

COUNTY OF LOS ANGELES DEPARTMENT OF MENTAL HEALTH  
CONTRACT NEGOTIATION PACKAGE  
PART III BUDGET SECTION

INSTRUCTIONS: BUDGET SECTION (General Instructions for completing Budget Schedules and Work Sheets)

Contractors are required to complete the Line Item Budget Schedules for each Program in order to obtain funding from the County of Los Angeles Department of Mental Health (LACDMH). Contractors must also prepare a budget narrative that describes the items in the budget and the approach used by the contractor to estimate the budget amounts. The proposed budget and budget narrative must correlate to the narrative Program Work Plans contained in the Negotiation Package, Part II Program Description.

The general format is the budgeting of each *Program* at the *service provider* level by cost and revenue source category. A budget at the *Program* level is required for each *service provider*. The definition of these terms for purposes of this Negotiation Package follows.

Definition of Program: For Negotiation Package purposes PROGRAM means a “Funded Program” as shown on the Legal Entity Agreement’s Financial ***Exhibit A Financial Summary*** or any sub-program level of such “Funded Program” as shown in Schedule 7, Part V or as communicated in writing by the DMH lead program District Chief.

Definition of Service Provider: A service provider is a public or private organization or a person furnishing or proposing to furnish mental health services and/or activities as part of the LACDMH’s Mental Health Plan. All service providers with the exception of Fee-For-Service providers are identified by one or more four-character numeric or alpha-numeric code assigned by LACDMH through the State Department of Mental Health. The service provider is identified with the Department’s/State’s assigned provider number. For a potential new service provider, an interim name or number should be used in the Negotiation Package for identification purposes. Customarily, a service provider is usually a specific geographic site/facility; however, in rare situations there could be two or more service providers (as distinguished by the assigned four-character numbers) located at one site/facility. A contract with the County called the *Legal Entity Agreement* is necessary to be a service provider.

The preparation sequence for costs/revenues in these Negotiation Package Schedules, Exhibits and Worksheets starting at the lowest level is: Program → provider → legal entity. That is, cost and revenues must be assigned to Programs, Programs assigned providers as designated by the four-character numeric or alpha numeric code, and providers rolled-up for the entire organization (i.e. Legal Entity).

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**General Instruction:**

- Round all expenditures and revenues to the nearest whole dollar.
- Carefully read, understand and follow each worksheet's instructions. If questions arise please ask for clarification before proceeding.
- Foot and total the expenditures and revenues when called for, and verify for accuracy. The spread sheets often include formulas that will perform this step.
- Contractors are subject to the cost and rate principles contained in various State and federal statutes/regulations/policies/ publications including but not limited to:
  - California Administrative Code Title 9 (website: <http://ccr.oal.ca.gov/>) Section 1840.105;
  - California Welfare and Institutions Code (website: <http://www.leginfo.ca.gov/>) Sections 5705, 5716, 5718, 5720, 5224, 5778, and 14680;
  - California Code of Regulations 1840.105;
  - Federal Code of Regulations Section 413 (42CFR 413);
  - Center for Medicare and Medicaid Services (CMS) (website: <http://cms.hhs.gov>) Publication (CMS 15-1) Chapter 21 Sections 2100-2102.3, 2306-2307 and 1513; and
  - federal OMB (website: <http://whitehouse.gov/omb/circulars/index.html>) Circular A - 122 for non-profit and 48 CFR Part 31 *Contract Cost Principles and Procedures for profit organizations...*
  - Consult with your accountant as appropriate.
- Costs are divided into two broad categories: administrative and direct services. Each of these categories has subcategories of allowable and unallowable costs. Whether a cost is considered administrative or direct service, and either allowable or unallowable is determined by auditors using the Centers for Medicare and Medicaid Services' (CMS) Publication # 15-1 and 15-2 (*The Provider Reimbursement Manual - Part 1 and Part 2*) and Title 9 California Code of Regulations. Be familiar with this CMS publication and the State Title 9 regulations. Your accountant should be able to assist in ensuring compliance with generally accepted accounting principles and practices and the CMS #15-1 and 15-2 publications.
- The burden of proof is on the contractor when questions arise whether costs have been properly determined to be direct services rather than administrative or allowable rather than unallowable. For this reason,

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proper documentation needs to be kept by the contractor to justify such determination. Basic guidelines follow in the next seven bullets.

- Costs should be considered as direct service costs only if there is a clear, direct, and documented relationship to services that are provided to recipients of mental health services and/or activities.
- Direct service costs are those direct costs for services to mental health consumers that can be readily identified to a direct service provider. Allowable costs include all necessary and proper costs that are incurred in developing and maintaining the operation of the direct service provider.
- Service costs must be allocated to the various service procedures and administrative costs must also be allocated through an *acceptable allocation method*. CMS Publication 15-1 and 15-2 provides the guidance indicating that an *acceptable allocation method* will fairly represent the services and benefits received.
- Administrative support and other indirect costs are those incurred for the common benefit of the Legal Entity's total contracted mental health program that are not directly or readily attributable to a specific County contracted mental health program or service. Costs include accounting, budgeting, financial screening, general administrative personnel, information system, office services, office personnel, and other such similar costs. These costs must be reasonable and be equitably allocated and compliant with federal cost allocation principles. Consult with your accountant.
- Administrative costs are allowable to the extent they are:
  - Necessary and reasonable,
  - Related to services provided by direct service providers,
  - Allowable under Medicare regulations, and
  - Allocated on an acceptable basis.
- Unallowable costs include, but are not limited to:
  - Capital improvements (unless amortized);
  - Purchase or construction of buildings (unless depreciated);
  - Costs to *Related Organizations* that do not conform to the requirements of CMS Publication 15-1 Chapter 10.
  - *Home Office* costs that do not conform to the requirements of CMS Publication 15-2 Chapter 10.
- The Code of Federal Regulations (42CFR413.157) prohibits a profit or a return on equity for a profit entity engaged in business as an inpatient hospital or a skilled nursing facility.

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A non-profit entity, other than an inpatient hospital or a skilled nursing facility, under the Negotiated Rate reimbursement methodology may retain 50% of federal and local match Medi-Cal reimbursement that is in excess of the State approved negotiated rate under the conditions provided in the State Plan TN No. 93-009 item C.

A non-profit entity under the cost reimbursement methodology is limited to no more than actual costs which does not include a charge for revenue in excess of the actual costs.

Not-For-Profit contractors see California State Plan TN No. 93-009 item A "Actual Costs" which provides the definition of **actual cost as: reasonable and allowable cost, based on year-end cost reports and Medicare principles of reimbursement as described at 42 CFR Part 413, in CMS Publication 15-1.** Other federal regulations may result in reimbursements less than actual costs.

Certain federal requirements also limit charges from a related organization. Consult with your accountant.

- A separate Schedule 2 budget must be prepared for each service provider which as discussed above would have an assigned four-character numeric or alpha-numeric code if already a service provider, or an interim name or number if not a current service provider.
- If there are multiple service providers in the same site/facility a separate Schedule 2 needs to be prepared for each service provider as identified by each service provider's respective four-character numeric or alpha-numeric code.
- Contractors will not be held to individual budget line items within a Program at the service provider level, but will be held to the Program total at the Legal Entity level. This restriction exists because of the categorical restrictions imposed by the funding regulation(s) or the agency from which the LACDMH will receive reimbursement(s).