

Contract Reimbursement Manual
Glossary

GLOSSARY OF TERMS

This Glossary of contract reimbursement terms is arranged in alphabetical sequence. Each term is defined in the context of the Department of Human Services contracting system (Contract Policy and Information Manual and Contract Reimbursement Manual)

Accrual Basis of Accounting: the accounting method in which Revenue is reported in the period in which it is earned, regardless of when it is collected, and expenses are reported in the period in which they are incurred, regardless of when they are paid.

Acquiring Organization: the business entity that acquires, affiliates, consolidates, merges, etc. with a Provider Agency.

Acquisition: the takeover of one corporation by another, if both parties retain their legal existence after the transaction.

Acquisition Cost: the net invoice unit price of an item of Equipment, including the cost of any modifications, attachments, accessories or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired. Ancillary charges, such as taxes, duty, protective in-transit insurance, freight and installation shall be included in or excluded from the Acquisition Cost in accordance with the Provider Agency's regular written accounting practices.

Action: Notice of an impending remedy, including Termination of the Contract. The action may be implemented during the current Contract or a subsequent Contract as appropriate.

Actual Units of Service: the number of service units delivered by the Provider Agency for the reporting period.

Additional Insured: an endorsement to an insurance policy extending the coverage to the State of New Jersey, Department of Human Services and its Departmental Component against loss in accordance with the terms of the policy. Designating the State of New Jersey, Department of Human Services and its Departmental as an additional insured permits the Department to pay the premium should the insured fail to do so.

Affiliation: the association of two or more entities for the advancement of a specific goal or purpose.

Agreement: The Standard Language Document, the Individual Provider Agreement, the Annex(es), any additional appendices or attachments

(including any approved assignments, subcontracts or modifications) and all supporting documents

Allocability: a cost is allocable if it is assignable or chargeable to a particular cost objective - such as a contract, project, product, service, process, or other major activity - in accordance with the relative benefits received or some other equitable relationship.

Annex B Budget: the Attachments to the Contract Standard Language Document and Standardized Agreements containing programmatic and financial information

Annex(es): the attachment(s) to the Contract Standard Language Document and Standardized Agreements containing programmatic and financial information.

Applicable Credits: those receipts or reduction of expenditures which operate to offset or reduce expense items allowable to the Contract as direct or indirect costs.

Applicant: the person, agency or entity responding to an RFP.

Approval: written permission from the Departmental Component's Ethic Liaison Officer to attend and/or participate in an Event; to accept an honorarium or fee; and/or to accept Direct or Indirect Benefits in connection with attendance.

Award: includes State grants, State aid, and federal and State financial assistance in the form of grants, loans, loan guarantees, property, capital funding agreements, interest subsidies, insurance, food commodities and other assistance.

Broad Form: liability coverage that provides insurance for multiple types of perils. A Broad Form policy provides all risks coverage in one policy except for listed exclusions.

Budget Category: one of the major groupings of cost identified in the Contract Budget Annex B form.

Budget Period: a period Congruent with the Contract when services are delivered. Generally, a budget will cover a 12-month period which coincides with the Provider Agency's fiscal year.

Budgeted Units of Service: the projected level at which the Provider Agency will deliver Contract services. The Budgeted Units of Service are specified in the Annex B and/or Annex B-2.

Cash Basis of Accounting: the accounting method in which Revenue is reported in the period in which it is received and expenses are reported in the period in which they are paid.

Client Fees (also Fees): the monetary assessment which, according to Departmental policies, may be charged to certain recipients of specific social services. Any allowable Client Fees to be charged and the amount projected to be collected by the Provider Agency in connection with the delivery of Contract services are specified in the Contract Annex (es).

Closeout "preliminary": the process, whereby the Departmental Component reconciles the amount of funding paid to a Provider Agency during the contract term against the final Report of Expenditures (ROE) or the latest ROE submitted by the Provider Agency to the Departmental Component, and also the "final" process by which the Department of Human Services determines that all applicable administrative actions and all required work of the Contract, with the exception of the final audit, have been completed by the Department and the Provider Agency.

Cluster: one or more service-related Programs designated by the Departmental Component, and identified in the Contract.

Cognizant: a term used to designate audit responsibilities and is generally used in conjunction with the awarding agency that provides the predominant amount of federal and State funding.

Cognizant Division: the division or other designated component within the Department of Human Services responsible for all fiscal Contract administration functions when a Provider Agency contracts with more than one Departmental Component.

Commercial Automobile Liability Insurance: coverage that provides limits above the standard limits in the base policy and/or covers areas of liability not covered in a standard policy.

Conditional Contract: a social service or training Contract between the Department and the Provider Agency for less than one year during which time special terms or conditions specified in the Contract must be met by the Provider Agency.

Conflict of Interest (also Conflict): a conflict, or the appearance of a conflict, between the private interests and the official responsibilities of a person in a position of trust. Persons in a position of trust include Provider Agency staff members, officers and Governing Board Members.

Consistency: a Provider Agency's method of accounting must be uniform from one period to another.

Consolidation: occurs when two or more corporations cease to exist, and by the same process a new one is created, taking over the assets and assuming the liabilities of those passing out of existence.

Consumer: an individual receiving services from or funded in whole or in part by DHS (Department) or one of its departmental components.

Contract: one of the Department's social service or training Contracts with a Provider Agency. Terms and conditions of the Contract are included in the Standard Language Document, Annex(es), appendices and attachments and Contract Modifications (including any approved assignments and subcontracts) and supporting documents. The Contract constitutes the entire binding agreement between the Department and the Provider Agency.

Contract Budget: the Department approved budget for Cost-Related Contracts contained in the Annex B and Annex B-2, and prepared in accordance with the Department's Contract Reimbursement Manual and Contract Policy and Information Manual.

Contract Modification: the formal procedures entailing the Department's written approval on the P1.10 Contract Modification form (Attachment A) to allow certain programmatic and/or financial changes in the Contract during the Contract term.

Contracted State Agency: the State organization or unit that enters into a contractual arrangement with a Departmental Component of the Department of Human Services.

Cost Analysis: the evaluation of cost data for the purpose of establishing estimates of Contract costs to be incurred and then determining costs to be reimbursed or prices to be paid. The Cost Analysis method for determining Contract value is applicable to Cost-Related Contracts.

Cost-Related Contract: a Contract for which the total value of the Contract is determined by a detailed analysis of costs, i.e., "Cost Analysis".

Cost Sharing: denotes Provider Agency participation in the cost of programs funded under Department Contracts. Provider Agencies are able to participate in the cost of programs from various sources of restricted and unrestricted funds.

County Human Services Advisory Councils (CHSACs): councils appointed by the government of each county to review county-level human service activities and to serve as the primary vehicle for local public input into New Jersey Department of Human Services' decision making. The activities of the County Human Services Advisory

Councils include, but are not limited to, the issuance, review and comment on human service proposals; preparation of allocation plans; review of existing purchase of service contracts; and coordination and consolidation of the local human services delivery systems.

Cumulative Increase: the combined effect of all budget changes within a Budget Category.

Days: calendar days.

Default: the Provider Agency has materially failed to fulfil or comply with the terms and conditions of the Contract.

Department: the New Jersey Department of Human Services. As used throughout the Manual, it also means, where appropriate from the context, the division, commission, bureau, office, unit or other designated component of the Department of Human Services responsible for the administration of particular Contract programs.

Department Head: the administrative or executive head of the State Official's agency or his or her designee. The Commissioner of Human Services has designated Departmental Component Ethics Liaison Officers to grant the approval defined above.

Departmental Component: the division, bureau, commission, office or other unit within the Department responsible for the negotiation, administration review, approval, and monitoring of certain social service or training Contracts.

Depreciation: the process of allocating the cost of a tangible fixed asset (e.g., buildings, office equipment and computer equipment) less salvage value, over its estimated useful life in a rational and systematic manner.

Designated Entity: that group or county board which has been given the authority by the Department of Human Services to solicit human service proposals for the review and comment and recommended acceptance for third-party social service Contracts. Although the RFP is handled by a group other than the Departmental Component, the Contract is signed and finalized by the Departmental Component.

Disallowed Costs: those charges to a Contract that the Department determines to be unallowable in accordance with applicable cost principles, Department policies, or other conditions contained in the Contract.

Donor: the public (except the State of New Jersey) or private entity contributing match to a Contract.

- Donor Agreement (Public or Private):** a standard written agreement between the Provider Agency and a public or private entity providing match to be used in a SSBG service Contract. The standard Donor Agreement is furnished by the Department Component.
- Employee Fidelity Bond (commercial blanket bond):** coverage issued for a stated amount on all regular employees of the Provider Agency insuring against loss from employees' dishonest acts.
- Employee Liability Insurance:** coverage against the common law liability of an employer for injuries by accident or disease to employees, as distinguished from the liability imposed by Workers' Compensation Law.
- Equipment:** an article of nonexpendable tangible personal property having a useful life of more than two years and an Acquisition Cost of \$5,000 or more per unit.
- Event:** a meeting, conference seminar, speaking engagement, symposium, training course, ground-breaking, ribbon cutting, meal, open house, cocktail party, fundraiser, holiday party, social function, or similar event that takes place away from the State Official's work location, is sponsored or co-sponsored by a non-government source and the invitation for which is extended to the State Official because of his/her official position.
- Expiration:** the cessation of the Contract because its term has ended.
- Facilities:** land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located and whether owned or leased by the Provider Agency.
- Fair Market Value:** the value determined to be a reasonable price for a comparable item on the competitive market in the same geographic area. Such determination is made in some cases by comparison shopping and in others by formal appraisal procedures.
- Federal Government Executive and Legislative Branch(es):** an officer or employee of any federal agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress.
- Final Contract Closeout:** the process by which the Department of Human Service determines that all applicable administrative actions and all required work of the Contract, with the exception of the final audit, have been completed by the Provider Agency and the Department.
- Flexible Limits:** an upper dollar limit which is established for each budget Category, and which may not be exceeded without an approved

Contract Modification. Flexible Limits are determined by adding an amount to the approved Annex B Budget.

For-Profit Contract: a Contract in which a fixed dollar amount is added to the Net Cost to determine the Contract Reimbursable Ceiling. For-Profit Contracts are allowed only with for-profit Provider Agencies.

General and Administrative or Indirect Costs: costs which are incurred for common or joint objectives and which are not readily subject to treatment as direct costs. These costs are not directly traceable to a particular segment and probably could not be fully eliminated if any one segment of the enterprise were discontinued.

General Liability Insurance: liability coverage for all premises and operations for all general liability hazards, unless excluded.

Governing Board (also Board): the Provider Agency board, commission, council or other organizational body which signs the Contract, enacts Provider Agency policy regarding Contract services, and is responsible to the Department for Contract compliance.

Indirect Benefit: acceptance by a state official from the Event sponsor or any other person of reimbursement for costs of travel, meals, accommodation, event fees, or any other costs associated with attending the Event for which no reimbursement is made by the State but is intended to mean nominal refreshments such as nonalcoholic beverages and snacks (bagels, doughnuts, pastries and cookies).

Initial Advance Payment: the first payment made by check or other appropriate payment mechanism to a Provider Agency during the Contract term before expenses are incurred or services are provided.

In-Kind Contributions: property or services (except the services of volunteers) which benefit the Contract program and which are contributed by a public entity without charge to the Provider Agency. Included as In-Kind Contributions are public contributions formerly designated as CCE (Certified Cash Expenditures).

Insurance Declaration Page: a document that lists most of the vital information about the Insurance policy. The declaration page states the name and address of the name insured or insured party; the location of the property insured along with its location and description; the value and replacement value of property insured; the inception and expiration date of the policy period, the premium and other conditions, terms, exclusions and endorsements.

Interest: the cost incurred for the use of borrowed funds. Interest costs are generally paid at fixed intervals by the user.

Interest Party: 1. Any person, or employee, representative of agent thereof, who is or may reasonably be anticipated to be subject to the regulatory, licensing or supervisory authority of the State Official's agency; 2. Any supplier, or employee, representative or agent thereof; 3. Any organization that advocates or represents the position of its members to the State Official's agency; 4. Any organization a majority of whose members are as described in paragraphs 1 through 3 above.

Letter of Approval: the written correspondence between the Departmental Component and Provider authorizing a Contract Modification approval pending submission and approval of a P1.10 Contract Modification form (Attachment A).

Limits: the dollar amount of insurance carried for the types of insurance listed.

Line Item: each entry of cost within an expense or Budget Category listed in the Annex B (e.g., the salary or wages for each position listed under the Budget Category of Personnel).

Lower Tier Covered Transaction(s) (Contract/Subcontract): the Contract between DHS and the Provider Agency and all subsequent subcontracts, down to the lowest level, that may result from the initial Contract.

Lower Tier Participant(s) (Provider Agency/Subcontract): the Provider Agency and all subcontractors, down to the lowest level, that may result from the initial Contract.

Management Decision: the evaluation by the federal or State awarding agency or the pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

Marketable Asset: any item of value that can be sold, bartered or traded.

Match: a percentage or designated amount of funds required as Cost Sharing for certain Department of Human Services Contracts. Such requirements may be Departmental or statutory.

Merger: occurs where one corporation absorbs another of relatively equal size and importance and remains in existence while the other is dissolved.

Minority: a person who is:

African American, having origins in any of the black racial groups in Africa;

Hispanic, having Spanish culture, with origins in Mexico, South or Central America, or the Caribbean Islands, regardless of race;

Asian-American, having origins in and of the original peoples of the Far East, Southeast Asia, Indian sub-continent, Hawaii, or the Pacific Islands;

American Indian or Alaskan native (Native American), having origins in any of the original peoples of North America and who maintain cultural identification through tribal affiliations or community recognition.

