

## INTRODUCTION

**1000 INTRODUCTION TO THE FINANCIAL GUIDELINES FOR PURCHASED SERVICES****1100 Purpose**

The Financial Guidelines for Purchased Services (hereinafter referred to as Financial Guidelines) provides the rules and regulations governing financial control of purchase of services funds administered by the Department of Human Services (DHS), Office of Finance and Administration (OFA). The Financial Guidelines is applicable to all funding sources unless exceptions or additions appear in regulations governing specific funding sources.

**1200 Legal Basis**

The following state and federal laws, regulations, and policy govern the operation of the purchase of services program.

**1210 Applicable Federal Laws**

- A. **Omnibus Budget Reconciliation Act of 1981 (Section 2352 P.L. 97-35)**
- B. **The Civil Rights Act of 1964:** prohibits discrimination on the basis of race, color, or national origin in all federally funded programs
- C. **Section 504 of the Rehabilitation Act of 1973:** prohibits discrimination on the basis of handicap in federally funded programs
- D. **Age Discrimination Act of 1975:** prohibits discrimination on the basis of age in federally funded programs
- E. **Anti-Lobbying Act (P.L. 101-121 Section 319):** prohibits recipients of federal contracts, grants, and loans from using appropriated funds for lobbying the Executive or Legislative Branches of the federal government in connection with a specific contract, grant or loan
- F. **Americans With Disabilities Act of 1990 (P.L. 101-336):** prohibits discrimination on the basis of disability and provides equal opportunities in employment, state and local governmental entities, public accommodations, transportation, and telecommunications for persons with disabilities
- G. **Cash Management Improvement Act of 1990 (P.L. 101-453):** requires the timely transfer of funds between a federal agency and a state to encourage development of efficient cash management systems
- H. **Debarment and Suspension (Executive Order 12549):** prohibits doing business with persons suspended or barred from doing business with any agency of the Executive Branch
- I. **Drug-Free Workplace Act of 1988 (P.O. 100-690, Title V. Subtitle D):** requires contractors and grantees of federal agencies to certify that they will provide drug-free workplaces

- J. **Pro-Children Act of 1994 (P.L. 103-227):** prohibits smoking in certain facilities in which education, library, day care, health care, and early childhood development (including Women, Infant, and Children's and Head Start) services are provided to children

## 1220 Applicable Federal Regulations

The major federal regulations governing the operation of the programs are:

- A. **2 CFR Part 215 (Revised as of January 01, 2009):** regulates implementation of uniform administrative requirements for awards and agreements with institutions of higher education, hospitals, and other non-profit organizations
- B. **2 CFR Part 376 (Revised as of January 01, 2009) Non-Procurement Debarment and Suspension:** regulates implementation of the common rule; restricts sub-awards and contracts with certain parties that are debarred and suspended or otherwise excluded from participation in Federal assistance programs
- C. **3 CFR 1986 Comp., p. 189 (Revised as of January 01, 2010):** regulates implementation of Drug-free Workplace Act of 1988
- D. **28 CFR Part 35 (Revised as of July 01, 2009):** regulates implementation of Subtitle A of Title II of the Americans with Disabilities Act of 1990
- E. **31 CFR Part 205 (Revised as of July 01, 2009):** regulates implementation of the Cash Management Improvement Act to provide effectiveness and equity in the exchange of funds between the states and the federal government for federal assistance programs
- F. **45 CFR Part 74 (Revised as of October 01, 2009):** regulates implementation of uniform administrative requirements for awards and sub-awards to institutions of higher education, hospitals, other nonprofit organizations, and commercial organizations
- G. **45 CFR Part 76 (May 01, 2010):** regulates implementation of Health and Human Services Government-wide debarment and suspension (non-procurement)
- H. **45 CFR Part 80 (Revised as of October 01, 2009):** regulates implementation of Civil Rights Act of 1964
- I. **45 CFR Part 84 (Revised as of October 01, 2009):** regulates implementation of nondiscrimination against the handicapped (Section 504 of the Rehabilitation Act of 1973, as amended)
- J. **45 CFR Part 86 (Revised as of October 01, 2009):** eliminates discrimination on the basis of sex in any education program or activity receiving Federal financial assistance
- K. **45 CFR Part 87 (Revised as of October 01, 2009):** establishes equal treatment for faith-based organizations

- L. **45 CFR Part 90 (Revised as of October 01, 2009):** regulates implementation of Age Discrimination Act of 1975
- M. **45 CFR Part 91 (Revised as of October 01, 2009):** regulates implementation of nondiscrimination on the basis of age in Health and Human Services programs or activities receiving federal financial assistance
- N. **45 CFR Part 92 (Revised as of October 01, 2009):** regulates implementation of uniform administrative requirements for grants and cooperative agreements to state, local, and tribal governments
- O. **45 CFR Part 93 (Revised as of October 01, 2009):** regulates implementation of new restrictions on lobbying so that federal grant funds may not be used by grantee or sub-grantee to support lobbying or influence legislation
- P. **48 CFR Part 31 (Revised as of October 01, 2009) Contract Cost Principles and Procedures:** addresses the cost principles to which organizations, vendors, and subcontractors are subject
- Q. **41 USC Chapter 10 (Revised January 05, 2009):** regulates implementation of Drug-Free Workplace Act of 1988
- R. **Section 1352 of Title 31 USC (Revised as of January 05, 2009):** regulates implementation of the Anti-Lobbying Act
- S. **OMB Circular A-21, “Cost Principles for Educational Institutions”**
- T. **OMB Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments”**
- U. **OMB Circular A-102, “Grants and Cooperative Agreements with State and Local Governments”**
- V. **OMB Circular A-110, “Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations”**
- W. **OMB Circular A-122, “Cost Principles for Non-Profit Organizations”**
- X. **OMB Circular A-133, “Audits of States, Local Governments and Non-Profit Organizations”**
- Y. **Government Auditing Standards – 2007 Revision (Yellow Book)**
- Z. **Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Common Rule**

**NOTE: CFR regulations may be found at: [www.gpoaccess.gov/cfr/index.html](http://www.gpoaccess.gov/cfr/index.html)  
Federal regulations and OMB circulars may be found at:  
[www.whitehouse.gov/omb/circulars](http://www.whitehouse.gov/omb/circulars)**

**1230 Applicable State Laws and Regulations**

The State of Arkansas regulates the operation of all state agencies through the enactment of legislation pertaining to their funding and practices.

- A. **Arkansas Code Annotated (ACA) §19-4-101 et seq.:** details the “General Accounting and Budgetary Procedures Law of Arkansas”
- B. **State of Arkansas, Department of Finance and Administration, Office of Accounting, Financial Management Guide:** provides regulations for the “General Accounting and Budgetary Procedures Law of Arkansas” which can be found at:  
  
<http://www.dfa.arkansas.gov/offices/accounting/financialManagementGuide/Pages/default.aspx>
- C. **Rules and Regulations Implementing Governor’s Executive Order 98-04:** regulates disclosure for contracts, sub-grants, leases, purchase agreements, and employment
- D. **ACA §21-1-401, et seq.:** regulates state employment of constitutional officers and their spouses; establishes procedures regarding their entering into sub-grants, contracts, or leases with the state
- E. **ACA §19-11-105:** requires contractors to certify that they do not contract with or employ any illegal immigrants
- F. **ACA §§20-76-212 and 20-77-110:** regulates rate increases to DHS contractors
- G. **State of Arkansas Procurement Law and Rules**

**1240 Applicable DHS Administrative Policies and Publications**

- A. **DHS Policy Manual**
- B. **DHS Administrative Procedures Manual**
- C. **DHS Audit Guidelines**
- D. **DHS Contract Manual**
- E. **Social Services Block Grant Program Manual**

**1300 Interpretation of Issuances**

- A. OFA Contract Support Section (CSS) is responsible for issuing and interpreting rules, regulations, and procedures governed by this manual. Individuals having questions on financial guidelines that cannot be resolved by this manual shall refer those questions to CSS for interpretation and explanation and, if necessary,

for development and incorporation into revised issuances of the Financial Guidelines.

