1. **Office of Management and Budget (OMB) consolidated all cost principles, and audit requirements into the FEDERAL REGISTER. VOL. 78, NO. 248.**
2. The Federal Register (FR) supersedes the requirements from OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122, and A-133. The FR is located in Title 2 of the Code of Federal Regulations. (FR p. 78590)
3. The FR is the same as 2 CFR part 200. Part 200 is identified as, “UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS.”
4. The effective date of the register is December 26, 2013. (FR: p. 78590)
5. **Compliance with Federal Register (FR) § 200.331 (p. 78635) regarding SAPC responsibility as a pass-through entity.**
6. SAPC is a pass-through entity.
7. A pass-through agency is when funds are received by an entity (SAPC), and that entity passes it to another entity,
8. Your agency is that entity.
9. Example: SAPC receives money from the State, and then passes the money on to the agencies.
10. The FR: § 200.331 (p. 78635 - 78636) identifies the requirements for pass-through entities.
11. The requirements read in part, all pass-through entities must require:
12. An approved federally recognized **I**ndirect **C**ost **R**ate (ICR) negotiated between the subrecipient and the cognizant agency.
13. Existing ICR negotiated rate.
14. ICR negotiated rate approved by a cognizant agency.
15. A cognizant agency is defined in the FR: Appendix IV part 200 subpart (c) (p. 78684) as:
16. The entity that provides the most federal funding to a subrecipient.
17. In some cases SAPC can be the cognizant agency except for those agencies that already have an approved ICR.

Note! An agency is not restricted to using SAPC as a cognizant agency. If desired, the federal agency responsible for negotiating and approving indirect cost rates may still used.

1. If no rate exists, the FR requires each subrecipient to either:
2. Negotiate an ICR proposal and submit to a pass-through agency. § 200.331 (a) (4) (p. 78636.)
3. Use a de minimis indirect cost rate as defined in § 200.414 (p. 78643 (f)). See section H for more detail.
4. An agency that receives more than 35 million in direct Federal funding cannot use the de minimis indirect cost rate, and must submit a direct cost rate proposal to a cognizant agency. (FAQ: p. 20: 414-1)
5. **What is purpose of an ICR?**
6. The purpose of an ICR is to allow an agency to calculate the amount of indirect costs/expenses to charge a modality.
7. What is an indirect cost?
8. Indirect costs are those costs such as accounting, rent, and supervisor salaries, etc., these costs are incurred by multiple modalities, and cannot be assigned to a specific cost center.
9. An indirect cost does not directly contribute to making a profit, but which is needed to operate your agency as a whole.
10. Indirect costs only contribute to an agencies profitability.

b. What is a direct cost?

1. Direct costs refer to labor, materials and expenses related to the treatment of services, and directly contribute to making a profit.

2. Drug treatment is a specific item of service.

1. These are costs that can be traced directly to a specific item such as counseling.
2. For example: If your agency has ODF treatment services for individual and group services the counselors are direct costs.

2. ICR pertain only to federal funds, however many agencies have multiple funding sources, i.e. CalWks, GR, Block Grant, etc., therefore all funding sources need to be included in your ICP.

1. How does an agency know their funding source?
2. SAPC will let agencies know their funding source at the beginning of each calendar year for the prior fiscal year.

b. What about DMC agencies who do not received federal funding.

1. Agencies need to prepare an ICR to replace the “Overhead” rate used in prior years at cost settlement.
2. If an agency currently has an ICR, that rate can be used.
   1. SAPC will need a copy of the negotiated rate.

**D. Cost allocation for SUD services.**

1. Beginning in Fiscal Year 2015-16, all providers will be required to have a cost allocation plan in place and must demonstrate in their cost report the methodologies they used to assign or allocate to specific cost objectives. MHSUDS (Mental Health & Substance Use Disorder Service) Information Notice 14-033.
2. Providers should develop a cost allocation plan that identifies, accumulates, and distributes allowable direct and indirect cost, and identifies the allocation methods used for distribution.
3. Although there are various methodologies available for allocating costs, the method used should result in an equitable distribution of costs to programs. FR: § 200.405 (p. 78640)
4. The method should:
5. Allocate actual costs only.
6. Have direct relationship to costs.
   * 1. Cannot be related to non-treatment cost such as fund raising.
7. Any acceptable method or combination of methods may be used as long as they are reasonable, documented, and demonstrate benefit to the programs.
8. Unacceptable allocation bases include:
9. Funds available.

b. Budgets.

c. Job descriptions.

d. Pre-determined staff hours.

e. Planned participant levels.

f. Prior period results.