Minority Agency: a business or organization, profit or non-profit, which is:

A sole proprietorship, partnership, or joint venture in which at least 51% of the ownership interest is held by minorities and the policy-making, management and daily business operations are controlled by one or more of the minorities who own it; or

A corporation or other business entity authorized under the laws of the United States whereby 51% of the stockholders, board of directors, ownership or management of daily business operations is controlled by one or more minorities.

Modified Accrual Basis of Reporting: the reporting method in which all unpaid expenditures and uncollected Revenue attributable to the Contract (i.e., expenditures which are allocated to the Contract and have been incurred during the Contract term and Revenue which has been earned during the Contract term) are paid or collected by a specified date after the Expiration or Termination of the Contract. All such post-Contract payments or collections are then reported on the final expenditure report.

Net Cost: the Total Cost less Revenue.

Non-Cost-Related Contract: a Contract for which the total value is determined by a means other than Cost Analysis. Price Analysis is the most common method employed.

Notice: an official written communication between the Department and Provider Agency. All Notices shall be delivered in person or certified mail, return receipt requested, and shall be directed to the persons and addresses specified for such purpose in the annex(es) or to such other persons as either party may designate in writing.

The Notice shall also be sent by regular mail and shall be presumed to have been received by the addressee five Days after being sent to the last address known by the Departmental Component.

Open Purchase Service(s); a contract service that is purchased on a fee for service or an as needed basis and in which the number of units to be purchased may not be fixed. Such contract service program usually do not have a reimbursable ceiling.

Pass-through Entity: a non-federal entity, which includes a State, local government, non-profit organization and for-profit organization that transmits a federal or state award to a Provider Agency or a subcontractor to carry out a federal or State program.

Payment Rate: the agreed upon amount to be paid to the Provider Agency per single unit of service delivered under the Contract.

Person: an individual corporation, company, association, authority, firm, partnership, society, state, or local government.

Pre-Award Survey: the examination and evaluation of certain record and documents to determine the adequacy of the financial management and administrative systems of a potential or current Provider Agency prior to the issuance of a new or successor Contract with the Provider Agency.

Preliminary Contract Closeout: the process whereby a Departmental Component reconciles the amount of funding paid to a Provider Agency during the Contract term against the Final Report of Expenditures (FROE) or the latest Report of Expenditure (ROE) submitted by the Provider Agency to the Departmental Component.

Price Analysis: the evaluation of price data without analysis of the separate cost components in arriving at prices to be paid for Contract services. The Price Analysis method of determining Contract value is applicable to Non-Cost-Related Contracts.

Principal: officer, director, owner, partner, key employee or other person within the Provider Agency with primary management or supervisory responsibilities; or person who has a critical influence on or substantive control over the Contract whether or not employed by the Provider Agency.

Product/Completed Operation: a form of liability insurance which covers accidents arising out of operation which have been completed or abandoned, provided the accident occurs away from the premises owned, rented, or controlled by the insured.

Professional Liability/Malpractice: coverage for the Provider Agency and health care providers in its employ, acting under their scope

of duties, while providing medical and social services care to the clients.

Program: a specific service. A Program is generally represented by each column in the Contract Expense Summary of the Annex B: Contract Budget.

Program Income: all income generated by the Provider Agency as a result of Department supported activities (e.g., third party health insurance such as Medicaid, Medicare, or private insurance plans). Program Income does not include restricted or unrestricted public or private donations to the Provider Agency.

Property Insurance: a broad form of insurance coverage for damage or loss to real and personal property.

Provider Agency (also Provider): the public or private organization which has a social service or training Contract with the Department.

Reasonableness: a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by an ordinarily prudent person in the conduct of competitive business.

Recipient (Contractee or Provider Agency): the legal entity that enters into a contractual arrangement with any Departmental Component.

Reimbursable Ceiling: the cost of the Contract to the Departmental Component and the maximum payment to the Provider Agency.

Replacement Equipment: property acquired with Department funds to take place of other Equipment purchased with Department funds. Replacement Equipment must serve the same function as the Equipment replaced and must be of the same nature or character, although not necessarily the same model, grade or quality.

Revenue: the total income generated by the Provider Agency from its programs and activities.

Significant Events: a known or anticipated program, financial or administrative event or circumstance of a nature and extent that can reasonably be expected to diminish the quality or quantity of services to clients, or to influence or to jeopardize the ability of the Provider Agency to deliver contracted services, or to meet responsibilities under the Contract and which requires Notice to the Departmental Component. Examples include

Legal/Administrative/Financial/Services such as, but not limited to, Bankruptcy petition, Merger, Acquisition, Affiliation, Consolidation, Civil or Criminal action taken against an employee

of the agency, a finding of abuse or neglect against an employee of the agency and Planned Relocation or change in Service location(s).

Staff Member: a person who receives all or part of his/her income from the Provider Agency's payroll.

Standard Language Document: the document which establishes the non-negotiable obligations, responsibilities, rights and relationships of the Contract parties.

State: the State of New Jersey.

State Agency: any of the principal departments in the Executive Branch of the State Government (not including the Department of Human Services) and division, board, bureau, office, commission or other instrumentality within the legislature of the State and any office, board, bureau or commission within or created by the Legislative Branch, and any independent State authority, commission, instrumentality or agency. A county or municipality shall not be deemed an agency or instrumentality of the State.

State Official: any State officer or employee or special State Officer or employee as defined in the Conflict of Interest Law, N.J. S.A. 53:13D-13(b) and (e).

Subrecipient (Subcontractee): the legal entity that enters into a Contractual arrangement with a Contractee or another Subcontractee, no matter how many interceding administrative Tiers (levels) separate the parties.

Termination: an official cessation of the Contract, prior to the expiration of its term, that results from action taken by the Department or the Provider Agency in accordance with provisions contained in the Contract.

Tier: each successive, separate level of administrative organization beginning with the Department of Human Services and ending with the provider of service.

Total Cost: all costs including the cost of approved Equipment.

Total Operating Costs: the total operating cost(s) excluding the cost of Equipment. The term Total Operating Costs is applicable only to Cost-Related Contracts.

Trade-In: the difference between the amount that would have been paid for Replacement Equipment without a trade-in and the amount paid with the trade-in. The term refers to the actual difference, not necessarily the trade-in value shown on an invoice.

Transfer of Governing Board: occurs when the Provider Agency remains intact, but assigns control or governance to a new entity or Governing Board.

Umbrella Organization: an affiliation among two or more business entities whereby each remains distinct, but join to form a new collective directing organization. The new organization may be given management or service control, without acquiring the assets or liabilities of the existing entities.

Umbrella Policy: a policy that provides limits above the standard limits in the base policy, and/or covers areas of liability not covered in a standard policy.

Unit Cost: (1) the Contract Reimbursable Ceiling minus Equipment divided by the Budgeted Units of Service or (2) the cost to the Department minus any Equipment expenditures during a given period divided by the Actual Units of Service rendered during that period.

Unit of Service: the breakdown of the services used as a standard of measurement (e.g., hours, roundtrips, and meals).

Workers' Compensation Insurance: benefits payable to an employee, without regard to liability, required by State law in case of illness, injury, disability, or death as a result of occupational hazards.

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Glossary	Revised July 2009

SECTION 1
INTRODUCTION

- 1.0 Fundamental Principles**
- 1.1 Introduction to the Manual**
- 1.2 Reimbursement Objectives**
- 1.3 How the Manual is Organized**

How Sections are Organized
Contents of the Manual

1.0 FUNDAMENTAL PRINCIPLES FOR THE PURCHASE OF SERVICES FROM COMMUNITY-BASED PROVIDER AGENCIES

The intent of the Principles is to set forth the manner by which the Department of Human Services and Provider Agencies shall serve consumers through the purchase of services program. In addition, these principles communicate the rights of the consumer as the prime consideration in the Department's purchase of service program and establishes a general theme of mutual respect and cooperation between the Department and Provider Agencies. These principles are as follows:

1. The consumer comes first. The purpose of the purchase of service system is to serve the consumer through the purchase of needed identified services.
2. Consumers served may require a continuity of services which must be considered in the purchase of service system.
3. In purchasing services, the focus must be on achieving certain specified results. The Department's commitment is to improve the quality of consumers' lives. Therefore, the outcome of the service as detailed in the contract must be a critical factor in awarding or renewing a contract.
4. Consumers are best served by a smoothly functioning contracting system and a stable, financially sound and professional provider community.
5. The Department and providers form a service delivery partnership through a contractual arrangement. This partnership recognizes: the Department's prerogative to select the services which best meet the consumer's identified needs; the Department's responsibility to pay a fair price for services provided; and the provider's prerogative to select the most efficient and effective means of delivering the contracted services. Each party has a responsibility to uphold fiscal integrity and to account for the results of the services.
6. The Department and the provider's freedom to experiment and innovate must be encouraged. In this partnership, our response to the consumers' needs must be effective, dynamic and progressive.
7. Providers are independent enterprises, subject to the same economic, managerial, operational and financial realities as commercial businesses. Dealings between the Department and

private providers must be conducted in a businesslike manner, with sensitivity to business realities and respect for the autonomy, prerogatives, and legitimate expectations of each.

8. Contract award policies and procedures followed by the Department, Departmental Components and throughout regions of the State shall be fair and consistent.
9. Regulations or administrative procedures should not be imposed unless the benefits outweigh the burdens. These procedures, when necessary, should be the least restrictive, least disruptive and most efficient means of obtaining the benefits.

1.1 Introduction to the Manual

The Department of Human Services enters into contracts with both public and private provider agencies for the purchase of social services and services to train personnel engaged in the delivery of social services. The Department is responsible for establishing a system which effectively provides for reasonable, equitable, and efficient reimbursement for services delivered under such contracts. The Contract Reimbursement Manual has been developed to accomplish this purpose and to create a degree of uniformity in the Department's policies and procedures for contract payment.

This manual is a reference document for provider agencies and Department contract administrators. It contains necessary guidelines and instructions to facilitate the contract reimbursement process. The principles and procedures have been developed to provide the flexibility necessary to permit application of the manual to all types of contracts and to all Departmental contracting components. This manual does not attempt to identify the circumstances or to dictate the extent of Department or provider agency participation in the financing of a particular program. Individual contracting Departmental components within the Department may choose to refrain from participating or to limit their participation in any given cost, notwithstanding the designation of the cost as "allowable". It should be noted that the term "Department" as used throughout the manual also means, where appropriate from the context, the Departmental components responsible for the administration of particular contract programs.

The information contained in this manual is supplemented by a second manual promulgated by the Department entitled the Contract Policy and Information Manual. That manual is made up of Department policy circulars and information memoranda that contain specific and detailed policies, procedures, and information essential to the overall administration of contracts and the satisfaction by provider agencies of contract obligations.

1.2 Reimbursement Objectives

The following are general objectives to be met by a proper, equitable, and efficient system of contract reimbursement:

1. All expenses necessary and proper in the delivery of contract services, including normal standby expenses (fixed cost), should be taken into account in determining the value of the contract.
2. Payment is to be made on the basis of current costs or charges rather than costs or charges of a past period.
3. The portion of a provider agency's operations paid by the contract must relate to services delivered to contract clients, so that no part of their expenses need be borne by other clients of the agency. Conversely, the expenses related to other clients of the provider agency may not be paid by the contract.
4. Reimbursement should be prompt so that provider agencies will not be disadvantaged by having to pay for goods and services well before receiving contract payment.
5. Methods of reimbursement should provide for equitable treatment of public, not-for-profit, and for-profit agencies.
6. There should be sufficient flexibility in the methods of reimbursement to allow for (1) variations among provider agencies in recordkeeping methods and capabilities and (2) provider agency needs to keep pace with growing demands and to improve administrative and service delivery systems.

An important role of the Department is to furnish consultative services to provider agencies in the development of accounting and cost-finding procedures which will ensure equitable payment for contract services.

1.3 How the Manual is Organized

This manual is divided into seven major sections, each focusing on a different aspect of the contract reimbursement process. A glossary is also included. This manual has been designed to enable Department and provider agency personnel to locate information quickly, with the following aids:

Table of Contents: This table lists the titles of all sections and subsections.

Section Contents: The first page of each section outlines the major subsections with a comprehensive list of topics covered in each subsection.

How the Sections Are Organized

The subsections are organized in the following manner.

Page Heading: The page heading contains the name of the manual and the subsection number.

Page Footing: The page foot identifies the State of New Jersey, the Department, the date of the revision and the subsection page number.

Contents of the Manual

The remaining sections of the manual cover the following topics.

Management Systems: Section 2 provides an overview of methods and procedures concerned with safeguarding of assets and the reliability of financial records.

Types of Contracts: Section 3 addresses the types of third-party contracts that the Department will fund. This section contains general reimbursement policies and procedures, methods for determining contract value, and payment methodologies.

Principles for Determining Costs: Section 4 outlines the scope of cost principles, provides guides and cost limitations.

Standard Contract Fiscal Annexes: Section 5 outlines policies, procedures, and standard forms and instructions for the development of the contract fiscal annexes.

Expenditure Reporting: Section 6 outlines requirements for the submission of contract expenditure reports to the Department.

Medicaid Rate Review Process for Residential Treatment Centers Participating in the Medicaid Program: Section 7 contains additional guidelines to be used to establish per diem rates for provider agencies furnishing Residential Treatment services under the State's Medicaid Program.

SECTION 2

MANAGEMENT SYSTEMS

2.1 Introduction

2.2 Internal Control

General Objective and Requirements
Financial Management System
Recordkeeping

2.3 Procurement Standards

General Procurement Standards
Procurement Contracting

2.4 Audit

Pre-Award Survey
Contract Audit
Special Purpose Audit

2.1 Introduction

Management Systems are planning, organizing, staffing, directing, and controlling methods of providing information related to past, present, and projected operations of an organization. These systems support planning, control, and operational functions by furnishing uniform, timely information to assist in the decision making process.

