



**ADP BULLETIN**

Title PROFIT ON FEDERAL GRANTS		Issue Date: 04/09/98 Expiration Date:	Issue No. 98-17
Deputy Director Approval  Desirée Wilson, Deputy Director Division of Administration	Function  [ ] Information Management [ ] Quality Assurance [ ] Service Delivery [X] Fiscal [ ] Administration	Supersedes Bulletin/ADP Letter No. ADP #97-26  "This bulletin should be read together with <a href="#">ADP Bulletin #98-16</a> also being issued today."	

**PURPOSE**

The purpose of this letter is update answers to questions contained in ADP #97-26 regarding profit on federal grants. Originally, ADP #96-64 stated an interpretation of laws and regulations regarding profit on federal grants. ADP #97-26 was issued to answer questions about the interpretation. Recently, the interpretation was modified by ADP #97-66, which now requires another look at the questions posed in ADP #97-26. A copy of ADP #97-26 is enclosed for reference.

**DISCUSSION**

Question No. 1:

May a county-operated program be reimbursed in excess of its actual costs using federal and state funds?

Answer:

No, a county-operated program may not be reimbursed in excess of actual costs. This answer remains unchanged.

Question No. 2:

Does the Negotiated Net Amount (NNA) contract between the county and the state require the reporting of the county's costs to provide or purchase services or the service provider's costs to deliver the services?

Answer:

While the original answer generally remains unchanged, the implications require some clarification. For the Substance Abuse Prevention and Treatment (SAPT) Federal Block Grant and State General Funds (), the amount that a county reimburses a provider using a negotiated rate is the amount that the county is to report as its costs to purchase services, regardless of the actual costs of the provider. However, the exception is a mixed funding situation involving Medi-Cal, within the same service element and location. In this situation, reimbursement is limited to actual costs, in accordance with Medi-Cal reimbursement principles.

Additional restrictions which limit reimbursement of a provider with SAPT Block Grant and SGF are discussed in ADP #98-16.

Nothing changes regarding Center for Substance Abuse Treatment (CSAT) grants. They would require reimbursement of allowable costs, with profit being prohibited.

Question 3:

Are all county purchase of service contracts required to be cost contracts versus negotiated rate unit of service contracts?

Answer:

In regards to the SAPT Block Grant and SGF, the contracts would not have to require settlement to actual cost. A negotiated rate would be considered the cost of services. However, rates should be annually adjusted upward or downward when necessary to approximate actual costs over the long-term. This differs from what was previously communicated in ADP #96-64.

For CSAT grants and for any funding mix which includes Medi-Cal, settlement to actual costs remains necessary.

Question 4:

Can a county designate county-other funds as the source for paying a profit?

Answer:

Based on the wording of the question, there is a question of whether there is an intent or desire to pay a profit to providers. To the extent that such payment is made with intent, i.e., an amount in excess of costs is clearly built into a negotiated rate, there is a restriction. Deliberate payment of profit is not in accordance with Health and Safety Code § 11818(b)(1) and § 11987.5(a)(1), which require that negotiated rates be, "...based on the projected cost of providing services..." This answer remains unchanged.

However, to the extent that negotiated rates are properly developed as the "projected cost of providing services," it would be possible for a negotiated rate to reimburse in excess of actual costs with SAPT Block Grant and SGF monies. This negates the need to consider using county-other funds for such purpose.

For a funding mix which includes Medi-Cal, the answer would remain as originally stated. A county may allow a provider to retain the county's pro-rata share (county-other funds divided by total funding) of an overall profit without being in violation of federal or state requirements. Any pro-rata portion of an overall profit which relates to a CSAT grant cannot be retained.

Question 5:

If multi-modality providers have excess revenue in one modality and a loss in the other for a total net loss, is this acceptable?

Answer:

The answer to this question remains the same for multi-modality providers where a single contract is used by the county. Under certain circumstances, it is possible for excess revenues under one modality to be used to offset losses in another modality.

As it relates to separate contracts with providers, there is one change. SGF allocated to the counties and county matching funds will be allowed to fund D/MC costs in excess of D/MC rate caps. However, excess federal funding in one contract must not be allowed to subsidize losses on other federally funded contracts unless the funding is identical.

Question 6:

May a provider be allowed to retain payments in excess of costs under a contractual agreement that such funds would be "put back into the program"?

Answer:

While a provider may retain payments of SAPT Block Grant and SGF funds in excess of costs, this situation should not continue from year to year. Neither should such excess be built into a negotiated rate. A county should utilize the actual cost and revenue data submitted by the provider to adjust negotiated rates appropriately. This ensures that the rates are adequate to cover net costs and are not consistently providing excess revenue.

When excess revenue is significant, a county should consider requesting a provider to submit a plan for "putting it back into the program." A county should also renegotiate the current year rate to more closely approximate actual costs. As indicated above, programs with mixed funding which includes Medi-Cal and programs funded by CSAT grants must be settled to actual costs.

## **REFERENCES**

The following reference mentioned in this bulletin may be valuable in understanding the subject matter.

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

## **HISTORY**

There are three 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 #97-26**

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

ADP #97-66

Title/Subject: Modification of ADP #96-64  
Date Issued: November 27, 1997  
Expiration Date: None  
Date Deleted: Not applicable

**QUESTIONS/MAINTENANCE**

We hope this clarifies and explains current answers to the above questions. If you have any questions, please contact Gary Bellamy at (916) 322-4834 or Andy Dill at (916) 324-6406.

**EXHIBITS**

Enclosed as Exhibit 1 is a copy of ADP #97-26.

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