COUNTY OF SAN DIEGO DMC-ODS

P. FUNDING SOURCE REQUIREMENTS (CONTRACTOR INSTRUCTIONS)

Budget & Fiscal Instructions for Cost Reimbursement Contract

This document includes instructions (*in italics*) to help clarify the intent of the requirements and guidelines for Cost Reimbursement payment type contracts.

Contractors prepare program budgets for County review and approval. The approved budget for each fiscal year serves to assist in defining objectives and guidelines for contract performance, and determination of allowable and appropriate expenditures. The budget guidelines allow for flexibility within specified dollar limits, and states conditions when prior written County approval must be obtained before contractors are allowed to exceed the specified limits for discretionary variance from the approved budget. It is expected that budgets submitted by providers will include all expenses that are needed to support the program during the fiscal year.

Budget

The annual contract amount is specified in the contract and supported by an annual detailed budget developed by the contractor. Contractor must obtain written prior approval from the County and a Contract Amendment must be executed before exceeding the fiscal year's approved budget. Unspent funds from one fiscal year may not be applied to subsequent fiscal year's expenditures unless authorized and supported by a Contract Amendment.

If expenses are within the allowable limits stated below, no prior approval or change to the budget is required, though all expenses must always be reasonable and appropriate for the contracted services and are subject to subsequent review and disallowance. Any expenditures requiring written approval must be requested in advance and approved by the COR. Approval is not effective, and contractor should not incur any requested expense, until notified.

Invoice

Where the term "invoice is used in the Contract Services Template Article 4, "cost report" may be substituted as appropriate.

Total Direct Labor Cost

Reimbursable direct labor cost for direct labor and program management staff incurred by Contractor in the performance of this Contract shall be limited to the total amount budgeted for such cost in Exhibit C, Contractor's Budget. The sum of any and all such expenditures shall not exceed the total amount budgeted for the Salaries and Benefits category plus any allowable unexpended Operating Expenses without the prior written approval of the COR.

The contract does provide some flexibility to transfer funds between Direct Labor Costs and Other Direct Costs. An adjustment to Direct Labor costs is allowed if it results in no net change to the total annual contract maximum. Guidance for allowed budget adjustments is listed below.

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- Unexpended Salaries and Benefits (S&B), up to 10% of total annual S&B budgeted amounts with a dollar value up to $100,000, may be applied to Operating Expenses.

Budget adjustments greater than 10% to Direct Labor cost; or 10% or less than to Direct Labor but with a dollar value greater than $100,000 require prior approval from the COR. Only budget adjustments up to 10% to Direct Labor cost with a dollar value up to $100,000 do not require prior approval from the COR. Example:

Example 1: The total Salaries and Benefits amount for a program budget equals $500,000, and contractor expects to spend less than $430,000. Of the $70,000 in projected unspent funds for this category, up to $50,000 (10% of the $500,000 Total Approved Budget with the dollar value less than $100,000), may be applied to Operating Expenses without requiring prior approval or change to the budget.

Example 2: The total Salaries and Benefits amount for a program budget equals $600,000, and contractor expects to spend less than $570,000. The entire $30,000 in projected unspent funds for this category, which is less than the limit of $60,000 and with the dollar value less than $100,000, may be applied to Operating Expenses without requiring prior approval or change to the budget.

- Unexpended Salaries and Benefits that may be applied to Operating Expenses may be from temporary vacancies of budgeted staff.

Contractor shall not intentionally keep positions vacant for the purpose of accruing savings to be used for Operating Expenses. When staffing levels are reduced due to less workload, then it is expected that operating expenses would be similarly underspent. The intent is to fill all budgeted positions and to provide services to members . Unspent funds due to other reasonable circumstances may be applied to Operating Expenses.

- Unexpended Salaries and Benefits may be applied directly to any temporary replacement staff and do not require prior County approval as long as costs do not exceed amounts budgeted for these positions.

Temporary and/or replacement staff should be listed in the Salaries and Benefits category and are not subject to prior approval as long as the total of Salaries does not exceed the budgeted amount plus 10% with a dollar value less than $100,000 for this category.

- Staffing changes, including addition or deletion of budgeted staff, shall require prior COR approval. Individual salaries may be exceeded up to 5% of the highest salary range without prior COR approval.

