

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS
 1700 K STREET
 SACRAMENTO, CA 95814-4037
 TDD (916) 445-1942



ADP BULLETIN

Title FEDERAL BLOCK GRANT EXPENDITURE RESTRICTIONS		Issue Date: 04-09-98 Expiration Date:	Issue No. 98-16
Deputy Director Approval (signed by) Desirée Wilson, Division of Administration	Function [] Information Management [] Quality Assurance [] Service Delivery [X] Fiscal [] Administration	Supersedes Bulletin/ADP Letter No. This Bulletin supplements, but does not supersede ADP 97-66. "This bulletin should be read together with ADP Bulletin #98-17 also being issued today."	

PURPOSE

This is a follow-up to ADP #97-66, Federal SAPT Block Grant Profit. This letter discusses specific restrictions on the expenditure of Substance Abuse Prevention and Treatment (SAPT) Block Grants, which must be considered in determining allowable costs. These restrictions apply whether a county chooses to use actual cost contracts with providers or negotiated rate contracts. Although a negotiated rate is considered the cost of services between the county and private provider, the rate must not be built in a manner which allows for reimbursement of prohibited expenditures.

DISCUSSION**General Federal Restriction**

The general restriction on SAPT Block Grant expenditures is found in 45 CFR 96.30, which states:

"Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to **establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.**"(Emphasis added)

Although negotiated rates between the counties and providers are authorized by State law, the use of such rates do not nullify specific Federal restrictions on expenditures.

In regards to the applicable State laws and procedures addressed in this general restriction, we would like to clarify that it is not appropriate **to knowingly build** a proprietary fee, or reimbursement in excess of costs, into a negotiated rate. Inclusion of such amounts is contrary to the definition of a negotiated rate found Health and Safety Code Sections 11818(b)(1) and 11987.5(a)(1). In part, these sections state that such a rate, "...shall be based upon the projected **cost** of providing the services..." (Emphasis added). Amounts in excess of the projected cost are clearly not part of the cost.

Specific Federal Restrictions

The specific SAPT Block Grant restrictions on expenditures are contained in 42 USC § 300x.31, 45 CFR § 96.135, and in the Grant Award to the State. The funds are not to be used to:

Pay the salary of an individual at a rate in excess of \$125,000 per year.

Provide inpatient hospital services, with some exceptions related to medically necessary hospital-based substance abuse services, as defined under 45 CFR 96.135(c).

Make cash payments to recipients of health services.

Purchase or improve land, purchase construct, or permanently improve (other than minor remodeling) any building or facility, or purchase major medical equipment, unless a waiver is approved in accordance with 45 CFR 96.135(d).

Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds.

Provide financial assistance to any entity other than a public or nonprofit private entity.

Provide individuals with hypodermic needles or syringes so that such individuals may use illegal drugs, unless the Surgeon General of the Public Health Services determines that a demonstration needle exchange program would be effective in reducing drug abuse and the risk that the public will be come infected with the etiologic agent for AIDS.

Application of Restrictions For Negotiated Rates

When a negotiated rate has been utilized and total reimbursement, using the negotiated rate, was sufficient to cover the provider's costs (net of applicable revenues), it will be assumed that any unallowable expenditures included in those costs have been reimbursed. If less than full reimbursement of costs is received by a provider, the percentage of net costs which were actually reimbursed would be used to calculate the disallowance. In either case, the prorata portion of unallowable costs represented by the SAPT Block Grant would be disallowed.

For example, consider the following hypothetical facts for a negotiated rate provider.

Total Reimbursement \$500,000

Total SAPTBG Reimbursement \$350,000

Total Costs (net of revenue offsets) \$490,000

Unallowable Expenditures:

Salary in excess of \$125,000 75,000

Construction 25,000 \$100,000

In this example, an audit disallowance would be made for \$70,000. The rationale would be that the entire \$490,000 of costs was reimbursed; therefore, the \$100,000 of unallowable expenditures was reimbursed. However, SAPT Block Grant represented only 70 percent (\$350,000/\$500,000) of the funding. Therefore, in the absence of any other information, 70 percent of the \$100,000 of unallowable expenditures (\$70,000) is attributable to the SAPT Block Grant.

Restrictions on Other Federal Funds

As a reminder, restrictions on other Federal funds, such as Center for Substance Abuse Treatment (CSAT) grants, are more specific than those related to the Block Grant. Generally, the additional restrictions relate to the

requirement to follow Federal Office of Management and Budget (OMB) cost principles and a more definitive prohibition of reimbursement in excess of actual costs. Refer to ADP #96-64 for more details.

To the extent that a provider receives other Federal funds, it is recommended that such restrictions be clearly understood and that separate accounts and cost centers be established when necessary to facilitate compliance.

REFERENCES

The following references mentioned in this bulletin may be valuable in understanding the subject matter:

45 CFR 96.30, SAPT Block Grant Expenditures

Health and Safety Code Sections 11818(b)(1) and 11987.5(a)(1)

42 USC § 300x.31

45 CFR § 96.135

Grant Award to the State

HISTORY

There are two previous letters containing discussion of similar subject matter, which are referenced in this bulletin, as follows:

ADP #96-64

Title/Subject: Prohibition of Profit on Federal Grants
Date Issued: December 27, 1996
Expiration Date: None
Date Deleted: Not applicable

ADP #97-66

Title/Subject: Modification of ADP #96-64
Date Issued: November 25, 1997
Expiration Date: None
Date Deleted: Not applicable

QUESTIONS/MAINTENANCE

If you have any questions, please contact Andy Dill, Assistant Audit Manager, at (916) 324-6406 or Gary Bellamy, Audit Manager, at (916) 322-4834

EXHIBITS

No exhibits are enclosed.

DISTRIBUTION

County Alcohol and Drug Program Administrators
Drug/Medi-Cal Providers
Wagerman Associates, Inc.
Director's Advisory Council (DAC)