2.2 Internal Control

A strong internal control system is one of the elements required for an effective operation. Internal control refers to the design and use of controls that allow managers to administer current operations, plan for the future, and safeguard an organization's assets. Properly applied, good internal control procedures ensure the efficiency, effectiveness, and economy of any operation.

General Objective and Requirements

The general objective of internal control is to provide positive assistance to employees in carrying out duties and responsibilities effectively, efficiently, and economically, giving due regard to the necessity for complying with the requirements and restrictions of contracts, and applicable laws and regulations.

The general requirements necessary to achieve effective internal control include:

1. a well-planned organized structure that delineates authority and accountability levels with clearly assigned responsibilities;
2. Adequate, well-qualified personnel;
3. enforced supervision and review procedures with timely measurement of results; and
4. ongoing overall evaluation of the organization's performance.

Financial Management System

It is important to incorporate adequate internal control in the design of a financial management system. The objectives of internal financial control are to: restrict obligations and expenditures to a minimum; to safeguard assets against waste, loss or improper/unnecessary use; to ensure that all income is collected and/or properly accounted for; and to ensure accuracy and reliability of financial and statistical reports. Effective internal financial control can prevent theft, fraud, forgery, kickbacks, innocent mistakes that can raise questions of fraud or mismanagement, and adverse publicity.

The general requirements necessary to achieve effective internal financial control include:

1. a system of checks and balances entailing specific routine procedures and a careful separation of functions;
2. accounting, recordkeeping, and reporting in accordance with sound, established business practices;
3. expenditure control policies and procedures which include specific, prudent authorization practices; and
4. monthly reconciliation of bank accounts by someone not involved in cash or recording transactions.

Several specific requirements apply to the way disbursements and payroll are handled.

1. Disbursements

The following represent sound basic rules with regard to disbursements:

- a. Checks must be drawn on a bank authorized by the Board of Directors.
- b. Checks should be prenumbered, and voided checks must be carefully controlled and accounted for.
- c. Checks should be signed by authorized personnel.
- d. Signed checks should not be returned to persons who prepared them.
- e. Disbursements should be supported by such records as invoices, receiving reports, and purchase orders approved by someone not involved in purchasing or receiving.

2. Payroll

In addition to the generally applicable disbursement requirements enumerated above, the following represent sound rules with regard to payroll:

- a. Payroll procedures should be written.
- b. Attendance records should be kept, but not in the payroll office.
- c. Signed checks should not be returned to the payroll office.

- d. Persons distributing paychecks should not have access to blank checks.
- e. The distribution of pay should be witnessed.

Recordkeeping

Provider agencies are required to maintain detailed, auditable records which support expenditures incurred for contract services. These records must include client service records. Contract records must be capable of substantiating the reasonableness of the expenditures incurred.

The provider agency is required to permit the Department to examine records and documents containing information pertinent to the determination of the proper amount of contract payment. These records include but are not limited to matters of provider ownership, organization, and operation; federal income tax status; asset acquisition, lease, sale, or other action; franchise or management arrangements; client service charge schedules; matters pertaining to costs of operation; amounts of income received by source and purpose; and flow of funds and working capital.

Further information concerning contract records is contained in Department Policy Circular P8.01, Access to Provider Agency Records and Facilities; Retention of Records; Confidentiality.

2.3 Procurement Standards

The provider agency is the responsible authority, without recourse to the Department, regarding all procurement issues including but not limited to disputes, claims, protests of awards and source evaluation. These standards do not relieve the provider agency of responsibilities under any procurement arrangement into which it may enter. Violations of laws are to be referred to the local, State or federal authority having proper jurisdiction.

The provider agency must maintain written policies and procedures to specify how the provider agency will purchase goods and services. The provider agency may use its own procurement policies and procedures. However, these policies must adhere to the standards set forth in this subsection.

General Procurement Standards

All procurement transactions must meet general procurement standards. These standards include:

1. Free and Open Competition

All procurement transactions should be conducted in a manner which provides for, to the maximum extent practical, open and free competition.

2. Conflict of Interest

- a. The provider agency must maintain a conflict of interest policy that governs the performance of its officers, employees or agents involved in procurement transactions. (See Department Policy Circular P8.05, Conflict of Interest.)
- b. The provider agency must be alert to organizational conflicts of interest or non-competitive practices among parties to a procurement transaction that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective performance and eliminate unfair competitive advantage, a party that develops or drafts specifications, requirements, a statement of work, an invitation for bids or a request for proposals for a particular procurement should be excluded from competing for that procurement; however, upon request by the provider agency, the Department may waive this requirement for a particular procurement.

3. Economic Evaluation

a. Decision to Purchase

Where appropriate, an analysis should be made of lease and purchase alternatives to determine which would be the most economical and practical. Unnecessary or duplicative items may not be purchased.

b. Price and Cost Analysis

Provider agencies should make some form of price or cost analysis in connection with every procurement transaction. Price analysis is the evaluation of data without analysis of the separate cost components and profit which may assist in arriving at prices to be paid and cost to be reimbursed.

Cost analysis is the evaluation of cost data for the purpose of establishing estimates of costs to be incurred, prices to be paid, costs to be reimbursed or costs actually incurred. Cost data is factual information concerning the cost of labor, material, overhead and other cost components which are expected to be incurred or which have been actually incurred.

c. Solicitation and Formal Bidding

(1) Solicitations for bids or offers must clearly indicate all requirements that the bidder/offeree must fulfill in order for the bid/offer to be evaluated by the provider agency. Such requirements may not, in competitive procurements, contain features which unduly restrict competition. "Brand name or equal" may be used as a means to define the performance or other salient requirements of a procurement; when so used, the specific feature which must be met by bidders/offers should be clearly specified.

(2) Awards should be made to the bidder/offeree whose bid/offer is responsive to the solicitation and is most advantageous to the provider agency, price and other factors considered. Any and all bids/offers may be rejected when it is in the provider agency's interest to do so.

4. Small Businesses

Positive efforts should be made by the provider agency to utilize small businesses, when possible, as sources of supplies, equipment, and services. Such efforts should allow these sources the maximum feasible opportunity to compete.

5. Procuring Instrument

The type of procuring instrument used, e.g., fixed-price contract, cost-reimbursable contract, purchase order, incentive contracts may be determined by the provider agency but must be appropriate for the particular procurement and for promoting the best interest of the program involved. The "cost-plus-a-percentage-of-cost" method of contracting may not be used.

6. Records

Provider agencies must maintain procurement transaction records. These records should include information pertinent to the rationale for:

- a: the method of procurement utilized;
- b: the awarding of a procurement transaction to a particular party; and
- c. the basis for the cost or price.

Procurement Contracting

If provider agencies obtain goods and services through a procurement contract they must establish procedures which, at a minimum, provide for the following:

1. Contract Administration

- a. A system for contract administration must be maintained by each provider agency to ensure contractor conformance with terms, conditions, and specifications of the procurement contract.
- b. Procurement contracts must be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of a proposed contract. Consideration must be given to such matters as contractor integrity, records of past performance,

financial and technical resources of accessibility to other necessary resources.

2. General Contract Requirements

- a. All contracts must include sufficient provisions to define a sound and complete agreement.
- b. Contracts must comply with all applicable federal and State legislation and regulations, including Executive Orders. These may include, but are not limited to 45 CFR, Part 74; Executive Order 11246, entitled "Equal Employment Opportunity", as amended by Executive Order 11375, as supplemented in 41 CFR, Part 60; the Copeland "Anti-Kick Back" Act (18 U.S.C. 874) as supplemented by 29 CFR, Part 3; Section 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by 29 CFR, Part 5; the Clean Air Act of 1970 (42 U.S.C. 1857 et seq.) the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) as amended; Executive Order 11738; and Environmental Protection Agency Regulations (40 CFR, Part 15).

3. Public Provider Agencies

Public provider agencies are bound by the Local Public Contracts Law (N.J.S.A. 40A:11). This law generally requires that public provider agencies procure by means of public advertising for bids. Exceptions to the requirement of public advertising are outlined in Section 3 of the law.

4. Private Provider Agencies

- a. Procurement contracts in excess of \$10,000 must contain:
 - (1) contractual provisions or conditions that will allow for administrative, contractual or legal remedies in instances in which contractors violate or breach contract terms, and provide for such remedial actions as may be appropriate.
 - (2) Suitable provisions for termination by the provider agency including the manner by which termination will be effected and the basis for settlement. In addition, such contract must describe conditions under which the

contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.

- b. Sole source or single bid procurement contracts that exceed \$5,000 require prior Department approval.

2.4 Audit

Sound fiscal and management practices dictate that an organization's financial statements be audited annually at its fiscal year end. Provider agencies should select independent public accountants to perform this task. In cost-related contracts the cost of such audits (or an appropriate portion of the cost) may be included in the contract budget. Every attempt should be made to keep audit costs as low as possible without undue compromise in the quality of the work performed.

If an agency requires assistance in selecting an independent public accountant, it may contact either the New Jersey State Society of Certified Public Accountants or the New Jersey Association of Public Accountants. These organizations can answer questions in regard to the professional reputation or qualifications of any New Jersey auditing firm. Further information concerning a provider agency's audit is contained in Department Policy Circular P7.06, Audit.

In addition to the annual fiscal-year-end audit which should be obtained routinely by all organizations, the following are other types of audits which the Department may choose to conduct.

Pre-Award Survey

A pre-award survey to determine a provider agency's fiscal and administrative capabilities is generally conducted when the Department has no recent experience or has had unsatisfactory experience in contracting with the provider. A provider agency which has not previously been under contract with the Department must advise the Department of its fiscal year period and must make available for examination its cost, revenue, and statistical data as well as any other information pertinent to reimbursement under the prospective contract. The purpose of the Department's examination in such cases is to ensure that the provider has data which is adequate for cost reporting and verification by qualified auditors, and to ascertain the overall quality of the provider's recordkeeping system and to determine its capability for the future. Specific policies and procedures with respect to a pre-award survey are contained in Department Policy Circular P7.05, Pre-Award Survey.

Contract Audit

At the discretion of the Department, an audit dealing specifically with contract operations may be conducted after termination of the contract. Such audit may be performed either by a public accounting firm under contract with the Department or by the Department's audit staff. Further information concerning

contract audit requirements is contained in the contract Standard Language Document (see Department Policy Circular P2.01, Department of Human Services' Standard Language Document for Social Service Training Contracts).

Special Purpose Audit

A special purpose audit is generally one which is conducted during the contract term when an irregularity appears to exist in provider agency operations. The contract Standard Language Document reserves the Department's right to require audits during the contract term. Special purpose audits may be conducted by public accounting firms under contract with the Department or by the Department's audit staff.

SECTION 3

TYPES OF CONTRACTS

3.1 Introduction

3.2 Non-Cost-Related Contracts

Determining Contract Value
Contracting Requirements
Payment Methodologies
For-Profit Contracts

3.3 Cost-Related Contracts

Determining Contract Value
Contract Requirements
Payment Methodologies
For-Profit Contracts

3.4 Table - Summary of Contract Types

3.1 Introduction

This manual addresses contracts that fall into two broad categories: Non-Cost-Related and Cost-Related. The appropriate fiscal or contracting office will determine whether a prospective service would be more appropriately handled through a non-cost-related or cost-related contract. However, the Department encourages non-cost-related contracting wherever possible. The following is a discussion of these two types of contracts, their characteristics, situations in which one or the other is more appropriately used, and some advantages and disadvantages of each.

3.2 Non-Cost-Related Contracts

Non-Cost-Related contracting is the preferred method of contracting. It offers the maximum incentive for the provider to perform efficiently, contains fewer administrative requirements for the provider and fewer corresponding administrative tasks for the Department, and it provides for certainty of the cost for the service purchased. This method should be used wherever the Department's prior experience with the provider is such that there is reasonable assurance that (1) the provider agency can deliver the quantity and quality of service specified in the contract and (2) the provider agency is fiscally sound. In addition, it can be used when the Department is not a primary user of the service purchased and sufficient competition exists to encourage the provider to maintain reasonable prices, or when a rate for the contracted service has been set by the Department.

In non-cost-related contracts the value of the contract is determined by price analysis. Price analysis is an evaluation of data (without analysis of the separate cost components) to arrive at an amount to be paid for contract services. Under this type of contract, the price is fixed regardless of the provider agency's actual costs of performing the work of the contract. Price analysis should include an evaluation of amounts charged by other providers for services substantially identical to those being purchased. This information is used to determine the reasonableness of the proposed per unit or aggregate price for contract services.

Determining Contract Value

A contract budget is not required for price analysis and the determination of contract value is frequently based on such indicators as past experience with the provider agency or the "going price" for the services in question. An established price for services is generally acceptable provided:

1. the provider sells the same service in substantial quantities to the general public or other users;
2. the price does not exceed that charged to the provider's most favored customer (including a division, subsidiary, or affiliate of the provider under common control) for a like quantity of the same services under comparable circumstances; and
3. the price does not exceed the prevailing charges in the locality for comparable services under comparable circumstances.

Certain situations may necessitate adjustments in the price usually charged by the provider agency. As examples, additional/special services required by the Department may increase the price above normal; usual service elements which are omitted for Department clients may lower the price; or the relative quantity of the services purchased under the contract in comparison with the amounts purchased by other users may have a downward or upward effect on the usual price. In addition, provider agency financial participation in the value of the contract may be required by the Department under certain circumstances, such as Social Services Block Grant service contracts, or when the Department's payment or negotiated rate is less than the provider agency's established price for the service delivered. (Refer to Section 4.2, pages 3 and 4 for a detailed description of provider agency cost sharing.)

Contracting Requirements

The Department's acceptance of a fixed price is predicated on the following:

1. The provider agency must possess sufficient documentation, in the form of workpaper files, to demonstrate that the price charged for contract services was developed in accordance with sound fiscal management practices and applicable federal and State rules and regulations.
2. The provider's most current published financial statements must indicate adequate capability to provide the services.
3. The Department may have other specific criteria relating to the level of Departmental participation and the provider agency's total activities, dollar volume, and/or number of clients served.