- B. Contractors should refer questions in writing to their assigned Administrative Compliance Officer (ACO) within CSS. DHS divisions or offices (hereinafter referred to as divisions) should refer questions in writing to their assigned liaison within CSS. ACO or liaison will refer to the CSS Assistant Director any questions he/she cannot answer. ACO or liaison will refer to DHS Office of Chief Counsel (OCC) any question regarding legal issues. CSS will reply to the inquirer in writing within ten working days.

**CHAPTER TWO****AGREEMENT TYPES****2000 AGREEMENT TYPES****2100 Purchase of Services Contracts**

**2110** A purchase of service contract is a legally binding agreement between DHS and a provider of services (hereinafter referred to as contractor). A contractor may be a private entity (i.e., an individual, partnership, or corporation) or a public entity (i.e., a governmental agency or entity.) The contract shall contain mutually binding obligations and a description of the services to be provided, with payment contingent on delivery of services in conformity with the contract.

**2120** The following are the major types of purchase of services agreements entered into by DHS and addressed in this Financial Guidelines:

**2121 Professional and Consultant Services (PCS) Contracts**

- A. Professional Services contracts are for the purchase of services which are professional in nature and generally require that the contractor have some type of specialized training or license/certification (e.g., medical services, social work, therapy, counseling, etc.)
- B. Consultant Services contracts are utilized when the service to be rendered is primarily the giving of advice by the contractor on a particular problem(s) facing the agency.
- C. PCS contracts that do not exceed \$25,000 in compensation, exclusive of reimbursable expenses, (per contractor, per service, per cost center) may be executed by a purchase order (PO) in lieu of the standard form prescribed by the Office of State Procurement (OSP), provided that subsequent contracts and amendments with the same contractor during the same fiscal year are reported to OSP. These are referred to as "stand alone PO's."

**2122 Technical Services Contracts**

Technical service contracts are for the purchase of services which are more technical in nature, i.e., the services are provided by skilled individuals who are furnishing time, labor, and a degree of expertise and the work performed does not require special skills or extensive training. Examples of technical services include janitorial services, pest control, copier maintenance, and trash collection.

**2123 Interlocal Agreements**

Interlocal agreements are authorized under ACA §25-20-104 to facilitate cooperation and sharing of resources at the local level between state agencies.

**2224 Construction Contracts**

Construction contracts are developed and approved in accordance with Arkansas Building Authority (ABA) regulations.

## CHAPTER THREE

## FINANCIAL REQUIREMENTS

**3000 FINANCIAL REQUIREMENTS****3100 Allowable Reimbursement Methods for Purchase of Services****3110 Fixed Rate**

With the **Fixed Rate** method, contractors are reimbursed in accordance with the rates approved by DHS and standardized for a particular service or group of services. Rate schedules are developed by the program division funding the program in accordance with DHS criteria for a cost study (see Appendix C).

Fixed rates based on federal approved rates such as Medicaid may be effective on the date of approval by the federal agency.

**NOTE:**

- The division is responsible for maintaining sufficient supporting documentation pertaining to the cost study and for making it available to authorized individuals upon official request.
- Only allowable costs, as outlined in the applicable OMB circulars, shall be used to determine fixed rates. Rates will (may) be adjusted if unallowable costs are used to determine fixed rates.

**3120 Final Negotiated Rates**

With the **Final Negotiated Rate** method, contractors are reimbursed at an agreed-upon rate per unit of service (ex., per hour, per day, per contact, etc.)

There are a variety of approved methods used to determine an estimate of reasonable and necessary expenditures for services being purchased. These include, but are not limited to, the following:

- **An operational budget allocated to service component**
- **The published rates of the contractor for non-contract clients**
- **The established community rate for a similar service**
- **The contractor's previous year's audit**
- **The contractor's cost study**
- **The Medicaid rate for the same service**
- **The contractor's response to a competitive procurement request**
- **A combination of the above**

**NOTE:**

- The division is responsible for maintaining budgets or other supporting documentation pertaining to the establishment of Final Negotiated Rates and for making it available to authorized individuals upon official request.
- Published or community rates are rates that have been advertised in a newspaper, pamphlet, price list, etc. or posted by the contractor and accepted by the community for all clients for services. Contractor must provide evidence of such publication, advertisement, or posting.
- The contract shall include a rate schedule indentifying the rate(s), the basis for the rate(s), and the payment terms.
- A formal Rate Increase Request and approval by the Governor is required to increase a Final Negotiated Rate within a contract period (see Section 3400 below).

**3130 Actual Cost**

With the **Actual Cost** method, contractors are reimbursed for allowable expenses incurred.

Actual cost reimbursement is based on a complete itemized listing of allowable program expenses to be purchased (i.e., a budget). The total itemized listing should equal the total DHS funding in the contract.

The itemized listing of expenses shall be on file with the division (or may be included in the contract upon division's request).

If the itemized listing of expenses is not included in the contract, the contract shall include a statement that reimbursement is based on an itemized listing of expenses that is on file with the division. Contract shall also indicate the total compensation amount and the total reimbursable amount.

**3140 Scheduled Reimbursement – Actual Cost Basis**

With the **Scheduled Reimbursement – Actual Cost Basis** method, contractors are reimbursed on a payment schedule that is included in the contract.

The payment schedule is based on an itemized listing of allowable program expenses (i.e., a budget) that is on file with the division.

Total payment shall not exceed expenses incurred by the contractor. Division shall reconcile payments to the contractor's reported expenditures and make payment adjustments as necessary.

The Reimbursement Schedule, which is to be included in the contract, shall include the following:

- A. A statement indicating that the schedule is based on a budget that is on file with the division;

- B. The total compensation amount and the total reimbursable amount;
- C. A statement indicating that payments are based on actual expenditures incurred and no advance payments are allowed;
- D. The anticipated date and amount of each payment;
- E. Requirements regarding expenditure reporting and payment adjustments;
- F. The service name(s) and service unit definition(s), if the contract identifies services to DHS clients.

**3150 Scheduled Reimbursement – Fee Basis**

With the **Scheduled Reimbursement – Fee Basis** method, contractors are reimbursed on an agreed-upon schedule of payments.

The schedule of payments shall be justified by documentation on file with the division.

The schedule of payments, which is to be included in the contract, shall include the following:

- A. A statement identifying the basis for reimbursement;
- B. The anticipated date of payment, amount of each payment, and total applicable funding.

**3200 Procedures for Budget Preparation****3210 Budget Development****3211 Full disclosure budget**

- A. In developing a full disclosure budget, contractor shall enter **all** expenses (including those considered unallowable for reimbursement under specific funding sources) for the entire agency related to **all** service program areas. Contractor shall categorize these projected expenses into line items conforming to the contractor's own chart of accounts.
- B. Contractor shall also enter **all** projected revenue, by source and amount, for the entire agency related to **all** service programs.

