

CHAPTER ONE INTRODUCTION

1000 INTRODUCTION TO THE FINANCIAL GUIDELINES FOR PURCHASED SERVICES

1100 Purpose

The Financial Guidelines for Purchased Services (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 provisions of Chapters 1000 through 7000 are 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 Federal Laws

- A. **Omnibus Budget Reconciliation Act of 1981 (Section 2352)**
- 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

1220 Federal Regulations

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

- A. **2 CFR Part 215:** regulates implementation of uniform administrative requirements for awards and agreements with institutions of higher education, hospitals, and other non-profit organizations
- B. **28 CFR Part 35:** regulates implementation of Subtitle A of Title II of the Americans with Disabilities Act of 1990
- C. **45 CFR Part 74:** regulates implementation of uniform administrative requirements for awards and subawards to institutions of higher education, hospitals, other nonprofit organizations, and commercial organizations
- D. **45 CFR Part 76:** regulates implementation of Executive Order 12549, providing for certification that contractors have not been declared ineligible for participation in public transactions by a federal department or agency
- E. **45 CFR Part 76, Subpart F:** regulates implementation of Drug-Free Workplace Act of 1988
- F. **45 CFR Part 80:** regulates implementation of Civil Rights Act of 1964
- G. **45 CFR Part 84:** regulates implementation of nondiscrimination against the handicapped (Section 504 of the Rehabilitation Act of 1973, as amended)
- H. **45 CFR Part 90:** regulates implementation of Age Discrimination Act of 1975
- I. **45 CFR Part 92:** regulates implementation of uniform administrative requirements for grants and cooperative agreements to state, local, and tribal governments.
- J. **Section 1352 of Title 31 U.S.C.:** regulates implementation of Anti-Lobbying Act. Contractors receiving more than ~~\$100,000.00~~ per award of federally appropriated funds per fiscal year must certify that they will not use these funds to pay for lobbying activities. They must also disclose each instance of lobbying that does occur.
- K. **OMB Circular A-21, “Cost Principles for Educational Institutions”**
- L. **OMB Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments”**
- M. **OMB Circular A-102, “Grants and Cooperative Agreements with State and Local Governments”**
- N. **OMB Circular A-110, “Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations”**
- O. **OMB Circular A-122, “Cost Principles for Non-Profit Organizations”**
- P. **OMB Circular A-133, “Audits of States, Local Governments and Non-Profit Organizations”**

- Q. **Government Auditing Standards – 2003 Revision (Yellow Book)**
- R. **Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Common Rule.**

NOTE:

CFR regulations may be found at the following website:

www.gpoaccess.gov/cfr/index.html.

Federal regulations and OMB circulars may be found at the following website:

www.whitehouse.gov/omb/circulars.

1230 State Laws and Regulations

The State of Arkansas regulates the operation of DHS through the enactment of legislation pertaining to the funding of DHS, and through legislation concerning the practices of all state agencies in areas of personnel, accounting, and prescribed procedures for issuing rules and regulations.

- A. **Act 876 of 1973, “The General Accounting and Budgetary Procedures Law of Arkansas”**
- B. **State of Arkansas, Department of Finance and Administration, Office of Accounting, Financial Management Guide**
- C. **Rules and Regulations Implementing Governor’s Executive Order 98-04:** regulates disclosure for contracts, grants, leases, purchase agreements, and employment
- D. **Act 1032 of 1999:** requires Legislative Council Joint Budget Committee review of discretionary, non-exempt grants in excess of \$10,000~~00~~
- E. **Act 34 of 1999:** regulates state employment of constitutional officers and their spouses; establishes procedures regarding their entering into grants, contracts, or leases with the state

1240 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**

I300 Interpretation of Issuances

- A. **OFA Contract Support Section (CSS)** is responsible for issuing and interpreting rules, regulations, and procedures governed by this manual. Any questions on financial guidelines that cannot be resolved by this manual **shall** be referred to **CSS** for interpretation and explanation and, if necessary, for development and incorporation in revised issuances of the Financial Guidelines.