Payment Methodologies

Non-cost-related contracts are always fixed price contracts inasmuch as a permanent price is established either for each eligible unit of service or for aggregate contract services. Payment methodologies used for non-cost-related contracts are the same as those used for cost-related fixed price contracts:

1. Fixed Rate

The fixed rate method of payment is appropriate for contracts with an agreed upon ceiling or for "open purchase" contracts when the total number of service units to be purchased under the contract is indeterminate. The rate is usually established in the price analysis process discussed above and is paid to the provider agency for every eligible unit of service delivered during the contract term and

billed to the Department at the intervals specified in the contract.

2. Installment Payments

Installment payments, unlike fixed rate, may be used only for contracts in which a fixed amount is established for aggregate contract services. This ceiling amount is generally prorated over the number of desired payment intervals in the contract term to determine the installment payment amount.

For-Profit Contracts

While a for-profit provider agency may make a profit on a non-cost-related contract, it is not allowable to add a profit factor to the "going price" for a service. Profit may only be earned when the provider's charge, including profit, for the service is no more than the reasonable "going price" determined through price analysis. A separate accounting of profit or actual cost is not necessary.

3.3 Cost-Related Contracts

In Cost-Related Contracts the value of the contract is determined by an analysis of projected contract costs as reflected in a detailed budget. This is known as a "cost analysis" process. Cost analysis is generally performed when (1) the Department has little or no experience in contracting with a particular provider agency or for the particular service, and/or (2) the Department is a primary or only user of this service, and the resultant lack of competition makes a valid price analysis impossible. Cost analysis involves the evaluation of cost information in order to estimate contract costs to be incurred and reimbursed or prices to be paid. The information evaluated in the cost analysis process includes data concerning the cost of labor, materials, indirect costs and other cost components expected to be incurred by the provider agency in delivering contract services.

Determining Contract Value

Cost analysis and the determination of contract value (i.e., the total amount payable to the provider agency for aggregate contract services and/or per unit of service) are performed by the appropriate Departmental fiscal or contract office. This is done to ensure that the value established is reasonable and allocable to the service purchased under the contract.

Contracting Requirements

Cost analysis procedures require that the provider agency complete and submit to the Department an Annex B: Contract Budget, and all supporting schedules. The information furnished must comply with the principles for determining cost contained in this manual, and the amount charged for the contract services may not exceed the provider's customary charges for the same services.

All cost data furnished to the Department in the annexes and supporting schedules must be based on (1) the provider agency's financial and statistical records and (2) an approved method of cost finding. All cost data must be accurate, sufficiently detailed, and capable of verification by qualified independent auditors. These requirements are consistent with good business concepts and with the effective, efficient management of any organization, whether operated for-profit or on a non-profit basis.

In order to ensure comparability, provider agency financial and statistical records should be maintained, to the maximum extent feasible, in a consistent manner from one period to another. This does not preclude, however, reasonable changes in accounting

procedures made to improve the provider's system or to accommodate changing circumstances and needs.

Payment Methodologies

Subsequent to determining the value of a cost-related contract, it is the responsibility of the appropriate Departmental fiscal or contracting office to select the most suitable method of paying the provider for contract services.

This section addresses several approaches to contract payment for cost-related contracts. It does not contain detailed information (e.g., timing requirements, specific forms to be used, where reports are to be sent) regarding the payment process. This information is contained in the contract annexes and/or attachments.

It should be stressed that while the methods discussed here are the most common, other methods do exist and may be used when judged to be more appropriate.

Payment in cost-related contracts may take the form of (1) payment of a fixed price, agreed to prior to contract execution, either for each unit of service delivered or for aggregate contract services or (2) reimbursement for actual costs incurred in the delivery of services. Generally, fixed price contracts are preferred when the Department has adequate experience with the provider agency to have confidence in both the reasonableness of the contract price and the fiscal and administrative condition of the provider agency. Conversely, cost-reimbursement contracts are appropriate when the Department has little or no experience in contracting with the particular provider agency for the particular service.

The common payment methodologies applicable to fixed price and cost reimbursement situations are described below. Regardless of the methodology employed, contract expenditure reports are generally required and must be submitted to the Department on Department-approved forms and in accordance with contract specifications. Additionally, all payments made are subject to revision on the basis of audit findings.

1. Fixed Price

A fixed price is a permanent price - either per unit of service delivered at a fixed rate or for aggregate contract services - which is negotiated and agreed to for a specific future period, generally for the term of the contract. Fixed prices for cost-related contracts are established when there is reasonable certainty on the part of the Department, normally based on past experience, that (1) a reliable projection of a provider agency's future level of activity

can be made and (2) the price agreed to will be equal to or less than the provider agency's actual cost. Although fixed price contracts, like all others, are subject to audit, it is only in very unusual circumstances that a price adjustment is made either during or after the contract term. In fixed price contracts, the primary purpose of the audit is not to determine actual costs incurred for reimbursement purposes but to verify the accuracy and completeness of the data used to determine the contract value.

Fixed price contracts are generally paid in one of the two following ways:

a. Fixed Rate

For cost-related contracts, the agreed-upon rate is paid to the provider agency for every eligible unit of service which is delivered during the contract term and billed to the Department at the intervals specified in the contract, not to exceed the reimbursable ceiling.

b. Installment Payments

For cost-related contracts, installment payments are generally computed by prorating the reimbursable ceiling over the number of desired payment intervals in the contract term.

2. Cost-Reimbursement

Cost-reimbursement contracts are generally paid in one of the three ways enumerated below. In all cases, the maximum amount payable is the lower of (1) total allowable reported expenditures or (2) the Reimbursable Ceiling specified in the Annex B: Contract Budget.

a. Provisional Rate/Final Rate

A provisional rate is calculated by dividing the reimbursable ceiling by the Budgeted Units of Service. The rate so determined is paid to the provider agency for every eligible unit of service delivered during the contract term and billed to the Department at the intervals specified in the contract.

Payments made by means of a provisional rate are subject to downward-only adjustments on the basis of a final rate. The final rate is calculated in the same manner as the provisional rate but the figures used are derived from the final expenditure report rather than from the Annex B: Contract Budget.

A refund is due the Department when the final rate is lower than the provisional rate. The amount of the Department's overpayment to the provider agency is calculated by multiplying the difference between the provisional and final rates by the number of service units paid at the provisional rate. If the final rate equals or exceeds the provisional rate, no adjustment or further action takes place. No additional reimbursement to the provider can result from the establishment of a final rate. The only possibility for an upward adjustment in the rate of payment is by means of a formal contract modification during the contract term. Refer to Department Policy Circular P1.10, Contract Modification.

The provisional rate/final methodology is generally chosen rather than a fixed rate when lack of adequate prior experience with the provider agency and/or the particular service makes it difficult to project levels of service and expenditures.

b. Installment Payments with Adjustments

When used in cost-reimbursement contracts, installment payments are initially calculated by prorating the contract's reimbursable ceiling over the number of desired payment intervals (e.g., months, quarters) in the contract term. In such cases, interim expenditure reporting should be no less frequent than quarterly, and adjustments are made during the contract term to reconcile payments to reported expenditures. A final adjustment may also be needed to reconcile payments to the final expenditure report.

c. Periodic Payment of Reported Expenditures

Providers may be reimbursed at intervals - usually monthly or quarterly - for allowable contract expenditures incurred and reported to the Department.

For-Profit Contracts

Any profit included in a cost-related contract must be a fixed amount which, when added to any budgeted amount for interest applicable to depreciable capital assets, may not exceed 10% of the contract net cost. Any amount to be included for profit must be a fixed amount, agreed to prior to contract execution, and added to the net cost to determine the contract's reimbursable ceiling. Payment of profit is allowable only in the case of for-profit provider agencies. "Cost-plus-a-percentage-of-cost" is

not a permissible type of contract. Such an arrangement allows an agency to add a profit margin based on a percentage of actual contract costs incurred and thereby provides no incentive to keep expenditures to the minimum necessary level. As a general rule, the amount negotiated for profit is only subject to adjustment (upward or downward) when a change in the contract's net cost is major enough to alter the profit ratio sufficiently.

The following factors should be considered when determining the amount of profit appropriate for a particular contract:

1. Record of Performance

The Department's appraisal of a provider agency's past contract performance should at a minimum consider programmatic quality, management capabilities, cost efficiency, reliability of cost estimates, and timeliness and accuracy of required reporting.

2. Difficulty of Contract Task

Greater reward should go to a provider agency undertaking more difficult work requiring a higher skill level.

3. Programmatic and Financial Data

Various data and information contained in pre-award accounting and programmatic surveys, audit reports, and provider agency financial statements may be important in determining the appropriate profit amount.

4. Degree of Risk

A provider agency that takes calculated cost risks in an effort to minimize contract costs should be rewarded in the profit determination process.

Table
SUMMARY OF CONTRACT TYPES

TYPE OF CONTRACT:	NON-COST-RELATED	COST-RELATED	
	FIXED PRICE	COST-REIMBURSEMENT	FIXED PRICE
METHOD OF DETERMINING CONTRACT VALUE:	PRICE ANALYSIS	COST ANALYSIS	
BUDGET:	NOT REQUIRED	REQUIRED	
EXPENDITURE REPORT(S) :	NOT REQUIRED*	REQUIRED*	
		<u>Cost-Reimbursement Contracts</u>	<u>Fixed Price Contracts</u>
PAYMENT METHODOLOGY:**	Same as cost related Fixed price contracts	<ol style="list-style-type: none"> 1. Period payment of Reported expenditures 2. Installment payments with adjustment(s) based on reported expenditures 3. Provisional rate paid per unit of service delivered; any appropriate downward adjustment made using final rate based on reported expenditures 	<ol style="list-style-type: none"> 1. Fixed rate paid per unit of service delivered 2. Installment payments

* Exceptions may exist in certain circumstances.

** While other methodologies exist, these are most common.

Note: For-Profit Contracts may be either Non-Related or Cost-Related.

SECTION 4

PRINCIPLES FOR DETERMINING COSTS

4.1 Introduction

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Limitations

4.2 Basic Considerations

Composition of Total Operating Cost
Factors Affecting Allowability of Cost
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Allowability of General and Administrative Costs
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4.3 Cost Objectives

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Application of Principles and Procedures
Selected Items of Cost

4.6 Allowable Items of Cost

General Standards for Allowable Costs

4.7 Unallowable Items of Cost

General Standards for Unallowable Costs

4.8 Cost Accounting Standards - Consistency

4.1 Introduction

This section of manual promulgates principles and standards for determining contract costs. It is applicable primarily to cost-related contracts, although the underlying principles are designed to provide a basis for a uniform approach to the matter of determining costs and to promote greater efficiency and better relationships between the Department and the provider agencies from which services are purchased.

Scope

These principles are confined to the subject of cost determination and do not address the issue of profit or any increment above actual cost. They are designed to provide recognition of the full allocable cost of work under generally accepted accounting principles. The cost principles make no attempt to identify the circumstances or to dictate the extent or provider agency participation in the financing of a particular program. Individual contracting departmental components' within the Department may choose, in accordance with established policies or current needs, to refrain from participating or to limit their participation in any given cost, notwithstanding the designation of the cost as "allowable" according to these principles.

Policy Guides

The successful application of these principles requires the development of a mutual understanding between representatives of the provider agency and the Department as to their scope, applicability, and interpretation. It is recognized that (1) the arrangements for Department and provider agency participation in the financing of a program are properly the subject of contract negotiation; (2) each provider agency is expected to employ sound management practice in the fulfillment of its contractual obligation; and (3) each provider agency, in recognition of its own unique combination of staff, facilities, and experience, should be responsible for employing whatever form of organization and management techniques may be necessary to ensure proper and efficient administration.

Limitations

The contract cost and/or rate established based on these cost principles is/are subject to any applicable statutory or administrative limitations. In addition, acceptance of the provider agency's cost/rate is predicated on the condition that:

1. no cost other than those incurred by the provider agency were included in the contract budget as finally accepted and that such costs are allowable under the cost principles;
2. similar types of costs have been accorded consistent accounting treatment; and

3. the information provided by the provider agency which was used as a basis for acceptance of the contract cost/rate is not subsequently found to be materially incomplete or inaccurate.

4.2 Basic Consideration

Composition of Total Operating Cost

The total operating cost of a program is the sum of the allowable direct and indirect (general and administrative) costs allocable to the program, less any applicable credits. In ascertaining what constitutes costs, any generally accepted accounting method of determining or estimating costs that is equitable under the circumstances may be used.

Factors Affecting Allowability of Costs

Factors to be considered in determining the allowability of individual items of cost include:

1. reasonableness;
2. allocability;
3. application of those generally accepted accounting principles and practices appropriate to the particular circumstances; and
4. any limitation or exclusions, set forth in this document or otherwise included in the contract, as to types or amounts of cost items.

Definition of Reasonableness

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by an ordinarily prudent person in the conduct of competitive business. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with provider agencies, or separate divisions thereof, which may not be subject to effective competitive restraints. What is reasonable depends upon a variety of considerations and circumstances involving both the nature and amount of the cost in question. In determining the reasonableness of a given cost, consideration must be given to:

1. whether the cost is of a type generally recognized as ordinary and necessary for the operation of the provider agency or the performance of the contract;
2. the restraints or requirements imposed by such factors as generally accepted sound business practices, arm's length bargaining, federal and State laws and regulations, and contract terms and specifications;
3. the action that a prudent business person would take in the circumstances, considering responsibilities to the public at large, the government, provider agency employees, clients, shareholders or members, and the fulfillment of the purposes for which the provider agency was organized;

4. significant deviations from the established practices of the provider agency which may unjustifiably increase the contract costs; and
5. whether the cost is in excess of what would have been incurred in the absence of the Department contract.