**3212 Program specific budget**

- A. In developing a program specific budget, contractor shall enter only allowable expenses allocated to a program component or service(s) directly funded by DHS through the contract. Contractor shall categorize these projected expenses into line items conforming to the contractor's own chart of accounts or as requested by DHS.
- B. Contractor shall also enter the projected revenue, by source and amount, for the program component or service(s) directly funded by DHS through the contract.

**3220 Budget Adjustment**

**3221** If applicable, contractor shall adjust the budget for costs unallowable under applicable regulations and for costs not allocated or charged to a specific cost center.

- A. Unallocated costs may include one-time expenses funded from outside sources such as private foundations.
- B. Contractor shall provide written explanations for any adjustments within the budget.
- C. After these adjustments, the result is either a single service budget or the net costs for allocation if two or more service program areas are involved.

**3230 Budget Included in Contract**

**3231** If the division requests that the budget be included in the contract, the following information shall be included with the budget:

- A. Justification/explanation to support each line item;
- B. Notation for each line item identifying it as compensation or reimbursable expense;
  1. Compensation typically includes salaries, fringe benefits, fixed rate services, and subcontract expenses.
  2. Reimbursable expenses include mileage, travel, training costs, rent, etc.
    - For contracts governed by ABA, reimbursable expenses may include such items as printing, reproduction, blueprints, advertising, topographical site surveys, geotechnical/soil borings, materials, laboratory testing, Health Department approvals, inspections etc...
  3. Indirect Cost is typically split between compensation and reimbursable at the same percentage rate by which the Direct Costs are split between compensation and reimbursable.
  4. If subcontractor costs are included in the contractor's budget AND if those subcontractors are reimbursed on an Actual Cost basis, the subcontractor costs should be split between compensation and reimbursable expenses as well, based on the subcontractor's budget that must be included in the contract.
- C. If the contract identifies purchased services to DHS clients, the following should also be included:
  1. Service name
  2. Service unit definition (eg., ¼ hour, one-way trip, etc.)

**3240 Unit Rate Calculation from Budget**

If the budget is being used to calculate a unit rate, contractor or division shall project the total number of units for each service funded wholly or in part under the contract, including all units provided to clients for each service whether or not they are paid by the contract. Contractor or division shall divide the total cost for the service by the projected number of units of service to compute the unit rate. (See Appendix B.)

**3300 Cost Allocation**

**3310** Budget-based rates may require a cost allocation to establish the rates for individual services within the program. A cost allocation shows the total cost of a contractor's program distributed to the applicable cost centers by service unit designation. A contractor shall develop a cost allocation plan when he has shared costs among two or more service program areas.

**3320** When an allocation of costs is necessary, contractor shall first determine the method of allocation to be used. (See Appendix A for suggested methods of allocation.) The method used should distribute the costs as nearly as possible to the actual benefit each cost center receives. Contractor shall indicate in the budget or cost allocation plan the method of cost allocation used for each line item.

**3330** If the division requires a specific method of cost allocation, the contractor should adhere to that method.

**3340** After allocating costs to the appropriate cost centers, contractor shall calculate the dollar amount for each line item by cost center.

**3400 Increases in Reimbursement Rates**

**3410** In many situations, it is prohibited to increase the contractor's reimbursement rate per unit of service without first obtaining the approval of the Governor of Arkansas and the Chief Fiscal Officer, Department of Finance and Administration (DFA).

**3420** New contracts procured through a competitive process (Competitive Bid, Request for Proposal, or Request for Qualifications) are not subject to this requirement.

**3430** Some fixed rates that function as ceiling rates can allow for increases in payments that do not constitute a rate increase above the ceiling rate.

**3440** Administrative contracts or other professional service contracts entered into by the Medicaid program with individuals or corporations not as providers of medical service do not come within the scope of this regulation.

**3450** When a Medicaid rate increase is approved for a service that is in a PCS contract, DHS can pay the increased rate without having to request a rate increase through the Governor IF and only if the contract contains language that allows DHS to use the current Medicaid rate. Sample wording to add to contract to allow this capability is as follows

- “ Listing of services ” are Medicaid reimbursable services. Due to the rates/unit/service definitions for Medicaid reimbursable services being subject to change, (division/office) will use the current Medicaid rates for any Medicaid

reimbursable service. The (division/office) rates will be changed after official notice is received from the Division of Medical Services.”

**3460** In those cases where the Governor’s approval is required, the implementation of rate increase cannot be effective prior to the date of his signature on the Reimbursement Rate Increase Approval, Form DHS-1951.

### **3500 Financial Amendments**

Amendments to contracts are required when any element on the contract form or any of the legal attachments is revised to the extent that it materially affects the contractor or DHS in any way. Minor revisions or administrative corrections that affect only the internal administration of a contract do not require an amendment; these may be accomplished as a Change action.

### **3600 Line Item Adjustments**

**3610** Line item adjustments pertain to Actual Cost reimbursement contracts only.

**3620** Line item adjustments are not necessary unless the deviation from the amount budgeted will exceed \$500 or 10% of the line item from which funds are being moved (whichever is greater),

**3630** Line item adjustments do not require an amendment to the contract unless the change affects the total reimbursable expenses, total compensation expenses, or total liability of the contract.

**3640** Line item adjustments should have prior approval from CSS before adjustments are implemented.

### **3700 Matching Funds**

**3710** Matching requirements for funding utilized in purchase of service contracts are based on federal or state legislation or DHS policy decisions. In cases where federal matching requirements do not apply, the state may impose requirements. For all contracts that require matching funds, the terms of the match arrangement should be specified in the contract. By signing the contract, the contractor certifies that the funds, property, goods, or services identified in the matching terms will be used to meet the match requirements of the contract.

**3720** With the qualifications and exceptions listed in Section 3740, a matching or cost sharing requirement may be satisfied by either or both of the following:

- A. Allowable costs incurred by the contractor under the contract. This includes allowable costs borne by non-federal grants or by other cash donations from non-federal third parties.
- B. The value of third party in-kind contributions applicable to the period to which the matching requirements apply. (Refer to Common Rule, Subpart C\_\_23)

**3730 Types of Match**

The matching requirement may be satisfied by any one or a combination of the following methods unless specific funding source restrictions apply.

**3731 Cash Match**

- A. **Definition:** In a cash match arrangement, the contractor shall obtain cash and apply it against allowable costs covered by the contract. DHS shall reduce the contractor's billing by the appropriate percentage of match before reimbursing the contractor.
- B. **Requirements:** The contractor should establish the receipt of sufficient funds from an allowable source. The matching funds should be used for allowable costs in the service program.

**3732 Donation of Property**

- A. **Definition:** A non-federal party may donate property or the use of property to a contractor to be considered as match, if permitted by the funding source. If the title to property is donated, match value is the fair market value of the property. If the use of the property or equipment is donated, match value is the fair rental value.
- B. **Requirements:** See Rental Costs, Section 7200.37, for acceptable methods of establishing fair rental or fair market value. One independent appraisal of current fair market rental value is required for property donated to and considered as match by the contractor.

**3733 Third Party In-Kind Contributions**

- A. **Definition:** A public or private agency or individual may donate property or services which benefit a grant-supported project or program and which are contributed by non-federal third parties without charge to the contractor. The Code of Federal Regulations, Title 45, Part 92, Subpart C, §92.24, and Common Rule, Subpart C\_\_\_\_23 (Matching or Cost Sharing), provides the basis of valuation used with this method of matching.
- B. **Requirements:** The following special standards apply for third party in-kind contributions:
  - 1. They may count towards satisfying a matching requirement only when, if the contractor receiving the contributions were to pay for them, the payments would be an allowable cost.
  - 2. Some third party in-kind contributions are goods and services such that, if the contractor receiving the contributions had to pay for them, the payment would be an indirect cost. Matching credit for such contributions shall be given only if the contractor has established, along with its own regular cost rate, a special rate allocating the value of the contributions to individual programs.