Adequate and appropriate staffing is normally the most important factor in the successful delivery of contracted services. Any permanent change to the number (FTEs) or classification of staff requires prior written approval. Salaries for each classification may be listed as averages, with the added information of the salary ranges. An individual salary may be exceeded up to 5% of the highest salary range without prior written approval by the COR, as long as the overall 10% rule is heeded. NOTE: Bonuses, incentive pay, and other types of special employee pay require prior written approval by the COR and must comply with Office of Management and Budget (OMB) Guidelines

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Total Other Direct Cost

Reimbursable operating costs incurred by Contractor in the performance of this Contract shall be limited to the total amount budgeted for such expenses in Exhibit C. The sum of any and all such expenditures shall not exceed the total amount budgeted for the Operating Expenses category plus any allowable unexpended Salaries and Benefits without the prior written approval of the COR.

The contract does provide some flexibility to transfer funds between Direct Labor Costs and Other Direct Costs. An adjustment to Other Direct costs is allowed if it results in no net change to the total annual contract maximum. Guidance for allowed budget adjustments is listed below.

- Unexpended Operating Expenses (OE), up to 10% of total annual OE budgeted amounts with a dollar value up to $100,000, may be applied to Salaries and Benefits.

All budget adjustments greater than 10% to Operating Expense cost; or 10% or less than to Operating Expense Cost but with a dollar value greater than $100,000 require prior approval from the COR. Example:

Example: If the total Operating Expenses for a program budget equals $300,000, any unspent amount, up to a maximum of $30,000 (10% of the total budget for this category with the dollar value less than $100,000), may be applied to Salaries and Benefits without requiring prior COR approval.

- The budgeted amounts for Operating Expenses line items may be exceeded up to the amount stated in Behavioral Health Services Administrative Adjustment Request (AAR) Guidelines as long as the t o t a l of all items does not exceed the total budgeted Operating Expenses including any allowable unexpended Salaries and Benefits, except for asterisked line items. Overspending by more than the allowable amount per AAR Guidelines on these Operating Expense budget line items will require a one-page Administrative Adjustment Request (AAR) form. The AAR form must be submitted clearly describing the justification for overspending, the budget line items and amounts affected. AAR is applicable to Cost Reimbursement payment type contracts only.

Example: If $1,000 is budgeted for Office Supplies and AAR Guideline allowed to exceed up to $5,000, a total expense to date of $1,500, will not require prior approval or change to the budget unless the total Operating Expenses amount exceeds the approved amount in the budget. NOTE: all expenses must be reasonable and appropriate for the contracted services and are subject to subsequent review and disallowance.

- Consulting expenses shall be budgeted on Contract Budget and shall not be exceeded without prior COR approval, with the exception of temporary staffing. All other consulting services or Subcontracts not previously budgeted shall require prior written COR approval.

- Budgeted amounts for Leasehold Improvements, Consultants, Subcontracts, Interest Expense, Gift Cards and Depreciation shall not be exceed without prior written COR approval.

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- Budgeted amounts for Member's Flex Funds may exceed up to $1,000. Costs above $1,000 require prior written approval by the COR.

  No expense shall be allowed for any line item that does not have an amount currently budgeted. Expenses without a budget require prior COR approval and detailed justification. Additional expenses due to emergencies and/or unforeseen circumstances for line item(s) that have a $0 budget will be reviewed on a case-by-case basis. These expenses are not allowed to be claimed in other line items that were not intended for these types of expenses.

Fixed Assets

All fixed asset expenses shall be budgeted and itemized on the Contract Budget, and no fixed asset budget line item shall be exceeded without prior written COR approval.

The purchase of fixed assets that are not listed on the budget require prior written approval. Fixed assets include all non-expendable property with a value of $5,000 or more and a normal life expectancy of more than one year.

Purchase of fixed assets that are budgeted on the itemized Supplemental A and any assets not currently budgeted require written notification to the COR.

Total Indirect Cost

Reimbursable indirect costs incurred by Contractor in the performance of this Contract shall be limited to the total amount budgeted for such cost in Exhibit C. The sum of any and all such costs shall not exceed the total amount budgeted for the Indirect Cost category without the written approval of the COR. Reimbursable indirect costs shall be limited such that the ratio of actual total Indirect Cost to actual total Gross Cost shall not exceed the ratio of budgeted Indirect Cost to budgeted Gross Cost.

If the total budget is underspent, it is expected that Indirect Costs would decrease proportionately.

Other Costs: Hiring Incentives and Premium Shift Differential Rates

Any HHSA contractor that can demonstrate a critical workforce need that is or will imminently negatively impact the delivery of member services and contractual capacity requirements, may consider the following strategies:

- Hiring Incentives: Contractor may choose to propose a program for hiring incentives for those positions that are in critical need. ○ Proposed hiring incentive programs must include:
  - Identification of the critical staffing needs and potential contractual impact absent any mitigation.
  - A documented policy for implementation of hiring incentives to meet the immediate needs of the program and indicates there will be no contract increases that result from the sign-on bonuses.
    - Hiring incentive program must be time-bound for immediate recruitment needs.