~~B. —~~ Contractors — should refer questions to their assigned Administrative Compliance Officer~~contract officer~~ (ACO) within CSS, and division or office staff should refer questions to their assigned liaison within CSS. Any unanswered questions will be referred to the CSS Assistant Director. Any question touching on legal issues will be referred by CSS to the Office of Chief Counsel (OCC). Except in an emergency, all such inquiries must be submitted to CSS in writing. The reply will be made in writing or, if an oral response is given, it will be confirmed in writing

~~B. —~~ within ten working days.

CHAPTER TWO AGREEMENT TYPES

2000 AGREEMENT TYPES~~Agreement Types~~

2100 Purchase of Services Contracts

2110 A purchase of services ~~contract~~ is a legally binding agreement between DHS and a provider of services. A provider of services 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~~ contains 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:

2121 Professional/Consultant Services (PCS) Contracts

- A. Professional Services contracts are for the purchase of services which are professional in nature and generally require that the provider have some type of specialized training or license/certification (e.g., medical services, social work, therapy, counseling, etc.) Contracts for technical services (e.g., janitorial, pest control, copier maintenance, trash collection, etc.) are not considered Professional Services contracts and use a different format.
- 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 or problems facing the agency.
- C. PCS contracts that do not exceed ~~\$25,000.00~~ in compensation, exclusive of reimbursable expenses, (per contractor, per fiscal year, 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

Contracts for technical services are governed by the Arkansas Procurement Law, applicable statutes and regulations, and DHS Administrative Procedures Manual, Chapter 604.

2123 Interlocal Agreements

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

2124- Voucher Participant Agreements

- A. Voucher Participant Agreements are written agreements with licensed or registered providers of services to clients who have met established eligibility requirements through the program division/office to provide services on an individual basis.
- B. The use of Voucher Participant Agreements requires widespread availability of licensed or registered services.

2200 Other Types of Agreements**2210 Grants**

Grants are awards of resource assistance to promote a program or goal of public benefit, as authorized by the funding agency. The nature of the grant, the eligible recipients, the method of award, and the terms and conditions depend on the specifics of the statute that created the grant program (if publicly funded) and the implementing regulations. Grants are more appropriate than contracts when the principal purpose is more generalized public support, stimulation, or capacity-building.

2220- Medicaid Provider Agreements

Medicaid provider agreements establish an individual or entity as a Medicaid provider and are specific to each service being provided. Medicaid provider agreements are managed by the Division of Medical Services (DMS) and governed by Medicaid regulations and rates.

2230- Special Nutrition Agreements

These agreements are ~~executed~~ placed to provide special nutrition programs for day care centers, day care family homes, private schools, and summer school programs.

2240- Construction Contracts

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

CHAPTER THREE FINANCIAL REQUIREMENTS

3000 **FINANCIAL REQUIREMENTS**~~Financial Requirements~~

3100 Allowable Reimbursement Methods

3110 Fixed Rate

3111 Fixed rates are based on a reimbursement schedule approved by DHS and standardized for a particular service or group of services. Rate schedules are developed by the program division/office funding the program in accordance with DHS criteria for a cost study (see Appendix D).

3112- The two types of fixed rates include:

A. Standard Flat Rates

A standard flat fixed rate is established by ~~at~~ the cost study and does not require individual provider budget justification in the contract. ~~When a range of rates is established by the cost study, each contractor's rate will be set and justified by the provision of a budget and other narrative justification in the contract.~~

B. Range of Rates

For a Range of Rates, contractor rates should fall within the range of allowable rates shown on the approved rate schedule. When a range of rates is established by the cost study, each contractor's rate will be set and justified by the provision of a budget and other narrative justification in the contract. Amendments to revise rates amended within this range are completed on a prospective basis from the effective date of the contract amendment.

3113C- 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/office 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~~can be used to determine fixed rates. Rates will (may) be adjusted if unallowable costs are used to determine fixed rates.