Definition of Allocability

A cost is allocable if it is assignable or chargeable to a particular cost objective - such as a contract, project, product, service, process, or other major activity - in accordance with the relative benefits received or some other equitable relationship. Subject to the foregoing, a cost is allowable to a Department contract if it:

1. is incurred specifically for the contract;
2. benefits both the contract and other work and can be distributed to them in reasonable proportion to the benefit received; or
3. is necessary to the overall operation of the provider agency, although a direct relationship to any particular cost objective cannot be shown.

Where a provider agency utilizes the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations (or comparable generally accepted accounting standards peculiar to its structure or activity) to allocate costs to non-governmentally supported activities, it must also use such standards to allocate costs to government contracts.

Allowability of General and Administrative Costs

The Department recognizes that allowable general and administrative (G&A) costs are essential and legitimate costs of provider agencies and shall not adopt internal policies that arbitrarily or capriciously restrict or prohibit these costs. In instances where certain state appropriations and/or federal grants/contracts restrict or cap G&A costs, the Department, within its powers, will seek to fund these costs from discretionary funds at its disposal. If the Department is unable to provide funding, it is the provider agency's choice whether or not to accept such contractual obligations. Nothing in its policy precludes the Department from accepting State appropriations and/or federal grants/contracts which restrict G&A costs.

Applicable Credits

The term "applicable credits" refers to those receipts or reduction of expenditure which operate to offset or reduce expense items allocable to the contract as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, sales of scrap or incidental services, insurance refunds, and adjustments of erroneous charges. In addition, funds from certain government-sponsored programs, such as Medicaid and the Child Nutrition Program, may offset specific costs in the

contract budget and should be treated as applicable credits. The portion of any income, rebate, allowable, or other credit which is applicable to any allowable cost in the contract budget must reduce or offset that cost.

Revenue

Revenue is the total income generated by the provider agency by means of its programs and activities. Such income comes from various sources such as other government contracts and grants, payments from non-contract clients, foundation grants, contributions, third-party health insurance, fund-raising, investment income and miscellaneous sources and credits. The various types of revenue are:

1. Department Contract Generated Revenue includes all income generated by the provider agency in connection with the delivery of contract services such as Department client fees, any interest, dividends, etc., earned on Department funds, third-party insurance, and Department client rental agreements.
2. Provider Agency Revenue Used As Cost Sharing which denotes provider agency participation in the cost of the programs funded under the Department's cost related or non-cost-related contract. Agencies are able to participate in the cost of programs from various sources of unrestricted and restricted funds. These revenues should be divided into two categories: a) required cost sharing; and b) voluntary/negotiated cost sharing.

- a. Required Cost Sharing

- (1) when the contract funds the delivery of less than 100 percent of the units of service in the program(s), the provider agency is required to identify the other funding sources, and the amount from these sources must be sufficient to cover that portion of the program(s) not funded by the Department.
- (2) when the Department designates a contract to be a Social Services Block Grant service (not training) contract, the specific cost sharing requirements for SSBG contracts are contained in Department Policy Circular P6.01, Match Requirements for Social Services Block Grant Service Contracts.
- (3) when the Department designates a specific cost sharing requirement for a particular group of contracts.

- b. Voluntary/Negotiated Cost Sharing

When other resources (income from endowments, fund raising, gifts) are available to reduce the cost of services delivered to contract clients, the amount of provider agency participation in the cost of the program(s) will be based on an agreement between the

Department and the provider, taking into consideration the provider fund balances, the formal plans (as approved by the governing board) for deployment of fund balances and the provider's ability to generate the needed revenues.

3. Provider Agency Revenue Not Used As Cost Sharing includes all revenues received or generated by the provider which will not be used to reduce the cost of Department-funded programs, but which will be used to fund other budgeted costs.

The Department recognizes that adequate working capital must be maintained by provider agencies in order to avoid cash flow problems. It also recognizes that unallowable costs (e.g., fundraising activities) must be sufficiently funded by the various unrestricted and restricted funding sources available to provider agencies. However, the Department will encourage reasonable cost sharing in contract programs when adequate funds exist. Other than the circumstances listed above, the Department does not usually impose specific match and cost sharing requirements.

4.3 Cost Objectives

For cost determination purposes, components of cost may be classified into two types: direct and indirect. This subsection addresses these two types of costs.

Direct Costs

A direct cost is any cost which can be identified specifically with a particular cost objective. Direct costs are not limited to items which are incorporated in the end product as material and labor. Costs identified specifically with the contract are direct costs of the contract and may be charged directly thereto. Costs identified specifically with other work of the provider agency are direct costs of that work and are not be charged to the contract either directly or indirectly. Where the provider agency's established accounting system provides for the treatment of certain items of cost as direct costs, then the same items must be considered direct costs to all contracts, programs, and major activities and may not be included in the indirect cost pool.

Certain types of costs, or costs associated with certain activities, are not reimbursable as a charge to a Department contract. These unallowable costs or activities are discussed in General Standards for Unallowable Costs in this section. Even though a particular activity or cost is designated as unallowable for purposes of computing costs charged to the Department contract, it nonetheless must be treated as a direct cost or activity if a portion of the provider agency's indirect cost (as defined below) is properly allocable to it. The amount of indirect cost allocated must be in accordance with the principles outlined in the section entitled Indirect Costs. In general, an unallowable provider agency activity shall be treated as a direct function when it (1) includes salaries of personnel, (2) occupies space, and (3) is serviced by an indirect cost grouping(s). Thus the costs associated with the following types of activities, when normal or necessary to a provider agency's primary mission, shall be treated as direct costs:

1. maintenance of membership rolls, subscriptions, publications, and related functions;
2. providing services and information to members, legislative or administrative bodies, or the public;
3. promotion, lobbying, and other forms of public relations;
4. meetings and conferences, except those held to conduct the general administration of the agency;
5. fund-raising;
6. maintenance, protection, and investment of special funds not used in the operation of the agency;

7. administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans financial aid, etc.;
8. other activities performed primarily as a service to membership, clients, or the public.

This definition shall be applied to all items of cost of significant amount unless the provider agency demonstrates that the application of any different current practice achieves substantially the same results. Direct cost items of minor amounts may be allocated as indirect costs.

Indirect Costs

An indirect cost is one which, because of its incurrence for common or joint objectives, is not readily subject to treatment as a direct cost. Minor direct cost items may be considered to be indirect costs for reasons of practicality. After direct costs have been determined and charged directly to the contract or other work as appropriate, indirect costs are those remaining to be allocated. The overall objective is to allocate the indirect costs of the provider agency to its various major activities or cost objectives in reasonable proportion to the benefits provided. Because of the diverse natures and purposes of provider agencies, it is impractical to identify specifically those functions which constitute major activities for purposes of identifying and allocating indirect costs. Such identification will be dependent upon a provider agency's purpose-in-being, the services it renders, the amount of effort devoted to fund-raising activities, public relations, and membership activities, etc., as explained under Direct Costs above.

Indirect costs shall be accumulated by logical cost groupings with due consideration accorded to the reasons for incurring the costs. Each grouping should be determined so as to permit allocation of the grouping on the basis of the benefits accruing to the several cost objectives. Sub-grouping may be required where there is no single equitable distribution base for all the elements of cost constituting a group. Actual conditions must be taken into account in selecting the method or base to be used in allocating the expenses assembled under each of the individual cost groupings to the applicable cost objectives.

Where an allocation can be made by assignment of a cost grouping directly to the area benefitted, the allocation should be made in that manner. Where the expenses under a cost grouping are more general in nature, the allocation to the cost objectives should be made through use of a selected base which will produce results that are equitable both to the Department and the provider agency. In general, any cost element or cost-related factor associated with the provider's work is potentially adaptable for use as a distribution base provided: (1) it can readily be expressed in terms of dollars or other quantitative measure (total direct costs, direct salaries, person-hours applied, square feet utilized, hours of usage, number of documents processed, population served, and the like); and (2) it is common to the cost objectives during the base period. The essential consideration in selection of the distribution base in each instance is that it be the one best suited for assigning the pool of costs to the cost objectives

in accordance with the relative benefits derived, a traceable cause and effect relationship, or logic.

The number and composition of the groupings should be governed by practical considerations and should be such as not to complicate the allocation unduly where substantially the same results are achieved through less precise methods.

A base period for allocation of indirect costs is the period during which such costs are incurred and accumulated for allocation to work performed within that period. The base period normally should coincide with the provider agency's fiscal year, but in any event the base period should be so selected as to avoid inequities in the allocation of costs.

Indirect Cost Pools

Subject to the following paragraph, indirect costs allocable to any provider agency's direct functions should be treated as a common pool, and the costs in such common pool should then be allocated by use of a single rate to the individual activities benefiting therefrom.

Each group of costs represents a cost center which is separately identified in the provider's chart of accounts and/or books of accounts (general ledger, etc.) and is where costs are assigned in the normal accounting process.

Once a cost center is broken out, it must be handled in a consistent manner in subsequent years. After a provider makes a more sophisticated delineation of cost centers, it cannot revert to a less sophisticated format.

In some instances, a single rate for use across the board on all provider agency activities may not be appropriate, since it would not take into account those different environmental factors which may affect substantially the indirect costs applicable to a particular segment of agency work. For this purpose, a particular segment of work may be that performed under a single contract or it may consist of work under a group of contracts performed in a common environment. The environmental factors are not limited to the physical location of the work. Other important factors are the level of administrative support required the nature of the facilities or other resources employed, the scientific disciplines or technical skills involved, the organizational arrangements used, or any combination thereof. Where a particular segment of work is performed within an environment which appears to generate a significantly different level of indirect costs, provision should be made for a separate indirect cost pool applicable to such work. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be utilized provided it is determined that (1) such indirect cost rate differs significantly from that which would have been obtained under a common pool as stated above and (2) the volume of work to which such rate would apply is material in relation to other provider agency activity.

The Distribution Base

Indirect costs should be allocated to each applicable program or activity on a distribution base such as direct salaries and wages, total direct costs, or another basis which results in an equitable allocation. For this purpose, an indirect cost rate should be determined for a single or each of the separate indirect cost pools. The rate in each case should be stated as the percentage of the base amount which is represented by the total amount of the particular indirect cost pool.

When reporting costs, the provider agency must meet the following minimum requirements.

1. The statistical base used to allocate each cost center must measure as accurately as possible the service rendered by that center to other cost centers.
2. The statistics used must be auditable and maintained on a continuous basis. Periodic time studies would only be acceptable where the samples are collected covering a minimum of two weeks in each quarter.

When a provider agency wishes to change its distribution base for a particular cost center or the order in which the cost centers are allocated because it believes the change will result in more appropriate and more accurate allocations, the provider must make a written request to the Department for approval of the change and must submit reasonable justification for such change prior to the beginning of the cost reporting period for which the change is to apply. The Department's approval of such a request will be furnished to the provider agency in writing. Where the Department approves the request, the change must be applied to the cost reporting period for which the request was made and to all subsequent cost reporting periods unless the Department approves a subsequent request for change. The effective date of the change will be the beginning of the cost reporting period for which the request was made.

The table on the following pages includes distribution bases classified as either acceptable or non-acceptable methods of allocating costs to the various cost centers or programs. Provider agencies must use only one of the alternative distribution bases. They must be able to demonstrate that the base chosen will produce appropriate and accurate results and that the statistics are auditable. The use of more than one statistical basis for allocating any cost center is not permitted.

Where a provider agency identifies other indirect cost centers and/or statistical bases which are not listed on the following table, these centers/bases must be submitted to the Department for approval.

Simplified Allocation Method

Where a provider agency's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect cost may be accomplished by (1) separating the provider's total costs for the base period as either direct or indirect, and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process

is an indirect cost rate which is used to distribute indirect costs to individual contracts, programs or activities. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where a provider has only one major function encompassing a number of individual activities.

Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs which represent activities must be included in the direct costs under the conditions described above under Direct Costs.

The distribution base may be total direct costs (excluding capital expenditures), direct salaries and wages, or other base which results in an equitable distribution. The indirect cost rate developed under the above principles is applicable to all contracts, programs, and activities of the provider agency.

TABLE
INDIRECT COST DISTRIBUTION BASES

Cost Centers	Acceptable Bases	Non-Acceptable Bases*
1. Depreciation-buildings and fixtures	1. Square feet for total depreciation 2. Individual building depreciation allocated on square feet (a sub-schedule will be required to show these computations)	
2. Depreciation-movable equipment	1. Square feet 2. Actual depreciation by cost center	
3. Employee Health & Welfare Fringe Benefits	Gross salaries	Average number of employees and full-time equivalents
4. Administration and General	1. Total direct costs 2. Direct salaries	
5 Telephone (allowable costs only)	Number of non-client telephones	
6. Purchasing	1. Number of purchase orders 2. Dollar value of purchases (exclusive of fixed assets purchases)	
7. Admitting	Accumulated inpatient revenue - ancillary and routine (outpatient revenue should be included if outpatient admitting functions are performed)	Number of admissions (not allowable as it does not allocate any costs to ancillary departments)

* This represents bases that have been determined to be unacceptable, it is not meant to be all inclusive.

TABLE (cont'd)

Cost Centers	Acceptable Bases	Non-Acceptable Bases*
8. Client/Patient Accounting	Gross revenues	1. Number of documents posted 2. Number of client/patient days (not allowable due to exclusion of outpatients)
9. Operation of Plant	Square feet	
10. Maintenance of Plant	Square feet	Costed work orders
11. Laundry and Linen	1. Pounds of soiled laundry processed 2. Pounds of processed laundry issued 3. Itemized bills by department for Purchased service	
12. Housekeeping	1. Hours of service 2. Square feet of cost centers serviced	
13. Dietary - raw food	Number of meals served	
14. Cafeteria (allowable costs only)	1. Number of meals served 2. Sales value of meals sold 3. Number of employees	Salaries of employees
15. Nursing Service Administration	1. Actual hours of nursing service supervised 2. Number of employees supervised	1. Time studies 2. Salaries of employees

*This represents bases that have determined to be unacceptable, it is not meant to be all inclusive.

