STATE OF CALIFORNIASQHEALTH AND WELFARE AGENCY PETE WILSON, Governor
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DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS
1700 K STREET
SACRAMENTO, CA 95814-4037
TTY (916) 445-1942
(916) 322-7012

February 7, 1996

ADP #96-05

To: County Alcohol and Drug Program Administrators
Providers of Drug/Medi-Cal Services

Subject: Drug/Medi-Cal "Lower of Cost or Charges" Principle

The purpose of this letter is to restate the rule that reimbursement for Medi-Cal alcohol and drug treatment services is limited to the lowest of the following costs or charges: the providers's usual and customary charges to the general public for the same or similar services; the provider's allowable costs; or the Drug/Medi-Cal (D/MC) rate cap for each service modality. (See Title 22, California Code of Regulations, Section 51516.1.)

When a claim for alcohol and drug services is initially submitted for D/MC payment, it is paid at a provisional rate, not to exceed the rate cap. At the end of each fiscal year providers/counties are required to submit actual cost information that justifies a final rate. The annual cost settlement is then determined based on this information.

In addition, all providers are subject to audit, at which time actual records are reviewed to substantiate reasonable costs and to compare those costs to customary charges to other clients for the same services. (Charges resulting from differences in services provided are reconciled for the purpose of determining customary charges.) Based on audit findings of the lowest rate, appropriate adjustments to payments will be made and any overpayment collected, in addition to any penalties that may be assessed.

We hope this information is helpful to you. If you have any questions concerning the "lower of cost or charges" principle, please call Joan Hirose, Acting Supervisor, Fiscal Systems Section, Fiscal Management Branch, at (916) 323-2043.

Sincerely,

GLORIA J. MERK, II
Deputy Director
Program Operations Division

cc: Wagerman Associates, Inc.