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- Hiring incentive programs may include moving expenses and/or sign-on incentives which must be time bound and include repayment requirements if employment terminates prior to completion of time obligation

- Proposed hiring incentive policy will require the following:
  - Adequate justification
  - COR and HHSA program management approval
  - Line-item delineation on budgets/invoices and must properly account for any staff, identification of applicable positions, amount for each position. If cost flow to the next fiscal year – claim to County will only be up to the Contract Max (covered by savings the following fiscal year), or early employment termination implications. ▪ Request at the beginning of the Fiscal Year by contractor:
    - Create a new Other line in the Operating Expense tab, label as "Other: Sign-On Bonuses: Max of "$_____". This will have a $1 budget.
    - The amount on the description will be the max amount that is approved for invoicing. If this amount is exceeded, a new AAR will need to be submitted for another approval.
  - For mid-year or end of the year request by contractor:
    - Salaries and Benefits will need to be updated to reflect the number of months the position is vacant creating an unspent amount
    - Create Other line in the Operating Expense tab "Other: Sign-On Bonuses" and reflect the budgeted amount. Reflect zero bottom net change.

- Premium Shift Differential Rates: Contractors may wish to consider premium shift differential rates for staff to support shifts that are difficult to recruit, hire, retain or fill.
  - Premium shift rates would be proposed by contractor and require approval from COR.
  - Premium shift differentials would typically be expected for consideration on overnight shifts and 24/7 facilities, but may, upon contractor proposal and approval by management and COR, be approved for certain service settings due to the acuity or high intensity of the setting.
  - Employees receiving Premium Shift Differential Rates would be eligible for hiring incentives outlined above.

Units of Service (under Cost Reimbursement type contracts only)

Units of Service are the most critical element of the program budget, and the budgeted units of service may not be changed without prior written approval by the COR. Delivery of service below budgeted levels may be considered a performance matter and subject to corrective action

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Start-Up Funds (for Procurement Budget only)

Start-up or Ancillary funding as part of procurement shall be subject to funding, negotiations and shall be at the sole discretion of the County. This shall be limited to one-time costs of newly awarded contracts and shall be used for the development and implementation of a new or expanded program or service.

- The budget and timelines for expending start-up funds must be approved by the County •
  Shall not be available for option years
- Shall not exceed 10% of the annual budget of the first year of contract
- A separate cost center for start-up funds shall be included in the proposed budget for the initial contract period and expenditures shall be tracked separately from ongoing expenditures
- If multiple funding sources are identified within the contract, a plan to allocate the start-up costs amongst various funding sources shall be required and budgeted appropriately to reflect the funding
- ratios amongst the various funding sources
- Start-up costs will be reimbursed based on actual costs (cost reimbursement). Contractor shall comply with Cost Reimbursement Contract requirements. At a minimum, submit an acceptable Cost Allocation Plan and maintain an Inventory List, according to Article 2.4 of the Contract Services Template

Examples of expenditures that may be approved include:

- Costs of staff hiring
- Initial staff training and development related to a new program or operation (ongoing training and development should be included in the annual operating budget)
- Minor equipment
- Supplies and materials
- Licenses and permits
- Tenant Improvements

Start-up funds shall not be used:

- To supplant or supplement ongoing or routine operating expenses
- For ongoing or routine program activities
- To improve an existing program or service

At the end of the determined start-up period, an evaluation of the start-up expenditures shall be made, and remaining start-up funding may be rescinded at that time. Expenditures that do not meet the start-up criteria may be disallowed and subject to reimbursement.

Other Revenue Sources

Behavioral Health Services: Contractor shall determine and claim revenues from all other applicable sources other than the County as reimbursement for the cost of services rendered to members pursuant to this

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Contract and in compliance with all applicable rules and regulations (the current version of which can be found online at the BHS Technical Resource Library. For further guidance, please refer to the links below.

- FORTHCOMING – BHS Billing Guide
- DMC Organizational Providers Billing Manual (pdf) (optumsandiego.com)

Multiple Programs/Cost Centers

In contracts that have multiple programs with separate budgets submitted for each program, any adjustment between individual program budgets shall have the prior written approval of the COR. Any excess funds shall remain and be utilized in the program where originally allocated or may be reallocated by the COR for other appropriate services.