TABLE (cont'd)

Costs Centers	Acceptable Bases	Non-Acceptable Bases*
16. Medical Supplies and Expenses or Central Supplies and Services	1. Costed requisitions 2. Other special analysis of supplies Usage based on auditable records	
17. Pharmacy	1. Costed requisitions 2. Special study based on auditable records	
18. Medical Records	1. Percentage of time spent based on auditable records 1. Any other basis must include time spent for outpatient, doctors, nursery, and other special service areas (e.g., ICU,CCU)	Number of admissions (not allowable since it does not reflect potential for other activities such as outpatient and nursery)
19. Social Services	Time spent in proving casework service for clients/patients in each center (including outpatients and special care, if applicable)	
20. Nursing School	Assigned time (hours) of student nursing service by department	
21. Intern and Resident School	Assigned hours of service by the department for interns and residents	

*This represents bases that have been determined to be unacceptable, it is not meant to be all inclusive.

4.5 Selected Items of Cost

Application of Principles and Procedures

Subject to limitations of the contracting division, costs shall be allowed to the extent that they are reasonable, allocable, and allowable (in accordance with subsection 4.6, Allowable Items of Cost - General Standards for Allowable Costs and 4.7, Unallowable Items of Cost - General Standards for Unallowable Costs), and to the extent that adequate funding exists. These criteria apply to all of the selected items of cost which follow, notwithstanding that particular guidance is provided in connection with certain specific items for emphasis or clarity.

Costs under any subcontract entered into by the provider agency are subject to the same principles as the primary contract.

Selected items of cost are treated in the following sections entitled General Standards for Allowable Costs and General Standards for Unallowable Costs. It should be noted that not every element of cost nor every situation that might arise is covered. Failure to treat any item of cost is not intended to imply that it is either allowable or unallowable. With respect to all items, whether or not specifically covered, determination of allowability shall be based on the principles and standards set forth in this document and, where appropriate, the treatment of similar related selected items.

Selected Items of Cost

Subsections 4.6 and 4.7 provide standards to be applied in establishing the allowability of certain items involved in determining costs. These standards should apply irrespective of whether a particular item of cost is properly treated as a direct or indirect cost. In case of a discrepancy between the provisions of a specific contract and the following standards, the provisions of the contract shall govern. Under any given contract, the reasonableness and allocability of certain items of costs may be difficult to determine. This is particularly true in connection with not-for-profit provider agencies, which are diverse in nature and often not subject to effective competitive restraints. In order to avoid possible subsequent disallowance or dispute based on unreasonableness or nonallocability, it is important that provider agencies entering into contracts with the Department seek agreement in advance of the incurrence of special or unusual costs in categories where reasonableness or allocability is difficult to determine. Such action in which advance agreements may be particularly important are:

1. Salary Compensation Limitations/Physician and Advance Nurse Salary or Payment Compensation Limitations;
2. consultant fees;
3. deferred maintenance costs;
4. excess facility costs;
5. material, services, and supplies sold between agencies or divisions under common control;
6. pre-award costs;

7. publication and public information costs;
8. royalties;
9. training and educational costs;
10. travel costs, as related to special or mass personnel movement, and to the class of air-travel accommodations allowable;
11. negotiated use allowance for fully depreciated assets;
12. depreciation or use allowance on assets donated to the provider agency by third parties; and
13. criteria for and processing a vehicle request.

4.6 Allowable Items of Cost

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General Standards for Allowable Costs

1. *Advertising Costs*

- a. Advertising costs means the costs of media services and associated costs. Media advertising includes magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.
- b. The only advertising costs allowable are those which are solely for:
 - (1) the recruitment of personnel when considered in conjunction with all other recruitment costs (as set forth in item 20);
 - (2) the procurement of goods and services;
 - (3) the disposal of surplus materials acquired in the performance of the contract; or
 - (4) specific requirements of the contract.

2. *Bonding Costs*

- a. Bonding costs arise when the Department requires assurance against financial loss to itself or others by reason of the act or default of the provider agency. These costs arise also in instances where the provider agency requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.
- b. Costs of bonding require pursuant to the terms of the contract are allowable.
- c. Costs of bonding required by the provider agency in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice, and the rates and premiums are reasonable under the circumstances.

3. *Communication Costs*

Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage, and the like are allowable provided the costs are necessary, reasonable, and allocable to the contract.

4. *Salary Compensation Limitation/Physician and Advanced Practice Nurses Salary or Payment Compensation Limitations*

The amounts paid under a Department contract to the Provider Agency for the compensation are subject to the following conditions:

- a. Full-time Salary Compensation Limitation. No monies under the contract shall be paid to the Provider Agency for costs of any individual salary (including bonuses) to be paid to any of Provider Agency's full-time employees (excluding physician and advanced practice nurses) in excess of the schedule set forth below:

Full-time Employee Compensation Limitation Schedule:

The Full-time Employee Compensation Limitations vary as follows. Only one Full-time Employee Compensation Limitation shall be applicable to each Provider Agency. Gross revenue for the provider agency shall be determined based on the last audited annual report for the Provider agency.

For Provider Agencies with gross revenue for the entire organization of:

- (1) Over \$20 million, the limitation shall be \$141,000 (Benchmark Salary);
 - (2) Over \$10 million, but less than or equal to \$20 million the limitation shall equal 90% of the Benchmark Salary (\$126,900);
 - (3) Over \$5 million, but less than or equal to \$10 million the limitation shall equal 85% of the Benchmark Salary (\$119,850); and
 - (4) Less than \$5 million, the limitation shall equal 75% of the Benchmark Salary (\$105,750).
- b. Part-time Salary Compensation Limitation. The salary compensation limitation, for a part-time employee or for an employee whose time is only partly spent on activities compensated under this contract, shall be calculated by prorating the compensation for the position as calculated under the Full-time Salary Compensation Limitation Schedule. The prorated percentage shall be specified in the Annex B and shall be determined by the regular number of work hours for that Part-time title or that the employee is scheduled to work on matters compensated under this contract.

- c. Any salary paid to any employee in excess of these limitations must be paid out of funds received from sources other than this Contract, or funds other than those received from other contracts held within the Department of Human Services or Department of Children and Families.
- d. The Full - or Part-time Salary Compensation Limitation will apply to cost reimbursement contracts at the time of contract renewal.
- e. Any fixed/fee for service rate contracts set prior to the adoption of this amendment is not subject to the salary compensation limitations prescribed in Item (4)(a) or Item (4)(b), however, any fixed/fee for service rate contract set prior to the adoption of this amendment that is subsequently renewed at a higher rate is subject to the salary compensation limitation in Item(4) (a) or Item (4) (b).
- f. Any fixed/fee for service rate developed for a new program or service in an existing contract are subject to the Salary Compensation Limitation Schedule prescribed in Item (4) (a) and Item (4)(b).
- g. Any new contracts entered into after the date of the adoption of this amendment are subject to the Salary Compensation Limitation Schedule prescribed in Item (4)(a) and Item(4)(b).

Physician and Advanced Practice Nurses Salary or Payment Compensation Limitation

The amounts paid under the Department contract to compensate the Provider Agency for Physician and Advanced Practice Nurses are subject to the same limitations in Item 4 (a) except that the Benchmark Salary shall be \$212,000 per annum.

Part-time Physicians and Advance Practice Nurse's compensation will be calculated pursuant to Item 4 (b).

Support of Salaries and Wages:

- (1) Charges to contracts for salaries and wages, whether treated as direct or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the provider agency. The distribution of salaries and wages must be supported by personnel activity reports as prescribed in subparagraph (2) below, except when a substitute system has been approved in writing by the department.
- (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to the contract. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the provider agency's indirect cost rate(s) (e.g., an employee engaged part-time in indirect activities and part-time in a direct function). Reports maintained to satisfy these requirements must meet the following standards:
 - (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for contract charges.
 - (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the provider agency.
 - (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, to attest that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
 - (d) The reports must be prepared at least monthly and must coincide with one or more pay periods.
- (3) Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraph (1) and (2) above, must also be supported by records indicating the total number of hours worked each day maintained in

conformance with Department of Labor regulations implementing the Fair Labor Standards Act. For this purpose, the term “nonprofessional employee” shall have the same meaning as “non-exempt employee” under the Fair Labor Standards Act.

- (4) Salaries and wages of employees used in meeting contract cost sharing or matching requirements must be supported in the same manner as salaries and wages claimed for reimbursement under the contract.

5. *Depreciation and Use Allowances*

- a. Compensation for the use of buildings, other capital improvements, and equipment on hand may be made through depreciation or use allowances. However, except as provided in paragraph e below, a combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment).
- b. 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 provider agency by a third party shall be its fair market value at the time of the donation.
- c. The computation of depreciation or use allowances will exclude:
 - (1) the cost of land;
 - (2) any portion of the cost of buildings and equipment borne by or donated by any level of government, irrespective of where title was originally vested or where it presently resides; and
 - (3) any portion of the cost of buildings and equipment contributed by or for the provider in satisfaction of a statutory matching requirement.
- d. Where the 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 presumed to be the appropriate method. Depreciation methods once used shall not be changed unless approved in advance by the

Department. When the depreciation method is used for buildings, a building's shell may be segregated from each building component (plumbing system, heating, air conditioning, etc.) and each item depreciated over its estimated useful life; or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

- e. When the depreciation method is used for a particular class of assets, no depreciation may be allowed on any such assets that, under paragraph d above, would be viewed as fully depreciated. However, a reasonable use allowance may be negotiated for such assets if warranted after taking into consideration the amount of depreciation previously charged to any level of government, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.
- f. When a facility is sold, the revaluation of that facility often increases reimbursement for capital related costs. The Department will limit the increase in capital-related reimbursement associated with the sale or transfer of real property, if the facility was previously used for a Department of Human Services program, and the owner was reimbursed for depreciation expense. The Department must ensure that State and federal funds are not used to pay for the same asset more than once. Therefore, reimbursement for capital-related costs to the new owner must be based on the historical cost (the cost to the original owner) or the purchase price, whichever is less.
 - (1) Reimbursement for depreciation expense must be based on the acquisition of the asset as entered on the books and records of the prior owner less any depreciation taken on the asset by the prior owner.
 - (2) The new owner's capital-related costs must be determined by using the same useful life and method of depreciation as used by the prior owner for reimbursement by the Department.
 - (3) The Department recognizes that the limitation on reimbursement of capital-related costs of revalued facilities may be circumvented by certain sale/leaseback or sale-rental agreements. The Department must determine the reasonableness of any lease and rental costs involving a depreciable asset which has undergone a change in ownership.
- g. Where the use allowance method is followed, the use allowance for buildings and improvements (including land improvements such as paved parking areas, fences, and sidewalks) 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 (plumbing system, etc.) 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 a specialized purpose (counters, examining tables bolted to the floor, dishwashers, carpeting, etc.). 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 criterias will be subject to the six and two-thirds percent equipment use allowance limitation.

- h. 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, are usable, and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period must be maintained.

6. *Employee Morale, Health, and Welfare Costs and Credits*

The costs of in-house publications, health or first-aid clinics, infirmaries, recreational activities, employee counseling services, and other expenses incurred in accordance with the provider agency's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. Such costs must be equitably apportioned to all activities of the provider. 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.

7. *Compensation Limitations for Fringe Benefits*

This section is being reserved for future consideration.

8. *Insurance*

Insurance includes (1) insurance which the provider agency is required to carry, or which is approved, under the terms of the contract and (2) any other insurance which the provider maintains in connection with the general conduct of its operations. This item does not apply to insurance which represents fringe benefits for employees.

- a. Costs of insurance required or approved pursuant to the contract, and maintained by the provider agency, are allowable.

- b. Costs of other insurance maintained by the provider in connection with the general conduct of its operations are allowable subject to the following limitations.
 - (1) Types and extent of coverage shall be in accordance with sound business practice, and the rates and premiums shall be reasonable under the circumstances.
 - (2) Costs allowed for business interruption or other similar insurance shall be limited to exclude coverage of management fees or profit.
 - (3) Costs of insurance or of any provisions for a reserve covering the risk of loss of or damage to Department property are allowable only to the extent that the provider agency is liable for such loss or damage.
 - (4) Provisions for a reserve under a self-insurance program are allowable to the extent that types of coverage, extent of coverage, rates and premiums would have been allowed had insurance been purchased to cover the risk. However, provision for known or reasonably estimated self-insured liabilities which do not become payable for more than one year after the provision is made shall not exceed the present value of the liability.
 - (5) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibilities are allowable only to the extent that the insurance represents additional compensation. The cost of such insurance when the provider agency is identified as the beneficiary is unallowable.
- c. Actual losses which could have been covered by permissible insurance (through the purchase of insurance or a self-insurance program) are unallowable unless expressly provided for in the contract, except:
 - (1) Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice are allowable.
 - (2) Minor losses (such as spoilage, breakage, and disappearance of supplies) which occur in the ordinary course of doing business are allowable if not covered by insurance.