3. A third party in-kind contribution to a fixed-rate agreement may count towards satisfying a matching requirement only if it results in:
  - a. An increase in the services or property provided under the agreement (without additional cost to the contractor)
  - b. A cost savings to the contractor
- C. The values placed on third party in-kind services or equipment used for matching purposes shall conform to the following rules:
  1. Volunteer services: Unpaid services rendered to a contractor by individuals will be valued at rates consistent with those ordinarily paid for similar work in the contractor's organization. If the contractor does not have employees performing similar work, the rates will be consistent with those ordinarily paid by other employers for similar work in the same labor market. In either case a reasonable amount for fringe benefits may be included in the valuation.
  2. Employees of other organizations: When an employer other than the contractor furnishes free of charge the services of an employee in the employee's normal line of work, the services will be valued at the employee's regular rate of pay exclusive of the employee's fringe benefits and indirect costs. If the services are in a different line of work, paragraph 1 above applies (Volunteer services). Prior approval by the OFA Chief Fiscal Officer or designee is required whenever this method of matching is used. See Section 6200 for prior approval process.

#### **3734 Funds Transfer**

- A. **Definition:** A third party submits matching funds to DHS by check or money order under the terms of the contract.
- B. **Requirements:** DHS must receive matching funds in an amount sufficient to match a billing before reimbursing the contractor for services.

#### **3740 Funds and Expenditures Not Allowable for Matching**

- 3741** Federal funds, except when the federal legislation appropriating funds specifically allows them to be used as the local matching share for other federal programs
- 3742** Costs or values of third party-in-kind contributions if they have been or will be used towards satisfying a matching requirement of another grant or award of federal funds
- 3743** Structured voluntary contributions from clients, unless prior written approval for their use as match has been obtained from the OFA Chief Fiscal Officer or designee
- 3744** Program-related income (income generated by sale of services or products produced by clients), unless other provisions of the agreement permit using this kind of income to meet matching requirements

**3745** Funds of other state programs when the state program does not permit the funds to be used as match

**3746** The same funds used to match other state and federal programs

**3750 Accounting for Matching Funds**

**3751** The contractor must maintain sufficient records to enable DHS to verify the source of any funds or property used as match for five years from the expiration date of the agreement matched or until there is a final resolution if an audit is involved. Contractor must make these records available to DHS upon request.

**3752** If the contractor's match consists of funds received directly by the contractor or goods or property donated by a public agency, the contractor must maintain sufficient records to verify the expenditure of funds for allowable costs or the use of the goods or property in the contractor's service delivery program.

## CHAPTER FOUR

## RECORDS AND BILLING REQUIREMENTS

**4000 RECORDS AND BILLING REQUIREMENTS****4100 Financial Records****4110 Purpose**

The contractor is required by law and by contractual agreement to maintain an adequate financial system which records and documents all transactions affecting assets and equities. Financial records must report accurately and completely all fiscal data according to generally accepted accounting principles. The financial system must be comprehensive enough to show an adequate audit trail. (Audit trail refers to the capability of the financial records to provide documentary evidence of every financial transaction of the contractor.)

**4120 Required Financial Records** - The following records must be maintained as a minimum requirement:

**4121** A detailed record of all income to the contractor;

**4122** A detailed record of all expenses with references to line items of the budget;

**4123** Sufficient documentation to prove that the units of service for which reimbursement was received were actually delivered to eligible clients;

**4124** Documentation correlating the amount billed per client to the funding source(s).

**4200 Retention of Records**

**4210** Contractors must retain financial records, supporting documentation, statistical records, and all other records pertinent to the agreement for a minimum of five years following the termination of the contract (or six years for records containing protected healthcare information, as identified in the Heath Information Portability and Accountability Act [HIPAA]), except when:

- A. An audit required by either a state or federal agency is in progress, or
- B. Notification has been received that a state or federal agency is requiring further audit action

In either event, the contract must retain all records pertaining to the contract until the contractor is notified in writing of the final resolution of the audit.

**4300 Access to Records**

Authorized agents of the United States Government and appropriate DHS staff shall have full access to any financial records and all supporting documents for the purpose of conducting an audit or fulfilling any other official review requirements. Other disclosure will be made only as required by state and federal laws and regulations.

**4400 Proper and Sufficient Documentation for Client Service Delivery****4410 Purpose**

Contractors shall ensure that documents are on file which verify that billed services were actually delivered to eligible clients. Depending on the type of service rendered, one or more of the documentation methods listed in the following sections may be used.

**4420 Average and Fixed Daily Attendance Programs**

**4421** In average daily attendance programs, such as congregate meals and socialization, the attendance rate is based on the average number of clients attending each day. In fixed enrollment programs, such as day care and sheltered workshops, the attendance rate is based on the attendance of specific clients.

**4422** Acceptable methods to document attendance are:

- A. A roster or list of persons in attendance, dated and signed by the client, for daily attendance or fixed enrollment programs
- B. A roll book containing the names of those in attendance, the date, and a check or other mark indicating that a specific individual was present on the indicated day for fixed enrollment programs
- C. A card file or other similar file, containing the clients' names, dates of attendance, and signature of service delivery personnel

**4423** If the facility offers more than one service component, documentation must show the type of service received by the clients.

**4430 Residential Programs**

As a minimum requirement, a residential program must maintain a weekly or monthly attendance sheet indicating the name of the client and each day the client was a resident of the program. A record of specific components of the program delivered to each client is required either as notes in case records or in rosters of residents attending a specific component such as group therapy. Case notes or rosters must be signed and dated by the person delivering the service.

**4440 Other Service Programs**

**4441** Several programs exist which deliver services to the same clients on a continuing but not a daily basis or which serve an individual only once or at very long intervals. Such programs include non-residential mental health services, chore services, adoption services, and non-residential protective services.

**4442** To sufficiently document such service delivery, one or both of the following methods must be used:

- A. A case record must be maintained for each client served, containing a notation of the date of service, a description of the service rendered, time period or number of units, and the signature of the worker delivering the service.

- B. A charge ticket or similar document must be made and retained for each instance of service to a client. Such documents must contain the date, the client's name, each service delivered, indication of the number of units of the specific service(s) rendered, the client's signature, and the signature of the worker delivering the service.

## CHAPTER FIVE

**AUDITS, REVIEWS, RECOUPMENT, ADMINISTRATIVE APPEAL PROCEDURES****5000 AUDITS, REVIEWS, RECOUPMENT, ADMINISTRATIVE APPEAL PROCEDURES****5100 Purpose of Audits and Requirement for Independent Audits**

To ensure that the state meets its obligations under the Omnibus Budget Reconciliation Act (OBRA), all Professional/Consultant Services contractors are required to comply with the "DHS Audit Guidelines".

**5200 Verification of Audit Status**

**5210** For every new Professional/Consultant Services contract that is NOT with an Arkansas State agency or an Arkansas Public School, and annually thereafter for the life of the contract, the contract developer shall determine from OCC Audit Section if the contractor's status regarding the audit requirement is current or not current.

**5220** If OCC Audit Section indicates the contract is not in compliance with the audit requirement, DHS will determine the steps necessary for corrective action and notify the contractor accordingly.