3120 Final Negotiated Rates

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

3121 A total operational budget allocated to service component

Two possible budget formats include the following:

A. Full disclosure budget

A full disclosure budget includes **all** agency-wide expenditures related to **all** service program areas. Even those considered unallowable for reimbursement under specific funding sources are to be included. All projected sources of revenue and amounts funded, including client fees and program income, are shown.

A full disclosure budget provides a more complete picture of the contractor's/grantee's financial status and stability than does a program specific budget.

B. Program specific budget

A program specific budget includes only those allowable expenses allocated to a program component or service(s) directly funded by DHS through a contract or grant.

3122 The published rates of the contractor for non-contract clients

3123 The established community rate for a similar service

3124 The contractor's previous year's audit

3125 The contractor's cost study

3126 The Medicaid rate for the same service

3127 The contractor's response to a competitive procurement request

3128 A combination of the above

NOTE:

- The division/office 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 provider and accepted by the community for all clients for services. Provider must provide evidence of such publication, advertisement, or posting.

3130 Actual Cost

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

3140 Scheduled Reimbursement

3141 Scheduled reimbursement – actual cost basis

- A. Scheduled reimbursement on an actual cost basis is based on a schedule of costs or a line-item budget that is on file with the program division/office. Schedule shall include a statement identifying the basis for reimbursement.
- B. The Schedule should include the total dollar amount allocated to each program with compensation and reimbursable indicated.
- C. The Schedule should clearly indicate that payments are based on actual expenditures incurred and no advance payments are allowed.
- D. The Schedule should indicate the anticipated date and amount of each payment.
- E. Invoicing requirements, expenditure reporting and payment adjustments shall be addressed in the Schedule as applicable.

3142 Scheduled reimbursement – fee basis

- A. The Schedule shall include a statement identifying the basis for reimbursement.
- B. The Schedule shall set payment limits for the funding sources limits, as applicable.
- C. Contractors shall submit invoices with documentation of services provided applicable to each of the funding sources. Payment on each invoice is limited to the corresponding amount on the payment schedule.
- D. The Schedule should indicate the anticipated date of payment, amount of each payment, and total applicable funding.
- E. The Schedule shall address payment adjustments, if applicable.

3200 Procedures for Budget Preparation

3210 Budget Development

3211 Full disclosure budget

- A. In developing a full disclosure budget, enter **all** (including those considered unallowable for reimbursement under specific funding sources) expenses for the entire agency related to **all** service program areas. These projected expenses are to be categorized into line items conforming to the contractor's own chart of accounts.
- B. 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, enter only allowable expenses allocated to a program component or service(s) directly funded by DHS through the contract/grant. These projected expenses are to be categorized into line items conforming to the contractor's own chart of accounts or as requested by the DHS Request for Proposal (RFP).

- B. Also enter the projected revenue, by source and amount, for the program component or service(s) directly funded by DHS through the contract/grant.

3220 Budget Adjustment

3221 If applicable, i.e. in full disclosure budgets, the budget is to be adjusted for costs unallowable under applicable regulations and for costs not allocated or charged to a specific cost center.

3222 Adjusted items should be explained within the budget. Unallocated costs may include one-time expenses funded from outside sources such as private foundations.

3223 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 budget is to be included in the contract, the following information should be included with the budget

- A. Justification/explanation to support each line item
- B. ~~Appropriate documentation as required in Chapter 7000~~
- C. ~~Notation for each line item identifying it as compensation or reimbursable expense~~
 - 1. Compensation includes salaries, fringe benefits, fixed rate services, and subcontract expenses.
 - 2. Reimbursable expenses include mileage, travel, training costs, rent, 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.
- CD. 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, project the total number of units for each service funded wholly or in part under the contract. Include all units provided to clients for each service whether or not they are paid by the contract. Divide the total costs for the service by the projected number of units of service to compute the unit rate. (See Appendix C.)

