STATE OF CALIFORNIA-HEALTH AND HUMAN SERVICES AGENCY **GRAY DAVIS, *Governor***

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS
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ADP BULLETIN

Title **MODIFICATION OF ADP #96-64 - FEDERAL GRANT PROFIT**		Issue Date: 11-25-97 Expiration Date:	Issue No. **97-66**
Deputy Director Approval (signed by) Desirée Wilson, Deputy Director Division of Administration	Function [ ]Information Management [ ]Quality Assurance [ ]Service Delivery [ ]Fiscal [ ]Administration	Supersedes Bulletin/ADP Letter No.	

PURPOSE

The Department of Alcohol and Drug Programs (ADP) has previously issued ADP letter #96-64, which clarified certain statutory/regulatory provisions regarding federal grants. The letter discussed both the Substance Abuse Prevention and Treatment (SAPT) Block Grant and various discretionary grants provided by the Center for Substance Abuse Treatment (CSAT). Based on concerns and questions raised by providers and counties regarding the Block Grant, we provide the following information. This letter supersedes ADP #96-64 with respect to the use of Block Grant and State General Fund monies. ADP #96-64 remains in effect regarding CSAT discretionary grants. We have enclosed a copy of ADP #96-64 for your convenience.

Please be aware that the Department responded to questions about ADP #96-64 in a subsequent letter, ADP #97-26. Generally, the letter today will require different answers to questions raised in ADP #97-26, as related to county-provider contracts. However, in regards to questions about county-operated programs and the state-county contract, ADP #97-26 will require little, if any modification. To provide more clarity, ADP #97-26 will be superseded by a subsequent letter, which will answer the same questions in conformance with the information contained in this letter.

FEDERAL BLOCK GRANT REQUIREMENTS

Federal law provides that the State shall obligate and expend Block Grant funds in the same manner as it obligates and expends its own funds. Health and Safety Code section 11987.5 states the reimbursement for drug services shall be by actual costs. Counties may enter into contracts with providers at the actual cost or a negotiated rate. The negotiated rate may be used as the cost of services only between the county and the provider. Negotiated rates are based upon the projected costs of providing the services and projected revenues realized as a result of providing the services. Once the negotiated rate is approved by the county, all other governmental funding sources, except the Drug/Medi-Cal program, are bound to the rate as the cost of providing services.

This means that Block Grant and State General Fund monies may be expended for services through negotiated rate contracts, provided that the negotiated rates are based on projected costs and projected revenues, as defined in section 11987.5. Providers are required to make available to the county the prior year's actual costs and actual revenues. For consistency, the same interpretation will be applied to section 11818 for alcohol programs.

There is one important exception to this rule. Section 11987.5(a) was amended in 1995 by Assembly Bill (AB) 911. (Stats. 1995, ch. 305.) This amendment, among other things, added subsections (2)(A) and (B). These

subsections state that **when a provider receives a combination of Medi-Cal and other federal or state funding for the same service element and location, Medi-Cal reimbursement principles apply.** In those cases, any negotiated rate used for the non-Medi-Cal participants' services is provisional and is subject to year-end settlement to actual costs. Since AB 911 added identical language to section 11818, this rule will be applied to both alcohol and drug programs.

It is important for counties and providers to remember that there are several specific restrictions on the expenditure of Block Grant funds contained in the grant award and in 45 Code of Federal Regulations, section 96.135. Such costs, if incurred, must not be included in a county-provider negotiation of a rate. Examples are the $125,000 salary maximum for any one individual, and the prohibition of construction. More detail on these restrictions will be provided in a subsequent ADP letter.

QUESTIONS/MAINTENANCE

If you have questions concerning this letter, please call Gary Bellamy at (916) 322-4834 or Andy Dill at (916) 324-6406.