**5300 Contractor's Responsibility**

**5310** Contractors shall submit their audit reports as required by the "DHS Audit Guidelines" in such form and at such time as the "DHS Audit Guidelines" specify.

**5320** Contractors having questions regarding audit requirements should direct them in writing to the Director of Audits at the address indicated in the "DHS Audit Guidelines".

**5400 Review of Independent Audits by DHS**

**5410** DHS divisions may review the independent audits for compliance with program requirements. Divisions must submit a request to the OCC Audit Section to receive copies of any audit reports of contractors funded by the particular division.

**5420** For additional information, including desk reviews of audit reports by OCC Audit Section, see the "DHS Audit Guidelines".

**5500 On-Site Reviews Performed by DHS Units other than OCC Audit Section**

The state agency administering the purchase of service agreement must maintain the authority and responsibility for overall supervision, control, and oversight of purchase of services activities. Therefore, in the best interest of the contractors and the state, circumstances may indicate a need for various other types of review activities. Such reviews include, but are not limited to, service to billing reviews, limited financial management audits, management reviews, eligibility verification reviews, programmatic compliance reviews, and special investigations.

**5600 Standards for Audits Performed by OCC Audit Section**

**5610** When performing audits of contractors, OCC Audit Section shall do so in accordance with the appropriate standards.

**5620** If there are findings and recommendations, OCC Audit Section shall ensure that there is a Corrective Action Plan (CAP) and, if necessary, comments on the CAP.

**5630** OCC Audit Section shall forward the findings and recommendations, the CAP, and any OCC Audit Section comments to the division and to CSS.

**5700 Settlement Process/Recoupment**

**5710** If the division determines that recoupment from the contractor, or additional payment to the contractor, is indicated the following action shall be taken

A. If the contract is no longer in effect, the program division forwards its determination to OFA/Accounts Receivable (AR) for recoupment or to OFA/Accounts Payable (AP) for payment, with copies forwarded to CSS and OCC Audit Section.

B. If the contract is still in effect, the program division forwards its determination to CSS for payment adjustment, with copies forwarded to OCC Audit Section.

**5720** If the program division determines that no recoupment or additional payment is required, the division forwards that information to CSS with a copy of OCC Audit.

**5800 Administrative Hearings****5810 Purpose**

The purpose of the Administrative Hearing Process is to provide a mechanism by which a contractor may appeal audit findings, disallowances/recoupments, or any other action taken by DHS adversely affecting a contract, including termination. This appeal procedure is subject to the authority of the State Purchasing Director or his designee to resolve or settle a dispute as provided in Ark. Code Ann. §19-11-246 or according to the State Plan or federal requirement.

## CHAPTER SIX

## WAIVERS AND PRIOR APPROVAL

**6000 WAIVERS AND PRIOR APPROVAL****6100 Procedure for Requesting Waivers**

**6110** A written request for a waiver of any guideline published in this manual must be submitted to OFA Chief Fiscal Officer or designee for approval. A copy of the signed waiver should be attached to the contract when it is submitted for review.

**6111** The following should be included in the request:

- A. Approval by the federal grantor agency, if applicable
- B. Complete justification for the waiver
- C. Place for the OFA Chief Fiscal Officer's or designee's signature and date of signature
- D. Place to indicate the OFA Chief Fiscal Officer's or designee's approval or disapproval

**6112** The waiver cannot be considered granted until written approval is received from the OFA Chief Fiscal Officer or designee.

**6200 Procedure for Requesting Prior Approval**

**6210** When prior approval is referenced as a requirement in this manual, such approval must be submitted to the OFA Chief Fiscal Officer or designee. A copy of the signed approval should be attached to the contract when it is submitted for review.

**6220** The following should be included in the request:

- A. Explanation of the situation which requires prior approval
- B. Place for the OFA Chief Fiscal Officer's or designee's signature and date of signature
- C. Place to indicate the OFA Chief Fiscal Officer's or designee's approval or disapproval

**6230** If the request is for a cost to be allowable, it should also include:

- A. The amount and complete justification for the cost, including percentage of cost based on agreement amount/total funding ratio
- B. An explanation of how the cost relates to the service being provided

## CHAPTER SEVEN

## ALLOWABLE AND UNALLOWABLE COSTS

## 7000 ALLOWABLE AND UNALLOWABLE COSTS

## 7100 General Provisions

The primary bases for the following cost principles include:

- ◆ OMB Circular A-122, “Cost Principles for Non-Profit Organizations”
- ◆ OMB Circular A-21, “Cost Principles for Educational Institutions”
- ◆ OMB Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments”
- ◆ Social Services Block Grant Program Manual
- ◆ State Financial Management Guide

Although the OMB Circulars pertain to federal funds (and to state and other funds that are being used as cost sharing with federal funds), DHS expands their requirements to cover all contracts, regardless of the funding source, in an effort to further prudence, consistency, and standardization. **NOTE:** Certain funding sources may have requirements more stringent than those outlined below, in which case the specific funding source requirements take precedence (i.e., Social Services Block Grant funding). In addition, the contracting DHS division may, at their discretion, impose more stringent requirements for a particular service or program.

Waivers to this policy may be considered, on a case by case basis, and only when the implementation of the waiver would not be prohibited by state or federal legislation.

**7110** To be allowable under an agreement, costs must meet the following general criteria:

- A. Be reasonable and necessary for the performance of the agreement and be allocable thereto under the provisions of the applicable cost principles.
- B. Conform to any limitations or exclusions set forth in these principles or in the agreement as to types or amount of cost items
- C. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization
- D. Be accorded consistent treatment
- E. Be determined in accordance with generally accepted accounting principles (GAAP)
- F. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period
- G. Be supported by required documentation

**7120** If a cost does not meet the above criteria, it is not allowable.

**7130** Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, to avoid restrictions imposed by law or terms of the award, or for other reasons.

**7200** This section contains specific expenses and costs commonly associated with the provision of human services and covers:

- Costs which are generally allowable
- Costs which are generally unallowable

Failure to mention a particular item or cost does not imply that it is either allowable or unallowable. Each budget item requested will be considered on the merit of its contribution to the program. This section provides general guidelines which are applicable to every funding source. When a line item states that prior approval must be obtained from DHS, requests for approval shall be initiated by the contract developer. (See Section 6200 for procedures to obtain such approval.)

**NOTE:** Refer to the applicable OMB circulars listed in Section 7100 for a more detailed explanation of allowable and unallowable costs.

#### **7210 Allowable Costs**

The following are applicable to all funding sources unless different terms are specifically required by individual funding sources or unless a waiver is approved by DHS. Other items may be allowable in accordance with GAAP.

#### **7211 Advertising/Public Relations**

A. Costs for advertisements in newspapers, magazines, direct mail or trade papers, by radio and television, or electronic or computer transmittals are allowable for:

1. Recruitment of personnel required for the program
2. Procurement of goods and services for the performance of the agreement
3. Disposal of scrap or surplus material acquired performing the agreement, except when reimbursed for disposal costs at a predetermined amount
4. Other specific purposes necessary to meet the terms of the agreement

B. Costs for public relations are allowable when:

1. Specifically required by the agreement, for outreach or other purposes, and then only as a direct cost
2. Essential to the performance of the agreement and incurred to communicate with the public and press pertaining to specific activities or accomplishments that result from performance of the agreement and then only as a direct cost

3. Essential to the performance of the agreement and necessary to conduct general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of federal contract/grant awards, financial matters, etc. and only then as a direct cost.

