



State of California—Health and Human Services Agency
Department of Health Care Services



EDMUND G. BROWN JR.
GOVERNOR

DATE: October 7, 2014

MHSUDS INFORMATION NOTICE NO.: 14-033

TO: COUNTY BEHAVIORAL HEALTH PROGRAM DIRECTORS
COUNTY DRUG & ALCOHOL ADMINISTRATORS
COUNTY BEHAVIORAL HEALTH DIRECTOR'S ASSOCIATION
CALIFORNIA COUNCIL OF COMMUNITY MENTAL HEALTH AGENCIES
COALITION OF ALCOHOL AND DRUG ASSOCIATIONS

SUBJECT: DRUG MEDI-CAL QUARTERLY CLAIMING FOR REIMBURSEMENT OF
COUNTY ADMINISTRATIVE EXPENSES

This Information Notice addresses the procedure and new form through which counties may claim reimbursement for county administrative Drug Medi-Cal (DMC) expenses, for claims for service provided on dates on or after July 1, 2014. This Information Notice includes the following:

- The new form counties will use to claim reimbursement for county administrative DMC expenses;
- The frequency with which the State will accept county claims for reimbursement of county administrative DMC expenses; and
- The definition of administrative expenses appropriate to include on the claim form.

The Department of Health Care Services (DHCS) will claim the applicable Federal Financial Participation (FFP) for approved administrative expenses.

Counties should use the definitions in this Information Notice for county administrative DMC expenses, direct service expenses and indirect expenses to properly differentiate, allocate and claim FFP and State General Fund reimbursement for appropriate county DMC expenses.

BACKGROUND

This revised program policy and procedure was created to comply with instructions from the Centers for Medicare and Medicaid Services (CMS) regarding California's Medicaid State Plan Amendment 09-022. Specifically, CMS instructed California to change its

process for reimbursing counties for their administration expenses of DMC services. California's former process required counties to certify their total DMC expense through the Certified Public Expenditure (CPE) process. DHCS then drew down FFP funds based on that total expense. Counties could then pay their certified contracted providers less than the total certified expense and retain the difference (including the FFP portion) to cover county administrative DMC expenses.

CMS stated that DHCS can only reimburse counties with the DMC reimbursement rate for the CPE-certified total direct service expense, and must reimburse counties for county administrative DMC expenses through a separate process.

Therefore, effective July 1, 2014, DHCS began reimbursing counties for administrative DMC expenses through a separate invoicing process, which is similar to that used for Medi-Cal Specialty Mental Health Services, and is described in detail below.

DISCUSSION

For DMC claims with service dates on or after July 1, 2014, counties shall claim reimbursement for county administrative DMC expenses separately from direct services expenses. In accordance with Health and Safety Code Section 11818, such administrative expenses must be expenses actually incurred and cannot be estimated expenses. County administrative expenses will be limited to 15 percent of the DMC-reimbursable part of the county's direct service expenses. For example, if a county's cost for providing a certain DMC service is \$70 but the DMC reimbursement rate for that service is only \$62.00, then the county may only bill for the lower \$62.00 amount, and the 15 percent limitation applies to that \$62.00 lower amount.

DMC reimbursable services are defined in Welfare and Institutions Code Section 14124.24. Counties should use the guidance in this letter to determine whether an expense is considered an administrative, direct service, or indirect expense, and whether the expense is allowable or unallowable. The burden of proof is on the county or county-contracted provider when questions arise regarding whether expenses have been properly determined and claimed as an allowable county administrative expense. Counties must maintain proper documentation to justify such determinations.

County Administrative DMC Expenses

County administrative DMC expenses are expenses actually incurred as the result of providing county-operated DMC services or as the result of administrative activities by a county as part of its business relationship with contracted providers, to provide DMC services to its community.

The definition of direct service expenses, and indirect service expenses below will be used for claiming reimbursement via invoices and for the submission of the annual cost report.

Direct Service Expenses

Direct service expenses are those which have a clear, direct, and documented relationship to direct services that are provided to beneficiaries. The federal Office of Management and Budget (OMB) Circular A-87, Attachment A, item E1 defines a direct expense as an expense that can be identified specifically with a particular final cost objective. Therefore, direct expenses are those that can be identified specifically with the provision of DMC services. Typical direct expenses include:

- Compensation of employees for the time devoted and identified specifically with the delivery of a DMC service;
- Cost of materials acquired, consumed, or spent specifically with the delivery of a DMC service;
- Cost of maintaining facilities used to deliver DMC services;
- Depreciation or lease costs of buildings and equipment used to deliver DMC services; and
- Cost of services provided by contract.