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 cost allocation plan is developed when a provider has shared costs among two or more service program areas.

3320 When an allocation of costs is necessary, 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. The method used for each line item should be included in or attached to the budget/cost allocation plan.

3330 If an Invitation for Bid (IFB) or an ~~RFP-Request for Proposal (RFP)~~ specifies a method of cost allocation, the contractor should adhere to the method established by the IFB or RFP.

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

3350 Unit Rate Calculation from Cost Allocation

If the cost allocation is being used to calculate a unit rate, project the total number of units for each service funded wholly or in part under the contract. Include all units provided to clients for each service whether or not they are paid by the contract. Divide the total costs for the service by the projected number of units of service to compute the unit rate. (See Appendix C.)

3400 Increases in Reimbursement Rates

3410 In many situations, it is prohibited to increase the contractor's reimbursement rate 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 will not be approved prior to the date of his signature on the [Reimbursement Rate Increase Approval, Form DHS-1951](#).

3500- Financial Amendments

Amendments to contracts/grants are required when any element on the contract/grant form or any of the legal attachments is revised to the extent that it materially affects the contractor/grantee 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. Refer to Appendix B (DHS [Contract Requirements](#)) for specifics concerning the requirements for amendments.

3600 Line Item Adjustments

3610 Line item adjustments pertain to actual cost reimbursement contracts and grants only and do not affect the total reimbursable expenses, total compensation expenses, or total liability of the contract.

3611 Line item adjustments should have prior approval from [CSS Manager, Contract Review Unit \(CRU\)](#), or designee, before adjustments are implemented.

3512 If deviation from the amount budgeted will not exceed ~~\$500.00~~ or 10% of the line item from which funds are being moved (whichever is greater), no line item adjustment is necessary.

3700 Matching Funds

3710 Matching requirements for funding utilized in [purchase of service agreements](#) 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 agreements 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 ~~3740520~~, a matching or cost sharing requirement may be satisfied by either or both of the following:

A. ~~3721~~—Allowable costs incurred by the provider under the purchase of service agreement. This includes allowable costs borne by non-federal grants or by other cash donations from non-federal third parties.

B. ~~3722~~—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, cash is obtained by the _____ contractor and applied against allowable costs covered by the _____ contract. The contractor's billings are reduced by the appropriate _____ percentage of match before contractor is reimbursed.
- 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 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 7200.374 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 where, 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. 4.—An increase in the services or property provided under the agreement (without additional cost to the contractor)
 - b. 5.—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:** Matching funds are submitted by a third party to DHS by check or money order under the terms of the contract.
- B. **Requirements:** Matching funds must be received by DHS in an amount sufficient to match billing before the service provider will be reimbursed 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. These records must be made 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 Financial records, supporting documentation, statistical records, and all other records pertinent to the agreement must be retained for a minimum of **five** years (**or six years for Health Information Portability and Accountability Act [HIPAA] information**) following the **termination of the contract**, except when:

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

4220 In either event, all records pertaining to the agreement must be retained 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~~**will** 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

~~**4423D.**~~ 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 contractors/grantees are required to comply with the "DHS Audit Guidelines". Compliance or noncompliance with the audit requirement shall be indicated by OCC Audit Section on the Provider Audit Sign-Off Sheet (PASOS).

5200 Verification of Audit Status

5210 For every contract or grant being developed, the contract/grant developer should submit to OCC Audit Section a PASOS form requesting verification of the contractor's/grantee's status regarding the audit requirement.

5220 Upon receipt of the PASOS, OCC Audit Section will determine if the contractor/grantee has, if required by the DHS Audit Guidelines, submitted an audit report for the current fiscal year.

5230 OCC Audit will certify on the PASOS that the contractor's/grantee's audit status is "current" or "not current" and shall return the PASOS to contract/grant developer.

5300 Contractor's/Grantee's Responsibility

5310 Audit reports required by the "DHS Audit Guidelines" shall be submitted in such form and at such time as the "DHS Audit Guidelines" specify.