**Note:** Advertising and public relations costs incurred for fund raising or solely to promote the organization are unallowable.

#### **7212 Audit**

The cost of the required annual independent audit of all program-related costs is allowable.

#### **7213 Bonding**

Costs of bonding required pursuant to the terms of the award are allowable.

Costs of bonding required in the general conduct of the funded program are allowable to the extent that such bonding is in accordance with sound business practice and that the rates and premiums are reasonable under the circumstances.

#### **7214 Building Space and Related Facilities**

Costs associated with building space and related facilities used for the benefit of the program are generally allowable. (See **Depreciation and Use Allowance** and **Rental Costs**.) Funds may not be utilized for the purchase, construction, or permanent improvement of any building or other facility, unless specifically approved in advance by the funding source.

#### **7215 Communications**

Costs incurred for telephone services, local and long distance telephone calls, telegrams, postage, mobile phones, faxes, pagers, electronic or computer transmittal services and the like are allowable if necessary for the performance of the agreement.

#### **7216 Compensation for Personnel Services**

- A. Compensation for personnel services includes but is not limited to salaries, wages, incentive compensation, fringe benefits, pension plan costs, and the like. These costs are allowable to the extent that they:
  1. Are reasonable for services rendered (i.e., consistent with that paid for similar work in the organization's other activities or in the labor market in which the contractor/grantee competes)
  2. Conform to the established written policy of the organization
  3. Are supported by appropriate documentation
  4. Are equitably cost allocated
  5. Relate to the performance of the agreement

6. Are made available to **all** employees
- B. The cost of housing and food for employees is allowable **ONLY** if it is part of an employee's compensation because of required attendance at the facility
- C. Premiums for overtime, extra-pay shifts, and multi-shift work are allowable only with the prior approval of DHS, except
  1. When necessary to cope with emergencies
  2. When employees are performing indirect functions such as administration, maintenance, or accounting
  3. In the performance of operations which are continuous in nature and cannot reasonably be interrupted (ex. tests, laboratory procedures)
  4. When lower overall cost to the Federal Government will result
- D. When being cost allocated to more than one program, compensation costs shall be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages shall be supported by personnel activity reports. These activity reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates determined before the services are performed do not qualify as support for cost allocation, except in first year of operation.
- E. Regular compensation paid to employees during periods of authorized absences from the job as annual leave, sick leave, court leave, military leave, and payment for accrued leave upon an employee's termination are allowable if they meet the allow ability criteria in A., above.
- F. Compensation for work beyond the normal hours established for an employee at the time of hiring is allowable when the work was performed and compensated in conformity with the Fair Labor Standards Act and justification for such work is documented.
- G. Payrolls must be supported by time and attendance or similar records for individual employees. Either a payroll journal or an individual earnings record must be kept, as well as a cumulative leave record in which annual, sick, or other leave earned and used is recorded for each employee. These records must be maintained by the contractor/grantee on a consistent basis and made available to authorized DHS personnel upon request.
- H. Budgeted positions which are vacant should be filled (or a commitment made to fill the position) within sixty days of the effective date of the agreement or these costs must be removed from the budget.
- I. Severance pay is allowable only to the extent that it is required by law, by employer-employee agreement, by the organization's established policy, or by circumstances of the particular employment.

#### **7217 Depreciation and Use Allowances**

Compensation for the use of buildings, other capital improvements, and equipment necessary to the performance of the agreement may be made through depreciation or use allowances. In general, a combination of the two methods (depreciation and use

allowances) may not be used in connection with a single class of fixed assets (ex., buildings, office equipment computer equipment, etc.)

The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. The acquisition cost of an asset donated to the organization by a third party shall be its fair market value at the time of the donation. (see, Donations)

The computation of use allowances or depreciation shall exclude:

- A. The cost of land;
- B. Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and
- C. Any portion of the cost of buildings and equipment contributed by or for the organization in satisfaction of a statutory matching requirement.

Where depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, technological developments in the particular program area, and the renewal and replacement policies followed for the individual items or classes of assets involved. The method of depreciation used to assign the cost of an asset or group of assets to accounting periods shall reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life than in the later portions, the straight-line method shall be used. Depreciation methods once used shall not be changed unless approved in advance by DHS. When the depreciation method is introduced for application to assets previously subject to a use allowance, the combination of use allowances and depreciation applicable to such assets must not exceed the total acquisition cost of the assets. When the depreciation method is used for buildings, a building's shell may be segregated from each building component and each item depreciated over its estimated useful life, or the entire building may be treated as a single asset and depreciated over a single useful life.

Where the use allowance method is followed, the use allowance for buildings and improvement will be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes. Such equipment will be considered as not being permanently fixed to the building if it can be removed without the need for costly or extensive alterations or repairs to the building or the equipment. Equipment that meets these criteria will be subject to the six and two-thirds percent equipment use allowance limitation.

Charges for depreciation or use allowances must be supported by adequate property records and physical inventories must be taken at least once every two years (a statistical sampling basis is acceptable) to ensure that assets exist and are usable and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period must also be maintained.

**7218 Donations**

The value of donated or volunteer services, donated goods and donated use of space are not allowable as reimbursable costs. Their value may, however, be used to meet cost sharing or matching requirements under certain circumstances. (See, **Depreciation and Use Allowances**)

**7219 Employee Morale, Health, and Welfare Costs**

The costs of employee information publications, health or first-aid clinics, and/or infirmaries, recreational activities, employees' counseling services, and other expenses incurred in accordance with the organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable to the extent that they relate to the performance of the agreement. Such costs will be equitably apportioned to all activities of the organization. Income generated from any of these activities will be credited to the cost thereof unless such income has been irrevocably set over to employee welfare organizations.

**7220 Equipment**

Equipment is defined as an article of nonexpendable, tangible personal (non-real estate) property having a useful life of more than one year. Expenditures for equipment with an acquisition cost of less than \$2,500 are allowable.

Purchase of computer equipment through a PCS contract requires review by and an approval memo from the DHS Office of Systems and Technology prior to the development of the contract.

Equipment expenditures of \$2,500 or greater are considered capital expenditures and are unallowable unless prior approval is obtained from DHS.

**7221 Indirect Costs**

Indirect costs are costs incurred by an organization that are not readily identifiable with a particular project or program but are necessary to the operation of the organization and the performance of its programs. The costs of operating and maintaining facilities, depreciation and administrative salaries are examples of the types of costs that are usually treated as indirect costs.

Indirect costs should be allocated to the programs or services in a manner which will equitably distribute the indirect costs in proportion to the benefits derived. Unallowable costs should be adjusted out before allocating the costs. A cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been allocated as a direct cost.

Certain funding sources limit the amount of indirect costs that may be allowed. When the amount allowable under the funding source is less than the amount shown in the budget as indirect costs, the amount not recoverable may not be shifted to another federal or state funding source without prior written approval.

**7222 Insurance and Indemnification**

In general, costs of insurance and indemnification required or approved and maintained pursuant to the agreement are allowable to the extent that the types and amount of

coverage are in keeping with sound business practice and the rates and premiums are reasonable for the circumstances.

### **7223 Labor Relations Costs**

Costs incurred in maintaining satisfactory relations between the organization and its employees, including costs of labor management committees, employee publications, and other related activities, to the extent they relate to the performance of the agreement, are allowable.

### **7224 Maintenance and Repair**

Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment (including federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable. Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life shall be treated as capital expenditures.

