

## ALLOWABLE / UNALLOWABLE COSTS

Reference items can be viewed in full at the following websites:

Center for Medicare and Medicaid Services 15-1 (CMS 15-1)

<https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Paper-Based-Manuals.html>

Title 2, Code of Federal Regulations (CFR) Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

**See Subpart E for Cost Principles.**

[http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)

### ALLOWABLE / UNALLOWABLE COSTS

The reimbursement standards shown in this section have been summarized from CMS 15-1 and various Department policies. Where references are indicated they should be consulted for a complete text of the Department of Mental Health's policy.

#### Advertising Costs

CMS 15-1, s. 2136

Allowable to the extent they are reasonable, appropriate and helpful in developing, maintaining and furnishing covered services. These costs must be common and accepted occurrences in the mental health field. The allowability of each cost depends on the facts and circumstances, as well as the amounts ordinarily paid by comparable institutions.

Cost for presentation of a good public image, directly or indirectly related to client care, are allowable. These costs may include: recruitment of staff; professional contacts with physicians, hospitals, public health agencies, nurses' associations, state and county Psychiatric Societies, and similar groups and institutions in order to inform them of the provider's covered services. An example is the listing of the facility in a telephone directory of similar facilities in an area.

Unallowable Advertising Costs include: Fundraising; advertising of a general nature designed to invite physicians to utilize the provider's facilities in their capacity as independent practitioners; advertising to the general public to increase patient utilization of the provider's facilities.

#### Charitable Contributions, Grants, and Donations: (United Way-Endowment-Private Gifts)

CMS 15-1, s. 602.1, 602.2, 604, 606

#### UNRESTRICTED GRANTS, GIFTS AND INCOME FROM ENDOWMENTS –

Unrestricted grants, gifts and income from endowments are funds, cash or otherwise, given to a provider without restriction by the donor as to their use.

#### UNRESTRICTED GRANTS, GIFTS, AND INCOME FROM ENDOWMENTS- GENERAL RULE

Unrestricted contributions are not deducted from costs in computing allowable costs. These funds are considered the property of the provider to be used, as it deems appropriate. These funds generally give the provider a means of recovering costs which are not otherwise recoverable, such as costs related to bad debts of patients not covered under Medicare.

**RESTRICTED GRANTS, GIFTS, AND INCOME FROM ENDOWMENTS –**  
Restricted or designated grants, gifts, and income from endowments are funds, cash or otherwise, which must be used only for a specific purpose designated by the donor. This does not refer to unrestricted grants, gifts, or income from endowments which have been restricted for a specific purpose by the provider.

*RESTRICTED GRANTS, GIFTS AND INCOME FROM ENDOWMENTS –  
GENERAL RULE*

Restricted contributions, where the cost or group(s) of costs designated covers services rendered to all patients, including Medicare beneficiaries, operating costs applicable to all patients are reduced by the amount of the restricted grants, gifts, or income from endowments thus resulting in a reduction of allowable costs. For example, if a specific donation was made to cover the costs of medical social services for all patients, the costs of medical social services would be reduced by the amount of the donation to arrive at allowable costs.

**Cost to Related Organizations**  
CMS 15-1, s. 1000 through 1011.7

Allowable to the extent it does not exceed the price of comparable services, facilities or supplies that could be purchased elsewhere. Should a substantial portion of a related organization's business be done with its subsidiaries, then the charges will be adjusted to the related organization's costs.

**Court-Related Cost**  
WIC, s. 5714

Unallowable Court Costs: The costs involved in bringing a person in for 72-hour treatment and evaluation; the costs of court proceedings for court-ordered evaluation, including the service of the court order and the apprehension of the person ordered to evaluation when necessary; the costs of court proceedings in case of appeal from 14-day intensive treatment; the cost of legal proceedings in conservatorship as defined by the regulations of the State Department of Mental Health; the court costs in post-certification of proceedings; the cost of providing a public defender or other court appointed attorneys in proceedings for those unable to pay

**Deferred Compensation**

CMS 15-1, s. 2140.1, 2140.2

Allowable to the extent it meets the test of reasonableness; unfunded plans will be allowable when actually paid to participating employees.

**Depreciation-Construction**

CMS 15-1 s. 100, 102, 104, 116

Allowable on total construction cost for facilities financed by federal, state, and county or private.

**Depreciation-General**

CCR Title 9, s 552

CMS 15-1 s. 100, 102, 104, 116

Allowable and must be an appropriate depreciable asset consistent with CCR Title 9, Section 552.

**Depreciation-Donated Asset**

CMS 15-1 s. 104.16, 114.1.A.2, 114.2

Allowable on the fair market value, which is the usual price at which bona fide sales have been made for assets of like type, quality, and quantity in a particular market at the time of acquisition.

**Educational Activities**

CMS 15-1 s. 402.1

Allowable for net cost of formally organized or planned programs of study engaged in by staff members to:

- A. Enhance the quality of health care in the institution, or to improve the administration of the institution.
- B. Be licensed by state law, where required.
- C. Be approved by the recognized professional organization for the particular activity where licensing is not required.