5320 Questions regarding audit requirements are to be directed in writing to the Director of Audits at the address indicated in the "DHS Audit Guidelines".

5400 Review of Independent Audits by the Department of Human Services

5410 Independent audits will normally be reviewed by the program division for compliance with program requirements. Program divisions/offices must submit a request to the OCC Audit Section to receive copies of any audit reports of contractors/grantees funded by the particular program divisions/offices.

5420 If fixed or final negotiated rate agreements are in financial and regulatory compliance, agreement action will be closed. Actual cost agreements will be examined to determine whether a final cost settlement is appropriate. When an agreement is renegotiated, audit data on file will be referred to as appropriate. If the audit reveals that the program is not in compliance, DHS will determine the steps necessary for corrective action, notify the contractor accordingly, and advise the contractor of available administrative appeal procedures.

5430 For additional information, including desk reviews of audit reports by OCC Audit Section, see the "DHS Audit Guidelines".

5500 On-Site Reviews Performed by the Department of Human Services (Conducted 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/grantees and the state, circumstances may indicate a need for various other types of review activities. Such reviews may encompass a variety of procedures including, but 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 the Department of Human Services Office of Chief Counsel

5610 Audits performed by the DHS ~~OCC~~Office of Chief Counsel Audit Section will be conducted in accordance with the appropriate standards.

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

5630 OCC Audit Section forwards the findings and recommendations, the CAP, and any OCC Audit Section comments to the program division/office and to ~~the CSS Field Operations Unit (FOU) Manager~~. CSS~~The FOU Manager~~ distributes copies of the findings and recommendations to appropriate CSS~~FOU~~ staff to use in their site visits.

5700 Settlement Process/Recoupment

5710 If the DHS program/division determines that recoupment from the contractor/grantee, or additional payment to the contractor/grantee, is indicated the following action is taken

- A. If the contract/grant is no longer in effect, the program division/office forwards its determination to ~~Office of Finance and Administration (OFA)~~A-Accounts Receivable (AR) for recoupment or to ~~(OFA)~~A-Accounts Payable (AP) for payment, with copies forwarded to CSS and OCC Audit Section.
- B. If the contract/grant is still in effect, the program division/office forwards its determination to CSS for payment adjustment, with copies forwarded to OCC Audit Section.

5720 If the program division/office determines that no recoupment or additional payment is required, the division/office 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 provider may appeal audit findings, disallowances/recoupments, or any other action taken by DHS adversely affecting a grant or 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/grant 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/grant 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

6240 Prior approval cannot be considered granted until written approval is received from the OFA Chief Fiscal Officer or designee.

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 Accounting Procedures Manual**

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 and grants, 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/office 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/grant 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—Accounting~~

~~The expense of establishing and maintaining accounting and other information systems required in the performance of the contract is allowable. Salary costs for internal accounting shall be shown under “compensation for personnel services” rather than “accounting”.~~

~~This section has been deleted from the OMB circulars. You might consider removing it.~~

721~~1~~2 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.

72123 Audit

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

7214 Automatic Electronic Data Processing

The cost of data processing services is allowable to the extent it pertains to the performance of the agreement.

This section has been deleted from the OMB circulars. You might consider removing it.

72135 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.

7216 Budgeting

Costs incurred for the development, preparation, presentation, and execution of budgets relative to the agreement are allowable.

This section has been deleted from the OMB circulars. You might consider removing it.

72174 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.

72158 Communication

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.

72169 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 allowability 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.

721720 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.

721824 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**)

721922 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.

72203 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 ~~\$2,500.00~~ are allowable.

Purchase of computer equipment in excess of ~~\$750.00~~ through a ~~PCS~~ Professional/Consultant Services 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 ~~\$2,500.00~~ or greater are considered capital expenditures and are unallowable unless prior approval is obtained from DHS.

7224 Field Trips

The costs of program related educational and recreational outings for clients, including the costs of admission, transportation (if not provided for under another line item), snacks, beverages, and food costs directly associated with field trips are allowable.