Accounting System

Contractor shall use an accounting and timekeeping system for segregating, supporting, controlling, and accounting of all funds, property, expenses, salaries, wages, revenues, and assets for each County of San Diego contract distinct from other contractor activities. Contractor shall have the ability to provide assurance that the system is in accordance with generally accepted accounting principles and federal Office of Management and Budget (OMB) Circulars, located within the applicable Code of Federal Regulations. Accounting and timekeeping systems are subject to review during in-depth invoice reviews and audits conducted by the County.

Other Fiscal Instructions

Invoices are due 30 days after end of invoice month unless other due dates are required by specific funding sources unless otherwise instructed by COR.

Budget & Fiscal Instructions for Fixed Price payment type Contracts

The approved budget for each fiscal year serves to assist in defining objectives and guidelines for contract performance, and as determination of allowable and appropriate invoicing within the Fixed Price or rate structure or set by the State as listed in the Contact Exhibit. The Exhibit C provides budget guidelines that may allow flexibility within specified dollar limits, and states conditions when prior written County approval or amendment must be obtained before contractors are allowed to exceed the specified limits from the approved budget. It is expected that budgets submitted by providers will include all expenses that are needed to support the program during the fiscal year.

Budget

The annual contract amount is driven by the Fixed Price rate as established by the State or agreed to in the contract. If the rate is driven by the State, it is automatically adjusted to match the rate. If the rate is based on negotiated rate between the County and Contractor or a Fixed Price, a Contract Amendment must be executed before exceeding the fiscal year's approved budget. Unspent funds from one fiscal year may not be applied to subsequent fiscal year’s expenditures unless authorized and supported by a Contract Amendment.

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Invoice

The invoice submitted to the County includes the contracted rate multiplied by the units of service or the billing milestone completed.

Units of Service

Units of Service are the most critical element of the program budget for the Fixed Price con Other Revenue Sources

Contractor shall determine and claim revenues from all other applicable sources other than the County as reimbursement for the cost of services rendered to members pursuant to this Contract and in compliance with all applicable rules and regulations. For further guidance, please refer to SUDPOH and COSD BHS Drug Medi-Cal Organizational Providers Billing Manual.

Ancillary Claims

Some contracts may allow ancillary expenses that can be claimed at cost. Please refer to your Exhibit C language for information regarding ancillary expenses added to a Fixed Price contract.

Accounting System

Contractor shall have use of an accounting system for segregating, supporting, controlling, and accounting of all funds, expenses, and revenues, for each County of San Diego contract distinct from other contractor activities. Contractor shall have the ability to provide assurance that the system is in accordance with generally accepted accounting principles and federal Office of Management and Budget (OMB) Circulars, located within the applicable Code of Federal Regulations.

Other Fiscal Instructions

Invoices are due 30 days after end of invoice month unless other due dates are required by specific funding sources unless otherwise instructed by COR.

Contractor must comply with fiscal reporting requirements upon request by County, State, or Federal.

Budget & Fiscal Instructions for Hybrid Contract

Follow the requirements and guidelines for Cost Reimbursement AND Fixed Price payment Contract.

Behavioral Health Services Funding Source Requirements – Applicable to All Contract Payment Types (Contractor Instructions)

Medi-Cal Requirements

Invoices for Payment of Medi-Cal Services. Contractor shall enter required data based on eligibility and services rendered to each Medi-Cal member into the appropriate County-designated County Data System. Contractor shall enter data on each member or group within the time required by the County.

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The validity of Contractor's data input is subject to State, County, Federal or other funding source review and approval. County will make payments in advance of the State, Federal or other funding source review and approval, and in advance of the reimbursement by the State, Federal or other funding to County for sums expended thereunder. In the event the State, Federal, other funding source or County disapprove any billing, whether previously paid to Contractor, Contractor shall take all necessary actions to obtain approval of the disallowed billing. If Contractor is unsuccessful, Contractor shall reimburse County in the full amount of the disallowed billing within thirty days of County's request or, at the sole discretion of County, County may withhold such amounts from any payments due under this Contract or any other contract , including successor contracts , County has entered into or will enter into with Contractor.

Penalty for Failure to Qualify Short-Doyle/Medi-Cal & Drug Medi-Cal Visits. (Rev. 9/11/08)
If County experiences a payment reduction in a Short Doyle/Medi-Cal & Drug Medi-Cal claim due to Contractor's failure to qualify the visit under Short-Doyle/Medi-Cal & Drug Medi-Cal program (failure to claim or failure to respond to inquiry) then County will reduce Contractor's reimbursement by an amount commensurate with Contractor's budgeted unit cost and the prevailing Federal Financial Participation (FFP) of Medi-Cal and EPSDT for the Contract period.