### **7225 Materials and Supplies**

The cost of materials and supplies necessary to carry out the objectives of the program is allowable. Purchases must be charged at the actual cost after deducting cash discounts, refunds, rebates, allowances and material returned to vendor.

Where federally-donated or furnished materials are used in performing the agreement, such materials will be used without charge.

### **7226 Meetings and Conferences**

Costs associated with meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes the cost of renting facilities, meals, speakers' fees, and other items incidental to such meetings and conferences, provided that they meet the general test of allowability (see, **General Provisions**). Refer to **Participant Support Costs** and **Entertainment Costs** for additional information.

To the extent that these costs are identifiable with a particular program, they should be charged to that program.

### **7227 Memberships, Subscriptions, and Professional Activity Costs**

- A. Costs of the organization's memberships (as opposed to individuals' memberships) in business, technical, and professional organizations are allowable. Costs of membership in any civic or community organization are allowable ONLY with prior approval by DHS.
- B. Costs of the organization's subscriptions (as opposed to individuals' subscriptions) to business, professional, and technical periodicals are allowable.

### **7228 Participant Support Costs**

Participant support costs are direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects. These costs are allowable ONLY with the prior approval of DHS.

**7229 Plant and Homeland Security Costs**

Necessary and reasonable expenses incurred for routine and homeland security to protect facilities, personnel, and work products are allowable. Such costs include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; contractual security services; consultants; etc. Capital expenditures for homeland and plant security purposes are subject to the criteria in the **Equipment and Other Capital Expenditures** section of the applicable OMB circular.

**7230 Pre-award Costs**

Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the agreement and only with the written approval of DHS.

**7231 Professional Service Costs**

- A. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the organization, are allowable, (subject to B. and C. below) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the federal government.
- B. In determining the allow ability of costs in a particular case, several factors are relevant, including but not limited to:
  - 1. The nature and scope of the service rendered in relation to the service required
  - 2. The necessity of contracting for the service, considering the organization's capability in the particular area
  - 3. Whether the service can be performed more economically by direct employment rather than contracting
  - 4. Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).
- C. Retainer fees, to be allowable, must be supported by evidence of bona fide services available or rendered and must be specified in the contract/grant as necessary to the program.

**7232 Proposal Costs**

Costs of preparing proposals for potential federal awards are allowable, but only to the extent that they have direct relevance to the performance of the agreement and only if the terms of the contract/grant specifically allow them. Proposal costs should normally be treated as indirect costs and should be allocated equitably to all activities of the organization.

**7233 Publication and Printing Costs**

- A. Publication costs include the costs of printing (including the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling. Publication costs also include page charges in professional publications.
- B. If publication costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the organization.
- C. Publication costs are unallowable as direct costs except with the prior approval of DHS.

**7234 Rearrangement and Alteration Costs**

Costs incurred for ordinary or normal rearrangement and alteration of facilities are allowable. Special arrangement and alteration costs incurred specifically for the project are allowable with the prior written approval of DHS.

**7235 Reconversion**

Costs incurred in the restoration or rehabilitation of the organization's facilities to approximately the same condition existing immediately prior to commencement of the agreement, less costs related to normal wear and tear, are allowable.

**7236 Recruiting Costs**

Costs of "help wanted" advertising are allowable provided that the size of the staff recruited and maintained is in keeping with workload requirements and to the extent the costs relate to the performance of the agreement. Where the organization uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

**7237 Rental Costs**

- A. Rental costs are allowable to the extent that:
  - 1. The rental rates are reasonable, considering
    - a. Rental costs of comparable property
    - b. Market conditions in the area
    - c. Alternatives available
    - d. Type, life expectancy, condition, and value of the property rented.
  - 2. The rental costs relate to the performance of the agreement.
- B. Rental costs under a lease-to-purchase plan which creates a material equity in the leased property are allowable only to the extent that would be allowed had the organization purchased the property on the date the lease agreement was executed.
- C. Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the organization continued to own the

property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes and insurance.

- D. Rental costs for leases between related parties (where one party to the lease agreement is able to control or substantially influence the actions of the other) are allowable only up to the amount that would be allowed had title to the property been vested in the organization.
- E. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed. The provisions of Financial Standards Board Statement 13, Accounting for leases, shall be used to determine whether a lease is a capital lease.

#### **7238 Taxes**

In general, taxes which the organization is required to pay and which are paid or accrued in accordance with GAAP are allowable. Refer to the applicable OMB circular for exceptions.

#### **7239 Training**

Costs of preparation and maintenance of a program of instruction including but not limited to on-the-job, classroom, and apprenticeship training, designed to increase the vocational effectiveness of employees, are allowable to the extent they relate to the performance of the agreement. These costs include training materials, textbooks, salaries or wages of trainees (excluding overtime compensation which might arise there from), and (1) salaries of the director of training and staff when the training program is conducted by the organization, or (2) tuition and fees when the training is in an institution not operated by the organization.

For specifics concerning part-time education at an undergraduate or post-graduate college level and other issues related to training, see the applicable OMB Circular.

#### **7240 Travel**

Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred while traveling on official business.

The maximum allowable must not exceed the allowable limits for state employees on official business except with prior written approval from DHS.

#### **7300 Unallowable Costs**

The costs defined below are generally unallowable unless specifically stated as allowable by the specific funding source or unless a waiver is approved by DHS. Refer to the applicable OMB circulars

#### **7301 Advertising and Public Relations**

Advertising and public relations costs incurred for fund raising or solely to promote the organization are unallowable.

**7302 Alcoholic Beverages**

The cost of alcoholic beverages is unallowable.

**7303 Bad Debts**

Bad debts, including losses arising from uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable.

**7304 Capital Expenditures**

Capital equipment is defined as an article of nonexpendable, tangible personal (non-real estate) property having a useful life of more than one year and an acquisition cost of \$2,500.00 or more. Expenditures for capital equipment or property are unallowable unless allowed by the funding source and approved in advance by DHS.

If a funding source allows the purchase of capital assets and DHS approves, title to the equipment or property shall be vested in DHS unless DHS or the applicable federal grantor agency specifically agrees in writing to a title transfer or other disposition. No department property may be sold, transferred, or used in another program without the consent of DHS. All department property will be clearly marked and properly maintained. The contractor/grantee will reimburse DHS for loss or damage to DHS property unless DHS directs otherwise.

**7305 Contingency Provisions**

Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable.

**7306 Contributions and Donations**

Contributions and donations for any purpose, when made by the organization, are unallowable.

**7307 Deposits**

Deposits made on such items as telephone or utilities are unallowable without prior written approval of DHS. These amounts are refundable at a later date and, as such, are generally considered assets of the program.

**7308 Entertainment**

Costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs, such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities are unallowable. This unallowability does not apply to the provision of socialization services, congregate meal services, field trips, mentor services, and diversion or social activities to clients.

**7309 Fines and Penalties**

Costs of fines and penalties resulting from violations of or failure of the organization to comply with federal, state, and local laws and regulations are unallowable.

**7310 Gains and Losses on Depreciable Assets**

Profits and losses of any nature arising from the sale or exchange of capital assets are unallowable except in highly specific circumstances as detailed in the OMB Circulars.

**7311 Goods or Services for Personal Use, Housing, and Personal Living Expenses**

Costs of goods or services for personal use, housing, and personal living expenses for the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees. (See exception in **Compensation for Personnel Services**)

**7312 Gratuities and Tips**

Gratuities, tips, and similar costs are unallowable.