This section is not addressed in the OMB circulars.

7225 Food Costs

The costs of food and food service supplies directly associated with the provision of meals to clients is allowable. Note, however, that in the computation of a unit rate for reimbursement purposes, food costs paid by the Child Care Food Program must be adjusted out.

This section is not addressed in the OMB circulars.

72216 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.

72227 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.

7228 Inspections

The costs of required inspections, such as health and fire inspections, are allowable to the extent they relate to the performance of the agreement and only if they are not available without charge.

This section is not addressed in the OMB circulars.

72239 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.

722430 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.

722534 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.

722632 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.

722733 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.

722834 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.

722935 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, and **section 7200.13 of these guidelines.**

72306 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.

72317 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 allowability 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.

72328 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.

72339 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.

72340 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.

72354 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.

723642 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.

723743 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.
3. ~~The contractor/grantee does not gain a material equity in the property (such as an option to renew or purchase at a bargain rental or price) but pays only for the current use of the property, including any incidental costs such as maintenance, insurance, taxes, and the like.~~

~~B. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.~~

BC. 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.

CD. 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.

DE. 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.

EF. 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.

~~Items A.3 and B are not addressed in the circulars.~~

7244 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.

7245 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 therefrom), 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.

7246 Travel

Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees 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. See the State of Arkansas Travel Regulations on the Department of Finance and Administration website www.arkansas.gov/dfa/accounting for specific rules, regulations and procedures regarding allowable travel costs.

7247 Utilities

The cost of utilities is allowable to the extent it relates to the performance of the agreement.

This section is not addressed in the OMB circulars.

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.

<u>Method of Allocation</u>	<u>Examples of Applicable Expenses</u>
Number of clients	ALL Program and Administrative Expenses
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	Salaries, Fringe, time distribution records
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

CONTRACT REQUIREMENTS

ACTUAL COST - Reimbursement is based on actual expenditures outlined in a budget or cost allocation plan

	CONTRACT REQUIREMENTS
Original Contract	<ul style="list-style-type: none">Itemized listing of allowable program expenses to be purchased and justification with each line item designated as compensation or reimbursable NOTE: Total itemized listing must equal total DHS funding.
Amendment <ul style="list-style-type: none">change in funding	<ul style="list-style-type: none">Revised itemized listing of allowable program expenses to be purchased with each line item designated as compensation or reimbursable NOTE: Total of revised itemized listing must equal total DHS funding.
Amendment <ul style="list-style-type: none">change in fundingchange in contract period	<ul style="list-style-type: none">Revised itemized listing of allowable program expenses to be purchased with each line item designated as compensation or reimbursable, <u>OR</u>Additional itemized listing for the period of extension, with each line item designated as compensation or reimbursable NOTE: Total itemized listing(s) must equal total DHS funding.
Amendment <ul style="list-style-type: none">change in contract period	<ul style="list-style-type: none">None to itemized listing(s), if there are no changes in compensation and reimbursable amounts NOTE: Purpose must clearly state that expenditures will be prorated based on last approved budget on file.
Amendment <ul style="list-style-type: none">change in total compensation or total reimbursable amountsno other changes	<ul style="list-style-type: none">Revised itemized listing of allowable program expenses to be purchased with each line item designated as compensation or reimbursable NOTE: Total itemized listing must equal total DHS funding.