The A-87 Circular is available on the OMB website at:

http://www.whitehouse.gov/omb/circulars_a087_2004

In accordance with Health and Safety Code Section 11818, direct service expenses do not include capital improvements, purchase or construction of buildings, or compensation to members of a local advisory board for substance use disorder services.

Indirect Services Expenses

OMB Circular A-87, Attachment E, item A, defines an indirect expense as an expense that is incurred for a common or joint purpose which benefits more than one cost objective and is not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Since such indirect expenses benefit the provision of DMC services, or administration of DMC services, a portion of

such indirect expenses may be allocated to county administrative DMC expenses. Typical indirect expenses include:

- Compensation of county employees for time not devoted and identified specifically with the delivery of a reimbursable activity, or performance of a specific administrative activity;
- Allocated, indirect non-personnel expenses such as rent, utilities, insurance, and depreciation of county facilities; and
- Allocated, indirect personnel expenses to cover management services that are necessary to administer DMC services. For example, services provided by Director's Office, Human Resources, Accounting, Budgeting, Information Technology, Business Services Office, and Legal.

Indirect expenses must be allocated to direct service and administrative expenses on an equitable basis consistent with OMB Circular A-87, including an indirect cost rate plan developed in accordance with OMB Circular A-87.

Administrative Claiming for the Expanded Intensive Outpatient Treatment (IOT) Benefit

SGF will be used as the nonfederal share in place of county funds for those administrative expenses through calendar year 2020 associated with IOT services for non-Early and Periodic Screening, Diagnosis, and Treatment and non-pregnant/postpartum beneficiary populations.

Frequency of Claiming Reimbursement of County Administrative DMC Expenses

For claims with service dates on or after July 1, 2014, counties can be reimbursed throughout the year for county administrative DMC expenses, if the counties submit claims for reimbursement of county administrative DMC expenses on a quarterly basis using the new form. The due date for claim submission is within 60 calendar days after the end of the quarter. DHCS will not process county administrative claims submitted after the deadline.

For State Fiscal Year 2014-15 services, the due dates are:

- Service Period July 1, 2014 thru September 30, 2014 – due date is November 30, 2014;
- Service Period October 1, 2014 thru December 31, 2014 – due date is February 28, 2015;

- Service Period January 1, 2015 thru March 31, 2015 – due date is May 31, 2015; and
- Service Period April 1, 2015 thru June 30, 2015 – due date is August 31, 2015.

Counties may choose not to be reimbursed for county administrative DMC expenses throughout the year, but instead to be reimbursed only once through the cost report settlement process. In that case, counties may forego submitting quarterly claims for reimbursement of county administrative DMC expenses.

Form to Claim County Administrative DMC Expenses (Form MC 5132)

The applicable form is attached to this Information Notice. The county is required to enter the following data on this form: date, county name, county code, and quarterly period in the heading area, and the data on lines 1 and 4. Lines 2, 3, 5, and 6 on the form are formula generated. Based on that data and the county's Drug Medi-Cal billing data, DHCS's Fiscal Management and Accountability Branch will compute the county administrative expenses. The form should be completed and transmitted to DHCS according to the instructions on the form.

DHCS will review the data reported on the form, compute the reimbursement amount, then initiate the payment process to counties. From county DMC billing data, the county share of the reimbursement is computed based on the aid codes of beneficiaries receiving services in the county.

Adjustment to DMC Rate-Setting Methodologies

Counties will pay their contracted providers the CPE-certified total direct service expense. Since counties will claim reimbursement for county administrative DMC expenses through this new process, the DMC reimbursement rate-setting methodologies were revised. For State Fiscal Year 2014-15, the DMC reimbursement rates were revised to reimburse for only the direct service expense.

The 10.08 percent county administrative cost component was removed from the rate-setting methodology for the Narcotic Treatment Program (NTP) daily methadone-dosing rate, as well as from the NTP group and individual counseling rates. The county administrative expenses from the settled cost report were excluded from the development of the non-NTP reimbursement rates.

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Questions about this notice may be directed to Jim Jacobson at (916) 445-5539 or Jim.Jacobson@dhcs.ca.gov.

Sincerely,

Karen Baylor, Ph.D., LMFT, Deputy Director
Mental Health and Substance Use Disorder Services

Attachments