**7313 Interest, Investment Management, and Fund Raising**

Interest, investment management, and fund raising costs are generally unallowable except in highly specific circumstances as outlined in the OMB Circulars.

**7314 Idle Facilities Costs**

Costs of idle facilities or idle capacity costs such as maintenance, repair, housing, rent, and other related costs are generally unallowable.

**7315 Legal Services**

The cost of legal defense of criminal actions, anti-trust suits, or any other action brought by any governmental unit and the prosecution of claims against the government is unallowable.

**7316 Lobbying**

Lobbying costs are generally unallowable except in highly specific circumstances as detailed in the OMB Circular.

**7317 Losses on Other Sponsored Agreements or Contracts**

Any excess of costs over income under one grant or contract is unallowable as a cost of any other grant or contract.

**7318 Organization Costs**

Expenditures in connection with establishment or reorganization of an organization are unallowable except with prior written approval of DHS.

**7319 Patent Costs**

Costs associated with obtaining patents are generally unallowable except in highly specific circumstances as detailed in the OMB Circulars.

**7400 Unallowable Costs under Social Services Block Grant Funding**

In addition to the unallowable costs listed in 7300, the following costs are unallowable for Social Services Block Grant funding:

- A. The provision of cash payments for costs of subsistence or provision of room and board (other than cost of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social service, or temporary shelter provided as a protective service)
- B. The payment of wages to any individual as a social service (other than payment of wages to welfare recipients employed in the provision of child day care services)
- C. The provision of medical care (other than family planning services, rehabilitation services, or initial detoxification of an alcoholic or drug dependent individual), unless it is an integral but subordinate part of a social service for which funds may be used
- D. Social services (except services to an alcoholic or drug dependent individual or rehabilitation services) provided in and by employees of any hospital, skilled nursing facility, intermediate care facility, or prison, to any individual living in such institution
- E. The provision of any education service which the state makes generally available to its residents without cost and regard to income
- F. Any child day care services unless such service meets applicable standards of state and local law (including licensing requirements)
- G. The provision of cash payments as a service
- H. The purchase or improvement of land, or the purchase, construction, or permanent improvement of any building or other facility
- I. The use of Social Services Block Grant funds to match other state or federal funds
- J. Payment for any item or service, other than an emergency item or service, furnished by an individual or entity during the period when such individual or

entity is excluded pursuant to Section 1128 or Section 1128(A) of the Social Security Act from participation in this program; or at the medical direction or on the prescription of a physician during the period when the physician is excluded based on 1128 or 1128(A) from participation in the program and when the person furnishing such item or service knew or had reason to know of the exclusion (after a reasonable time period after reasonable notice has been furnished to the person); or

- K. The use of SSBG funds in a manner inconsistent with the Assisted Suicide Funding Restriction Act of 1997 (42 U.S.C. 14401 et seq.)

## APPENDIX A

## CHART OF ALLOWABLE METHODS FOR COST ALLOCATION

The following are suggested methods for distributing expenses to cost centers or activities when the facility provides more than one service or activity. Any method of distribution which will produce an equitable distribution of cost may be used. In selecting one method over another, consideration should be given to the additional effort required to achieve a greater degree of accuracy.

<b><u>Method of Allocation</u></b>	<b><u>Examples of Applicable Expenses</u></b>
Number of clients Expenses	ALL Program and Administrative
Direct charge to department or cost center	ALL Program expenses
Square footage	Rental, Building Depreciation, Insurance, Maintenance and Repair, Material and Supplies, Taxes, Utilities
Number of employees	Communication, Insurance, Material and Supplies, Memberships, Meetings and Conferences, Subscriptions, Travel
Time and effort, supported by appropriate documentation	Salaries and Fringe
Total dollar volume	Accounting, Auditing
Number of transactions processed	Accounting, Auditing
Direct hours	Accounting, Auditing
Number of calls	Communication
Number of miles	Travel, Training
Number of meals	Food

## APPENDIX B

## UNIT RATE CALCULATION

Examples of unit rate calculations are presented below.

**Case Number 1 - Average Daily Attendance**

- (a) Enter the average number of clients served per day under the program  
Example: 40 clients
- (b) Enter the number of operational days during the agreement period  
Example: 250 days
- (c) Calculate total client units  
Example: 40 clients x 250 days = 10,000 client units
- (d) Enter the total service budget figure less adjustments  
Example: \$24,630.00
- (e) Calculate the rate per client unit  
Example:  $\frac{\$24,630.00}{10,000} = \$2.46$  unit rate

**Case Number 2 - Average Units Per Client**

- (a) Enter the estimated number of clients to be served  
Example: 200 clients
- (b) Enter the estimated number of units per client  
Example: 50 units
- (c) Calculate the total client units  
Example: 200 clients x 50 units = 10,000 client units
- (d) Enter the total service budget figure less adjustments  
Example: \$24,295.00
- (e) Calculate the rate per client unit  
Example:  $\frac{\$24,295.00}{10,000} = \$2.43$  unit rate

**Case Number 3 - Transportation Based on Trips Provided**

- (a) Enter the average number of one-way trips per day from historical data  
Example: 146 one-way trips
- (b) Enter the number of days transportation is provided:  
Example: 250 days

- (c) Enter the total cost of transportation  
Example: \$23,780.00
- (d) Calculate the total number of transportation units  
Example: 146 one-way trips per day x 250 days = 36,500 units of transportation
- (e) Calculate the cost of one unit of transportation (on one-way trip per client)  
Example:  $\frac{\$23,780.00 \text{ total transportation cost}}{36,500 \text{ units of transportation}} = \$0.65 \text{ cost per one-way trip}$

**Case Number 4 - Fixed enrollment (example, day care services)**

- (a) Enter the total number of clients served per day under the program  
Example: 30 clients
- (b) Enter the number of operational days during the agreement period  
Example: 250 days
- (c) Calculate total client units  
Example: 30 clients x 250 days = 7,500 client units
- (d) Enter the total service budget figure less adjustments  
Example: \$41,250.00
- (e) Calculate the rate per client unit  
Example:  $\frac{\$41,250.00}{7,500} = \$5.50 \text{ unit rate}$

## APPENDIX C

## DEPARTMENT OF HUMAN SERVICES CRITERIA FOR COST STUDY

**METHODS FOR DETERMINING FIXED RATES**

Following are the two allowable methods for determining a Fixed Rate:

1. Operational Budget Basis

Division staff shall establish a unit rate based on full disclosure budget(s) for the service agencies in the geographic area defined and on historical client data.

Complete copies of all budgets used to establish the unit rate shall be submitted to the designated executive staff within the division for review and approval along with the general cost study information as shown below.

2. Audit (Actual Cost) Basis

Division staff shall establish a unit rate based on recent service agency audits for the geographic area defined.

Upon establishment of a rate, division staff should submit complete copies of all audits used to establish the unit rate to the designated executive staff within the division for review and approval along with the general cost study information as shown below.

NOTE: Room and board costs must be separately identified.

**GENERAL COST STUDY INFORMATION**

1. The division shall define the service unit for which the study will establish a rate (service unit = billing unit).
2. Upon establishment of a rate, and 90 days prior to the requested date of implementation, division staff should submit the cost study, including the rationale and procedure by which the rate was established, in writing to the designated executive staff for the division with the necessary documentation as outlined in **METHODS FOR DETERMINING FIXED RATES** above.
3. The responsible staff must re-submit the cost study to the division executive staff for approval at least every three years following the original implementation date.

**NOTE:** Only allowable costs, as outlined in the applicable OMB circulars, can be used to determine fixed rates.