NOTE: REFER TO SPECIFIC PROGRAM DESCRIPTIONS FOR ANY ADDITIONAL BUDGET REQUIREMENTS OR DOCUMENTATION TO BE MAINTAINED BY THE PROGRAM AGENCY

ACTUAL COST - Reimbursement is based on actual expenditures outlined in a budget or cost allocation plan and includes Negotiated or Fixed Rates

	CONTRACT REQUIREMENTS
Original Contract	<ul style="list-style-type: none"> • Approved rate schedule, <u>AND</u> • Itemized listing of reimbursable expenses
Amendment • change in funding	<ul style="list-style-type: none"> • Revised itemized listing of reimbursable expenses, if applicable
Amendment • change in rates	<ul style="list-style-type: none"> • Approved revised rate schedule • DHS 1951 signed by Governor for rate increase, if applicable
Amendment • change in funding • change in rates • change in contract period	<ul style="list-style-type: none"> • Approved revised rate schedule • DHS 1951 signed by Governor for rate increase, if applicable • Revised itemized listing of reimbursable expenses, if applicable, <u>OR</u> • Additional itemized listing for the period of extension
Amendment • change in funding • change in contract period	<ul style="list-style-type: none"> • Revised itemized listing of reimbursable expenses, if applicable, <u>OR</u> • Additional itemized listing for the period of extension
Amendment • change in contract period	<ul style="list-style-type: none"> • None to itemized listing and rate schedule, if there are no changes in compensation or reimbursable amounts <p>NOTE: Purpose must clearly state that expenditures will be prorated based on last approved budget on file.</p>

NOTE: REFER TO SPECIFIC PROGRAM DESCRIPTIONS FOR ANY ADDITIONAL BUDGET REQUIREMENTS OR DOCUMENTATION TO BE MAINTAINED BY THE PROGRAM AGENCY

FIXED RATE - Reimbursement is based on a DHS approved rate schedule, which is based on an approved DHS cost study or federal rate schedule.

	CONTRACT REQUIREMENTS
Original Contract	<ul style="list-style-type: none"> Approved rate schedule, including: <ol style="list-style-type: none"> service name service code unit rate service unit definition
Amendment <ul style="list-style-type: none"> increase/decrease in rates no change in funding no change in contract period 	<ul style="list-style-type: none"> Revised approved rate schedule DHS 1951 signed by Governor for rate increase
Amendment <ul style="list-style-type: none"> increase/decrease in funding no change in rates no change in contract period 	<ul style="list-style-type: none"> None to rate schedule <p>NOTE: Purpose should clearly state that the only change is in funding.</p>
Amendment <ul style="list-style-type: none"> increase/decrease in funding extension in contract period no change in rates 	<ul style="list-style-type: none"> None to rate schedule <p>NONE: Purpose should clearly state that the only changes are in funding and contract period.</p>
Amendment <ul style="list-style-type: none"> increase/decrease in funding increase/decrease in rate 	<ul style="list-style-type: none"> Revised approved rate schedule DHS 1951 signed by Governor for rate increase
Amendment <ul style="list-style-type: none"> extension in contract period no change in funding no change in rates 	<ul style="list-style-type: none"> None to rate schedule <p>NOTE: Purpose should clearly state that the only change is in contract period.</p>

NOTE: REFER TO SPECIFIC PROGRAM DESCRIPTIONS FOR ANY ADDITIONAL BUDGET REQUIREMENTS OR DOCUMENTATION TO BE MAINTAINED BY THE PROGRAM AGENCY

FINAL NEGOTIATED RATE - Reimbursement is by rates based on reasonable and necessary expenditures negotiated and approved between the provider and DHS program agency

	CONTRACT REQUIREMENTS
Original Contract	<ul style="list-style-type: none"> Rate schedule, including: <ol style="list-style-type: none"> service name service code unit rate service unit definition method of calculating unit rate Projection of number of units per service, if applicable
Amendment <ul style="list-style-type: none"> change in funding no other changes 	<ul style="list-style-type: none"> Revised projection of number of units per service, if applicable
Amendment <ul style="list-style-type: none"> change in rates no other changes 	<ul style="list-style-type: none"> Revised rate schedule Revised projection of number of units per service, if applicable, DHS 1951 signed by Governor, if rate increase, if applicable
Amendment <ul style="list-style-type: none"> change in funding change in rates change in contract period 	<ul style="list-style-type: none"> Revised rate schedule Revised projection of number of units per service, if applicable DHS 1951 signed by Governor, if rate increase, if applicable
Amendment <ul style="list-style-type: none"> change in funding extension in contract period no change in rates 	<ul style="list-style-type: none"> Revised projection of number of units per service, if applicable
Amendment <ul style="list-style-type: none"> extension in contract period no other changes 	<ul style="list-style-type: none"> None to rate schedule <p>NOTE: Purpose should clearly state that the only change is in contract period.</p>