9. *Interest Applicable to Depreciable Capital Assets*

a. Definitions

As used in this item, the following terms have the meanings indicated:

- (1) **Interest** means the cost incurred for the use of borrowed funds. Interest costs are generally paid at fixed intervals by the user.
- (2) **Interest on Capital Indebtedness** means the cost incurred for funds borrowed for capital purposes, such as the acquisition of facilities, equipment, and capital improvements. Generally, loans for capital purposes are long-term loans.
- (3) **Interest on Current Indebtedness** means the cost incurred for funds borrowed for a relatively short term, usually for one year or less. Current borrowing is usually for purposes such as working capital for normal operating expenses.
- (4) **Necessary** with regard to interest on a loan, means that the loan must be for the acquisition of tangible capital assets of the provider agency and for a purpose reasonably related to the contract. For example, where funds are borrowed for purposes of investing in other than the provider's operations, interest expense is not allowable because such a loan is not considered necessary.
- (5) **Proper** with regard to interest on a loan, means that the interest must be incurred at a rate not in excess of what a prudent borrower would have had to pay in an arm's length transaction in the money market when the loan was made. In addition, the interest must be paid to a lender not related to the provider agency through personal relationship or common ownership or control.

b. Allowability

Necessary and proper interest on capital indebtedness incurred for the acquisition of tangible capital assets that are depreciated on the provider agency's books and records is an allowable cost. Interest expense is not allowable for capital assets for which a use allowance is applied in lieu of depreciation. Provider agencies are encouraged to maintain adequate records necessary to permit the recording and charging of depreciation in accordance with generally accepted accounting principles and the governing principles for determining costs. Interest on non-capital assets and on current indebtedness is an unallowable cost. (See unallowable item 9a, Section 4.7)

To be allowable, interest on capital indebtedness must be: (1) necessary and proper for the acquisition of the provider's facilities or for any refinancing of loans to lower interest rates currently being paid on existing facilities (refinancing of fully paid-for-facilities or any refinancing for investment purposes is unallowable); (2) supported by evidence of an agreement that funds were borrowed and that payment of interest and repayment of the funds are required; (3) identifiable in the provider's accounting records; and (4) related to the reporting period in which the cost are incurred.

c. Other Factors Affecting Allowability

(1) Mortgage Interest

A mortgage is a lien on assets given by a borrower to a lender as security for borrowed funds for which payment will be made over an extended period of time. Mortgage interest refers to the interest expense incurred by the borrower on a loan which is secured by a mortgage. Usually such loans are long-term loans for the acquisition of land, buildings, equipment, or other fixed assets.

Mortgage loans are customarily liquidated by means of periodic payments, usually monthly, over the term of the mortgage. The periodic payments usually cover both interest and principal. That portion of the payment which is for interest for the period is allowable as a cost of the reporting period to which it is applicable. The principal portion of the payment is unallowable as a contract cost.

In addition to interest expense, other expenses are incurred in connection with mortgage transactions. These may include attorney's fees, recording costs, transfer taxes, and service charges which include finder's fees and placement fees. These costs, to the extent that they are reasonable, should be amortized over the life of the mortgage. The portion applicable to the reporting period is an allowable cost.

(2) Interest During Period of Construction

From time to time, provider agencies may borrow funds to construct facilities or to enlarge existing facilities. Usually construction of facilities extends over a long period of time, during which interest costs on the loan are incurred. Interest costs incurred during the period of construction must be capitalized as part of the cost of the facility. The period of construction is considered to extend to the date the facility is put into use.

If the construction is an addition to an existing facility, interest incurred during the construction period on funds borrowed to construct the addition must be capitalized as a cost of the addition. After the construction period, interest on the loan is allowable as an operating cost.

Where a bond issue is involved, any bond discount and expense, or bond premium amortized during the period of construction, is included in the capitalized cost of the facility constructed.

(3) Allocation of Interest

Where a loan is made to construct or acquire a number of buildings (or other fixed assets), the interest on the loan applies to the several assets acquired in proportion to the cost each asset bears to the total cost of the assets. If any building or other asset covered by the loan is not used for purposes related to the contract, the interest applicable to such asset is not allowable as a cost of the contract. The proportionate part of such interest applicable to assets used for the contract is an allowable cost.

Examples of fixed assets which might be purchased under a single loan agreement could be land, buildings, and equipment used by the provider in furnishing contract services, and additional land held for future expansion. The land purchased in anticipation of expansion would not be considered related to the contract.

(4) Interest on Loans From Lenders Related to the Provider

One of the requirements for interest to be considered proper is that it be paid to a lender not related through personal relationship or common ownership or control to the borrowing agency. Presence of any of these relationships could affect the bargaining process that usually accompanies the making of a loan and could thus be suggestive of an agreement for higher rates of interest or for unnecessary loans. This provision is intended to ensure that loans are legitimate and needed and that the interest rate is reasonable.

(5) Interest Paid to Partners, Stockholders, and Related Organizations

Generally interest paid by the provider to partners (owners), stockholders, or related organizations of the provider is not allowable as a cost. Where an owner uses his/her own funds in a business, the funds are considered invested funds, or capital, rather than borrowed funds. Therefore, when a partner stockholder, or related organization makes a loan to a provider, and the interest on the loan is not allowable as a cost, the loan is considered as part of the equity capital of the provider.

(6) Owner(s) of Provider Agency on Governing Board of Lending Institutions

It may occur that owners of provider agencies serve as members of the governing board of a bank or other financial institution which lends money to the provider. A determination as to whether a personal relationship or control exists between the provider and lending institution will be based on the facts and circumstances of each case.

10. *Labor Relations Costs*

Costs incurred in maintaining satisfactory relations between the provider agency and its employees, including costs of labor management

committees, employee publications, and other related activities, are allowable.

11. *Maintenance and Repair Costs*

Costs incurred for necessary maintenance, repair, or upkeep of buildings, and equipment (including government 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 (see item 5).

12. *Materials and Supplies*

The costs of materials and supplies necessary to carry out the contract are allowable. Such costs should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances (i.e., applicable credits) received by the provider agency. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges may be a proper part of material cost. Materials and supplies charged as a direct cost should include only the materials and supplies actually used for the performance of the contract, and due credit should be given for any excess materials or supplies retained or returned to vendors.

13. *Compensation Restriction for Provider Agency Sponsored Meetings, Conferences, Training, or Special Events*

The amounts paid under a Department Contract to the Provider Agency for the cost of administrative meetings, conferences, trainings, or special events are subject to the following conditions:

- a. No such monies under the Department contract shall be paid to the Provider Agency for costs associated with meetings, conferences, or special events where agency staff is the beneficiary of the event. Unallowable costs include, but are not limited to the following: meals and refreshments, entertainment, overnight lodging, receptions or other social functions held for the honoring all staff; and
- b. The Provider Agency may use monies under the contract to cover training-related costs such as modest facility costs and nominal refreshments, e.g. coffee, tea, water, soda, donuts, pastries, cookies, and bagels.

14. *Membership, Subscriptions, and Professional Activity Costs*

- a. Costs of the provider agency's membership in civic, business, technical, and professional organizations are allowable.
- b. Costs of the provider agency's subscriptions to civic, business, technical, and professional periodicals are allowable.

15. *Overtime, Extra-Pay Shift, and Multi-shift Premiums*

Premiums for overtime, extra-pay shifts, and multi-shift work are allowable only with the prior approval of the Department except:

- a. when necessary to cope with emergencies, such as those resulting from accidents, natural disasters, breakdowns of equipment, or occasional operational bottlenecks of a sporadic nature;
- b. when employees are performing indirect functions such as administration, maintenance, or accounting;
- c. in the performance of tests, laboratory procedures, or other similar operations which are continuous in nature and cannot reasonably be interrupted or otherwise completed.
- d. when lower overall cost to the Department will result.

16. *Plant Security Costs*

Necessary expenses incurred to comply with Department security requirements or for facilities protection, including wages, uniforms, and equipment of personnel, are allowable.

17. *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 provider agency, are allowable subject to b, c, and d below, when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Department.
- b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:
 - (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 provider agency's capability in the particular area;

- (3) the past pattern of such costs, particularly in years prior to Department contracts;
 - (4) the impact of Department contracts on the provider agency's business (i.e., what new problems have arisen);
 - (5) whether the proportion of Department work to the provider agency's total business is such as to influence the provider in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under the Department contract(s);
 - (6) whether the service can be performed more economically by direct employment rather than by contracting;
 - (7) the qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-government contracts;
 - (8) the 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. In addition to the factors in paragraph b above, in order for retainer fees to be allowable they must be reasonably supported by evidence of bona fide services available or rendered.
 - d. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with defense of antitrust suits, and the prosecution of claims against the government, are unallowable. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with patent infringement litigation or organization and reorganization are unallowable unless otherwise provided for in the contract.
18. *Profits and Losses on Disposition of Depreciable Property or Other Capital Assets*
- a. Gains and losses on sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to cost grouping(s) in which the depreciation applicable to such property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.
 - b. Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

- (1) The gain or loss is processed through a depreciation reserve account and is reflected in the depreciation allowable under item 5.
- (2) The property is given in exchange as part of the purchase price of a similar item, and the gain or loss is taken into account in determining the depreciation cost basis of the new item.
- (3) A loss results from the failure to maintain permissible insurance, except as otherwise provided in item 8b (3).
- (4) Compensation for the use of the property was provided through use in lieu of depreciation in accordance with item 5.
- (5) Gains and losses arising from mass or extraordinary sales, retirements, or other dispositions shall be considered on a case-by-case basis.
- (6) Gains or losses of any nature arising from the sale or exchange of property other than the property covered in paragraph 18(a) above shall be excluded in computing contract costs.

19. *Rearrangement and Alteration Costs*

Costs incurred for ordinary or normal rearrangement and alteration of facilities are allowable. Special arrangements and alteration costs incurred specifically for the contract are allowable with the prior approval of the Department.

20. *Recruiting Costs*

The following recruiting costs are allowable: costs of "help-wanted" advertising, operating costs of an employment office, costs of operating an educational testing program, travel expenses including food and lodging of employees while engaged in recruiting personnel, and travel costs of applicants for interviews for prospective employment. Where the provider agency uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

21. *Rental Costs*

- a. Subject to the limitations described in paragraph b through d of this item, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.

- b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the provider agency continued to own the property.
- c. Rental costs under less-than-arm's-length leases are allowable only up to the amount that would be allowed had title to the property vested in the provider agency. For this purpose, a less-than-arm's-length lease is one under which one party to the lease agreement is able to control or influence substantially the actions of the other. Such leases include but are not limited to those between: (1) divisions of an agency; (2) agencies under common control through common officers, directors, or members; and (3) an agency and a director, trustee, officer, or key employee of the organization of his/her immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.
- d. Rental costs under leases which create a material equity in the leased property are allowable only up to the amount that would be allowed had the provider agency purchased the property on the date the lease agreement was executed including depreciation and allowable interest expense (refer to item 9, Interest Applicable to Depreciable Capital Assets) or use allowances, maintenance, taxes, insurance, but excluding other unallowable costs. For this purpose, a material equity in the property exists if the lease is noncancelable or is cancelable only upon the occurrence of some remote contingency and has one or more of the following characteristics:
 - (1) the provider agency has the right to purchase the property for a price which at the beginning of the lease appears to be substantially less than the probable fair market value at the time it is permitted to purchase the property (commonly called a lease with a bargain purchase period;
 - (2) title to the property passes to the provider agency at some time during or after the lease period;
 - (3) the term of the lease (initial term plus periods covered by bargain renewal options, if any) is equal to 75 percent or more of the economic life of the leased property (i.e., the period the property is expected to be economically usable by one or more users).

22. *Severance Pay*

Unless an exception has been approved by the Departmental Component for a specific circumstance, the amounts paid under the Department contract to the Provider Agency for an employee severance agreement are subject to the following conditions:

- a. If the Provider Agency has an established written uniform severance agreement for all employees covered under the contract:
 - (1) no monies shall be paid to the Provider Agency for a severance payment to any employee in excess of the equivalent of two (2) weeks compensation (salary and fringe benefits);
 - (2) No monies shall be paid to the Provider Agency for a severance payment to any employee that has been employed by the Provider Agency for less than one (1) year of continuous employment;
 - (3) No monies shall be paid to the Provider Agency for a severance payment to any employee that was discharged for cause (as cause is determined by the Provider Agency's policies)
- b. If the Provider Agency does not have an established written uniform severance agreement, no monies shall be paid to the Provider Agency for a severance payment for any employees covered under the contract.

23. *Taxes*

- a. In general, taxes which the provider agency is required to pay and which are paid, or accrued in accordance with generally accepted accounting principles, and payments made to local governments in lieu of taxes which are commensurate with the local government services received, are allowable, except for:
 - (1) taxes from which exemptions are available to the provider directly or which are available based on an exemption afforded the government, and in the latter case when the Department makes available the necessary exemption certificates;
 - (2) special assessments on land which represent capital improvements; and
 - (3) federal income taxes.
- b. Any refund of taxes, and any payment to the provider agency of interest thereon, which were allowed as contract costs, will be credited either as a cost reduction or cash refund, as appropriate, to the Department.

24. *Termination Costs*

Contract terminations generally give rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the contract not been terminated. Cost principles covering these items are set forth below. However, if a contract is terminated for cause or default, costs resulting from termination are unallowable.

a. Common Items

The cost of items reasonably usable on the provider agency's other work shall not be allowable unless the provider submits evidence that it could not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the provider agency, the Department should consider the provider's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the provider shall be regarded as evidence that such items are reasonably usable on the provider's other work. Any acceptance of common items as allocable to the terminated portion of a project shall be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

b. Costs Continuing After Termination

If in a particular case, despite all reasonable efforts by the provider agency, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this document, except that any such costs continuing after termination due to the negligent or willful failure of the provider to discontinue such costs shall be considered unallowable.

c. Rental Costs

Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated contract less the residual value of such leases, if:

- (1) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the contract and such further period as may be reasonable; and
- (2) the provider agency makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease.