**Fines and Penalties**

CMS 15-1 s. 2105.10

Not an allowable cost.

**Gains or Losses on the Sales or Disposition of Assets**

CMS 15-1, s. 130, 132

Requires inclusion to the extent depreciation has been charged.

**Improvements-Funded**

CCR, Title 9, s. 553  
CMS 15-1, s. 108.2

Allowable as a depreciation expense.

**Insurance Costs**

Ref: WIC, s. 5717  
CMS 15-1, s. 2161, 2162

Allowable to the extent the costs are reasonable and customary for the coverage. Commercial carrier allowable costs may not exceed the aggregate coverage. Losses are allowable to the extent they are attributable to the customary deductible clause. Limited purpose insurance company regular premium (not supplemental) for malpractice purposes are allowable to the extent they are not in excess of comparable available commercial insurance premiums. If there are no comparable rates, an authority within that insurance area must ascertain the adequacy and reasonableness of the rates and the costs allowed to that extent. Costs of self-insurance funds are allowable under the conditions identified in CMS 15-1 Section 2161.

**Interest Expense**

CMS 15-1, Chapter 2

Allowable for necessary and proper costs of both current and capital indebtedness interest which requires: (1) Evidence of an agreement that funds were borrowed and that payment of interest and repayment of funds of interest and repayment of funds are required; (2) Identification in the provider's accounting records; (3) Relationship to the reporting period in which costs are incurred; (4) The interest is necessary and proper for the operation and maintenance of the provider's facilities.

NOTE: Interest expense on working capital loans used for normal operating expenses with proper supporting documentation is allowable; however, interest expense on loans used for Contractor repayments of overpayments to LAC-DMH is unallowable.

Under normal and proper business practice, the need to borrow additional working capital might be rare. Hence, provider must be able to justify their current borrowing in compliance with the regulations for the allowability of interest expense.

**Interest Earned**

CMS 15-1, s. 2110.2

Income received from interest, finance charges and penalties on delinquent accounts receivables must be used as a deduction from allowable administrative and general costs.

NOTE: Interest income from LAC-DMH cash flow advances must be subtracted from the reimbursable cost.

**Legal Fees and Other Related Costs**

CMS 15-1, s. 2183

Legal fees and related costs incurred by a provider are allowable if related to the provider's furnishing of patient care. However, legal fees and related costs incurred by the provider related to alleged civil fraud or indictment for a criminal act by provider, or its owners, employees, directors, etc are unallowable provider costs.

**Medical Treatment**

CCR, Title 9, s. 561

Costs of medical treatment not necessary to the evaluation of psychiatric disorders are not subject to reimbursement.

**Membership Costs**

CMS 15-1, s. 2138

Allowable for professional, technical, or business related organizations and civic organizations where the primary purpose is the promotion of civic objectives; not allowable for social, fraternal, and other organizations.

**Organization Costs**

CMS 15-1, s. 2134.1 – 2134.2

Allowable organization costs include legal fees to establish the corporation or organization, necessary accounting fees, expenses of temporary directors and organizational meetings of directors and stockholders, and fees paid to states for incorporation; not allowable are costs relating to the issuance and sale of shares of capital stock or other securities. Requires capitalization and amortization over a 60-month period beginning with the first day of service.

**Planning Costs-General**

CMS 15-1, s. 2154.1, 2154.3

Allowable as part of the cost of the completed asset and may be depreciated over its useful life.

**Planning Costs-Abandoned**

CMS 15-1, s. 2154.4, 2155

Allowable where the provider had planned to expand its present facility by adding new wings, departments, or buildings which would have been included under its present certification, and such costs were reasonable.

Not allowable where a provider plans to open a new facility which would be separately certified under the program, while continuing to perform services at the present location.

**Political and Lobbying Activities**

CMS 15-1, s. 2139

Unallowable for costs relating to political and lobbying activities.

**Taxes-General**

CMS 15-1, s. 2122

Allowable as long as the taxes are assessed in accordance with the levying enactments of the State and the provider is liable. Fines, penalties, and special assessments for capital improvements are not allowable. Other non-allowable taxes: (1) federal income and excess profit taxes (includes interest and penalties); (2) state or local income and excess profit taxes; (3) taxes from which provider's exemptions are available; (4) taxes levied against the patient and collected and remitted by the provider; (5) self-employment (FICA) taxes applicable to individuals.

**Transportation**

CMS 2104.1

Title 22, s. 51323

Allowable when a client is receiving direct mental health services and is transported between a licensed community care facility and a Short-Doyle treatment facility, between two treatment facilities, or between a community care or treatment facility and the community-at-large for socialization or vocational activities.

Reimbursement to law enforcement agencies or ambulance services for bringing a person in for 72-hour psychiatric treatment and evaluation to an LPS facility within a county containing 20,000 square miles or less is not allowable.

**Value of Volunteer Workers**

Not allowable