NOTE: Most negotiated rate contracts are allocated to compensation

NOTE: REFER TO SPECIFIC PROGRAM DESCRIPTIONS FOR ANY ADDITIONAL BUDGET REQUIREMENTS OR DOCUMENTATION TO BE MAINTAINED BY THE PROGRAM AGENCY

SCHEDULED REIMBURSEMENT - Reimbursement is based on a schedule of costs or budget of preset expenses incurred during a specific period of time.

	CONTRACT REQUIREMENTS
Original Contract	<ul style="list-style-type: none">Itemized listing of allowable program expenses to be purchased with each line item allocated to compensation or reimbursements.Schedule of payments including date of payment, amount of payment and frequency of payment (weekly, monthly, quarterly, etc).Expenditure reporting requirementsPayment adjustment conditions NOTE: Total calculations must equal total DHS funding.

(A revised schedule of payment is required if any action reflects change in funding, rates or contract period.)

GENERAL INFORMATION

Contracts with the private sector with a total (compensation plus reimbursable) exceeding \$25,000-00_ must be reviewed by Arkansas Legislative Council. |

Contracts between state agencies with a total (compensation plus reimbursable) exceeding \$25,000-00_ must be reviewed by Legislative Performance Evaluation and Expenditure Review (PEER) Committee |

New contracts with previous providers do not require DHS 1951 if rate increase is based on competitive procurement.

New contracts with new providers do not require DHS 1951.

Amendments to increase rates must have a signed DHS 1951.

NOTE: REFER TO SPECIFIC PROGRAM DESCRIPTIONS FOR ANY ADDITIONAL BUDGET REQUIREMENTS OR DOCUMENTATION TO BE MAINTAINED BY THE PROGRAM AGENCY

APPENDIX C**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: \$23,780.00 total transportation cost
36,500 units of transportation = \$.65 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: \$41,250.00
7,500 = \$5.50 unit rate

APPENDIX D

DEPARTMENT OF HUMAN SERVICES CRITERIA FOR COST STUDY

METHODS FOR DETERMINING FIXED RATES

There are two types of fixed rates:

1. Standard Flat Rates
2. Range of Rates

Following are the two allowable methods for determining a Standard Flat rate or a Range of Rates:

1. Operational Budget Basis

A full disclosure budget shall be developed for the service agencies in the geographic area defined.

Unit rates **shall** be established using historical client data.

Complete copies of all budgets used to establish the standard flat (fixed) rates or ranges of rates shall be submitted to the ~~Division of Administrative Services (DAS)~~ designated executive staff within the DHS program division/office for review and approval along with the general cost study information as shown below.

2. Audit (Actual Cost) Basis

Service agency audits for the geographic area defined completed no earlier than twelve months prior to the date of the cost study **shall** be submitted to document unit cost. The audit shall include certification of the cost and number of units of client services delivered.

Complete copies of all audits used to establish the standard flat (fixed) rates or ranges of rates shall be submitted to the designated executive staff within the DHS program division/office 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 or office shall define the service unit for which the study will establish rate(s) (service unit = billing unit).

2. The cost study, including the rationale and procedure by which the rate or range of rates are established, shall be submitted in writing to the designated executive staff for the program division/office with the necessary documentation as outlined in **Methods for Determining Rates**.
3. The cost study must be submitted to ~~DAS~~ the designated division/office executive staff for approval with back-up data ninety days prior to the division or office requested date of implementation.
4. The cost study must be resubmitted to the program division/office 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. Rates will (may) be adjusted if unallowable costs are used to determine fixed rates.