instructions in DMH Letter 05-11.

### Direct Service Costs

Direct service costs are those direct costs for service to mental health consumers that can be readily identified to a direct service provider. Allowable costs include all necessary and proper costs that are incurred in developing and maintaining the operation of the direct service provider, including:

- Salaries and benefits of provider staff (clinical and administrative support);
- Operating expenses;
- Staff travel;
- Facility maintenance costs;
- Building and equipment depreciation or lease cost (calculated per CMS Publication 15-1, Chapter 1);

- Costs of services provided by contract.

Unallowable direct service costs 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 Welfare and Institutions code 5604.3);
- County Administrative costs, as defined above.

If you have any questions on the SD/MC administrative cost claiming process, please contact your Medi-Cal contract manager as shown in the enclosed County Operations staff listing.

Sincerely,

Original signed by;

STEPHEN W. MAYBERG, Ph.D.  
Director

Enclosures

cc: John Lessley, Chief, County Operations  
California Mental Health Planning Council