7. Can an agency have more than one cost allocation plan?

a. Yes.

**E. Indirect cost rate not mandatory (FAQ p.18)**

1. If your agency receives under $35 million and is able to allocate and charge 100% of their costs directly may continue to do so.
   1. Indirect cost rates are not mandatory.

**F. De minimis rate (FR: § 200.414** **p. 78643 (f)) & FAQ p. 20 414-1)**

1. De minimis rate is the 10% rate of MTDC for agencies which have never negotiated an ICR.
2. For fiscal year 2015-16, agencies that do not have an ICR Rate can use the 10% de minimis rate.
3. A de minimis rate is 10% of the **M**odified **T**otal **D**irect **C**ost (MTDC) which may be used indefinitely.
4. MTDC means all direct salaries and wages, applicable fringe benefits**,** materials and supplies, and travel.
5. MTDC excludes equipment, capital expenditures **(1)**, charges for patient care, rental costs, tuition remission, scholarships, fellowships, and participant support costs. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, with the approval of the cognizant agency for indirect costs.
   * + 1. **Preparation of negotiated ICR.**

1. Indirect cost rates should be developed in accordance with FR Appendix IV to Part 200, or with a method of your agency’s choosing as long as it is in compliance with the FR.

Note! All samples are presented using the “Simplified Allocation Method” (FR: Appendix IV to Part 200, pp. 78683 – 78685).

1. See **attachment I** for general guidelines of how to prepare ICR.

2. If any agency currently has a federally negotiated cost rate, they may apply for a one-time extension of current negotiated rates, for a period of up to four years.

1. Requests should be submitted 60 days prior to the due date of the next proposal for indirect costs.

**H. Expired indirect cost rates**

1. If your agency has an expired ICR, the 10% de minimis rate should be used.
2. If your agencies ICR has expired, and has been submitted to another cognizant agency for approval and not yet approved, please use the 10% de minimis rate until approved by the cognizant agency.

**I. Allowable costs (FR: § 200.420 pp. 78644 – 78662)**

Note! This section is included to aid in establishing the allowability of certain items in determining allowable costs, and factors that affect the allowability of costs.

1. The following costs were not included as allowable cost in the general provision of selected items of cost in the FR, but were allowable in the OMB Circulars.
2. Communication cost.
3. Telephone services, etc.
4. Housing and personal living expenses.
5. As fringe benefits.
6. Labor relations costs.
7. Maintaining satisfactory relations between the organization and its employees.
8. Meetings and conferences.
9. Purpose to disseminate technical information.

2. FR: § 200.420p. 78644, states in part, referring to principles to be applied in establishing allowability, **“Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost.”**

* 1. Factors affecting allowability of costs. (FR: § 200.403pp. 78640 – 78641 / §200.402 – §200.411) & (Appendix XI, FR: p. 78691, Compliance Supplement) Supplement available: (*http://www.whitehouse.gov/omb/curculars/)*
  2. Compliance Supplement Requirements Part 3 reads in part on p. 3.2-B-2.

1. Except where otherwise authorized by statue, cost must meet the following general criteria in order to be allowable under Federal awards:
2. Be necessary and reasonable for the performance of the award, and be allocable under the principles in 2 CFR part 200, subpart “E.”
3. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart “E.”
4. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of your agency.
5. Be accorded consistent treatment, ,i.e. a cost may not be treated as an direct cost if any other cost for the same purpose in like circumstances has been allocated as an indirect cost.
6. Be determined in accordance with generally accepted accounting principles.
7. Not be included as a cost or used to meet cost sharing or matching requirements in either the current or a prior period.
8. Be adequately documented.
9. Except where otherwise authorized by statue, cost must meet the following general criteria in order to be allowable under Medi-Cal:
10. Must be treatment related. (Provider Reimbursement Manual, Chapter 21, section 2102.3).

**J. Profits (FR: §200.400 (g))**

1. Agencies may not earn or keep any profit resulting from Federal financial assistance, unless expressly authorized by the terms and conditions of the Federal award.

(1) A **capital expenditure** is an amount spent to acquire or improve a long-term asset such as equipment or buildings. Usually the cost is recorded in an account classified as Property, Plant and Equipment. The cost (except for the cost of land) will then be charged to depreciation expense over the useful life of the asset. D (1)(a)(2)