There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the

performance of the contract, and of reasonable restoration required by the provisions of the lease.

d. Settlement Expenses

Settlement expenses including the following are generally allowable:

- (1) accounting, legal, clerical, and similar costs reasonably necessary for:
 - (a) the preparation and presentation to the Department of settlement claims and supporting data with respect to the terminated portion of a project, and
 - (b) the termination and settlement of subcontracts.
- (2) reasonable costs for the storage, transportation, protection, and disposition of property provided by the Department or acquired or produced for the contract;
- (3) indirect costs related to salaries and wages incurred as settlement expenses in (1) and (2) above. Normally, such indirect costs shall be limited to fringe benefits, occupancy costs, and immediate supervision.

e. Subcontractor Claims

Subcontractor claims, including the allocable portion of claims which are common to the contract and to other work of the provider agency are generally allowable. An appropriate share of the provider's indirect expense may be allocated to the amount of the provider's indirect expense may be allocated to the amount of settlements with subcontractors, provided that the amount allocated is otherwise consistent with the basic guidelines contained in this section of the manual. The indirect expenses so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.

25. *Compensation Limitations for Employee Tuition Reimbursement*

The amounts paid under this contract to the Provider Agency for tuition reimbursement and related expenses are subject to the following conditions:

- a. No monies paid to the Provider Agency under the contract shall be used for any costs incurred by the Provider Agency's employees to attend any educational courses including tuition, textbooks, supplies, etc. unless such courses are required by the contract or for program licensure, certification, and/or Medicaid standards, or;

- b. No monies paid to the Provider Agency under the contract shall be used for any costs incurred by the Provider Agency's employees to attend educational courses including tuition, textbooks supplies, etc. unless such courses are towards a field of service related to the Provider Agency's contract and the allocated contract monies do not exceed the lesser of \$5000 or 1% of the Provider Agency's total annual operating budget, and;
- c. There are monies allocated in the Provider Agency's approved contract budget for the specific educational expenses consistent with Section 25 (a) or Section 25 (b).

26. *Transportation Costs*

Transportation costs include freight, express, cartage, and postage charges related to goods purchased, in process, or delivered. These costs are allowable. When such costs can readily be identified with the items involved, they may be directly charged as transportation costs or added to the cost of such items (see item 12). Where identification with the materials received cannot readily be made, transportation costs may be charged to the appropriate indirect cost accounts if the provider agency follows a consistent, equitable procedure in this respect.

27. *Compensation Limitations for Employee Travel Expenses*

The amounts paid under a Department contract for staff travel including: conference and registration fees, mileage reimbursement, meals and incidental expenses(M&IE), parking and overnight lodging accommodations for employees who are compensated in whole or in part under a Department contract are subject to the following conditions:

- a. General Provision:
 - (1) In- and out-of-state travel must be directly related to the employee's duties as set forth in the contract and/or be required for accreditation and/or licensure of the contracted program;
 - (2) For in-state travel and for out-of-state travel that is within 50 miles of the border of the State where the Provider Agency is located, no monies provided under the contract shall be used for employee lodging expenses unless previously approved by the Departmental Component;

- (3) Travel costs may be charged on an actual basis and may include a mileage reimbursement rate, as well as meals and incidental expenses (M&IE) up to, but not to exceed the Federal reimbursement rates (refer to the Federal internet web site, <http://www.gsa.gov> for current rates) in effect at the time the employee traveled.
- b. In-State Provisions:

The Provider Agency may not approve any in-state travel reimbursement in excess of two-hundred and fifty dollars (\$250.00) per employee, per event, unless written approval is obtained from the departmental contracting authority prior to such travel.
 - c. Out-of-State-Provisions:
 - (1) The Provider Agency must obtain prior-approval from the departmental contracting authority for an employee's out-of-state travel, regardless of travel costs, unless such travel is no further than 50 miles from the border of the state where the Provider Agency is located, and travel costs per employee are less than two-hundred and fifty dollars (\$250.00);
 - (2) Out-of-state travel (excluding travel no further than 50 miles from the border of the State where the Provider Agency is located) or travel costs in excess of the two-hundred and fifty dollar (\$250.00) limit by the employee, that was not pre-approved by the departmental contracting authority shall not be eligible for reimbursement under the contract.

28. *Criteria for and Processing a Vehicle Request*

The Provider Agency may request a new or replacement vehicle to be paid from monies in a Department contract only under the following conditions:

- a. The Provider Agency must request written approval from the departmental component's contracting authority to purchase or replace a vehicle and each request must be accompanied by the following supporting documentation. The request may be denied even if all supporting documentation is supplied. Documentation required includes:
 - (1) Explanation as to why the purchase or replacement of the vehicle is required to fulfill contractual obligations;

- (2) Assurance that no one Provider Agency employee will be permanently assigned the vehicle;
 - (3) Assurance that the Provider Agency has sufficient funds to cover the vehicle's operating costs for the anticipated useful life of the vehicle;
 - (4) Submission of three (3) written bids for the same year, make, model, and option package;
 - (5) If the vehicle is a replacement vehicle, documentation consistent with Section 28 (b) below;
 - (6) Any exceptions to the criteria and purchasing requirements Section 28 (a) (1)-(5), will be dealt with on a case by case basis with the departmental component's contracting authority;
 - (7) If the request is approved, the Provider Agency shall be required to purchase the vehicle from the lowest-priced vendor consistent with Section 28 (a) (4); and
- b. The Provider Agency may request to replace an existing vehicle under any of the following conditions: (a) odometer reading exceeds 125,000; (b) vehicle age is 10 years or older; (c) repair costs to maintain operational capacity of vehicle would exceed fifty (50) per cent of current trade-in Blue Book value of vehicle; (d) repair costs have exceeded fifty (50) per cent of the current trade-in Blue Book value over the course of the past year; (e) vehicle was involved in an accident and deemed "totaled" by the insurance carrier; (f) upon written request supported by sufficient documentation, the Departmental contracting authority determines that the vehicle is no longer road worthy and unsafe to drive;
 - c. If the Provider Agency receives approval to purchase a vehicle, the maximum cost of the vehicle including all dealer fees and charges may not exceed \$25,000 per vehicle. This limitation excludes passenger vans, or specialized and adaptive vehicles for handicapped consumers; and
 - d. When a provider Agency has a fleet management program that includes leased vehicles, the Provider Agency may obtain approval on a program basis so that the Provider Agency does not require approval on a vehicle by vehicle basis.

29. *Pension Plan Costs*

- a. Costs of the provider agency's pension plan which are incurred in accordance with the established policies of the provider are allowable provided:
 - (1) Such policies meet the test of reasonableness;
 - (2) The methods of cost allocation are not discriminatory;
 - (3) The cost assigned to each fiscal year is determined in accordance with generally accepted accounting principles as prescribed in Accounting Principles Board Opinion No. 8 issued by the American Institute of Certified Public Accountants; and
 - (4) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are allowable.
- b. Pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act of 1975 (Pub. L. 93-406) are allowable. Late payment charges on such premiums are unallowable.
- c. Excise taxes on accumulated funding deficiencies and other penalties imposed under the Employee Retirement Income Security Act are unallowable.

4.7 Unallowable Items of Cost

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General Standards for Unallowable Costs1. *Bad Debts*

Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable.

2. *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. The term "contingency reserve" excludes self-insurance reserves (see allowable item 8, Section 4.6), pension funds (see allowable item 29, Section 4.6), and reserves for normal severance pay (see allowable item 22, Section 4.6).

3. *Contributions*

Contributions and donations by the provider agency to others are unallowable.

4. *Donations*a. *Services Received*

- (1) Donated or volunteer services may be furnished to the provider agency by professional and technical personnel consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost.
- (2) The value of donated services utilized in the performance of a direct cost activity shall be considered in the determination of the provider agency's indirect cost rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs when the following circumstances exist:
 - (a) the aggregate value of the service is material;
 - (b) the services are supported by a significant amount of the indirect costs incurred by the provider agency;
 - (c) the direct cost activity is not pursued primarily for the benefit of the Department.
- (3) In those instances where there is no basis for determining the fair market value of the service rendered, the provider agency

and the Department shall negotiate an appropriate allocation of indirect costs to the services.

- (4) When donated services directly benefit work under the contract, the indirect costs allocated to the services will be considered as a part of the total costs of such work. Such indirect costs may be reimbursed under the contract or used to meet cost sharing or matching requirements.
- (5) Under certain conditions, the value of donated services may be used to meet cost sharing or matching requirements, subject to specific limitations contained in Department policy circulars.
- (6) Fair market value of donated services shall be computed as follows:

- (a) Rates for Volunteer Services

Rates for volunteers shall be consistent with those regular rates paid for similar work in other activities of the provider agency. In cases where the kinds of skills involved are not found in the other activities of the provider, the rates used shall be consistent with those paid for similar work in the labor market in which the provider competes for such skills.

- (b) Services Donated by Other Organizations

When an outside employer donates the services of an employee, these services shall be valued at the employee's regular rate of pay (exclusive of fringe benefits and indirect costs) provided the services are in the same skill for which the employee is normally paid. If the services are not in the same skill, fair market value shall be computed in accordance with (6) (a) above.

- b. Goods and Space

- (1) Donated goods (i.e., expendable personal property/supplies) and donated use of space may be furnished to the provider agency. The value of the goods and space is not reimbursable either as a direct or indirect cost.
- (2) Under certain conditions, the value of the donations may be used to meet cost sharing or matching requirements.

5. *Entertainment Costs*

Cost of amusement, diversion, social activities, ceremonials, and costs related thereto, such as meals, lodging, rentals, transportation, and gratuities, are unallowable (but see allowable items 6 and 14, Section 4.6).

6. *Equipment and Other Capital Expenditures*

a. As used in this item, the following terms have the meanings indicated:

(1) Equipment means an article of nonexpendable tangible personal property having a useful life of more than two years and an acquisition cost of \$5,000 or more per unit.

(2) Acquisition Cost means the net invoice unit price of an item of equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation shall be included in or excluded from acquisition cost in accordance with the provider agency's regular written accounting practices.

(3) General Purpose Equipment means equipment which is usable for other than research, medical, scientific, or technical activities, whether or not special modifications are needed to make the equipment suitable for a particular purpose. Examples of general purpose equipment include office equipment, reproduction and printing equipment, motor vehicles, and automated data processing equipment.

b. Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the Department (see Department Policy Circular P4.05, Equipment).

c. Capital expenditures for land or buildings are unallowable as a direct cost.

d. Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the Department.

e. Equipment and other capital expenditures are unallowable as indirect costs. However, see allowable item 5, Section 4.6, for allowability of depreciation or use allowances on buildings, capital improvements, and equipment. Also, see allowable item 21, Section 4.6, for allowability of rental costs for land, buildings, and equipment.

7. *Fines and Penalties*

Costs of fines and penalties resulting from violations of, or failure of the provider agency to comply with, federal, state, or local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the contract or instructions in writing from the Department.

8. *Idle Facilities and Idle Capacity*

a. As used in this item, the following terms have the meanings indicated:

- (1) Facilities means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located and whether owned or leased by the provider agency.
- (2) Idle Facilities means completely unused facilities that are excess to the provider agency's current needs.
- (3) Idle Capacity means the unused capacity of partially used facilities. It is the difference between (a) that which a facility could achieve under 100 percent operating time on the one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and (b) the extent to which the facility was actually used to meet demands during the accounting period. A multishift basis may be used if it can be shown that this amount of usage could normally be expected for the type of facility involved.
- (4) Cost of Idle Facilities or Idle Capacity means costs such as maintenance, repair, housing, rent, and other related costs (e.g., property taxes, insurance, and depreciation or use allowances).

b. The costs of idle facilities are unallowable except to the extent that:

- (1) the facilities are necessary to meet fluctuations in workloads; or
- (2) although not necessary to meet fluctuations in workload, the facilities were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subparagraph, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending upon the initiative taken to use, lease, or dispose

of such facilities (but see allowable Section 4.6, item 21, b and c).

- c. The cost of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be idle facilities.

9. Interest, Fund-Raising, and Investment Management Costs

- a. Costs incurred for interest on non-capital asset items and current indebtedness are unallowable. With certain limitations, interest on loans for tangible, depreciable capital asset items is allowable. (See Section 4.6, item 9)
- b. Costs of organized fund-raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable.
- c. Cost of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.
- d. Fund-raising and investment activities shall be allocated an appropriate share of indirect costs in accordance with Subsection 4.3, Cost Objectives, Direct Costs and Indirect Costs.

10. *Losses on Other Contracts or Grants*

Costs in excess of income on any contract or grant are unallowable as costs of any other contract or grant. This includes but is not limited to the provider agency's contributed portion by reason of cost sharing agreements or any underrecoveries through negotiation of lump sums for, or ceilings on, indirect costs.

11. *Organization Costs*

Expenditures such as incorporation fees and fees to promoters, organizers, management consultants, brokers, attorneys, accountants, or investment counselors, whether or not employees of the provider agency, in connection with establishment or reorganization of a business, are unallowable except with prior approval of the Department.

12. *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 provider agency clients or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects. These costs are allowable only with the prior approval of the Department.

13. *Pre-Award Costs*

Costs incurred prior to the effective date of the contract, whether or not they would have been allowable thereunder if incurred after such date, are unallowable unless specifically set forth and identified in the contract.

14. *Public Information Service Costs*

a. Public information service costs include the costs associated with pamphlets, news releases, and other forms of information services. Such costs are normally incurred to:

- (1) inform or instruct individuals, groups, or the general public;
- (2) interest individuals or groups in participating in a service program of the provider agency; or
- (3) disseminate the results of sponsored and non-sponsored activities.

b. Public information service costs are allowable as direct costs only with the prior approval of the Department. Such costs are unallowable as indirect costs.

15. *Publication and Printing Cost*

a. Publication costs include the cost of printing (including the processes of composition, plate-making, press work, binding, and the end product produced by such processes), distribution, promotion, mailing, and general handling.

b. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the provider agency.

c. Publication and printing costs are unallowable as direct costs except with the prior approval of the Department.

4.8 Cost Accounting Standards - Consistency

The cost accounting standards - Consistency in Budgeting, Accumulating and Reporting Costs; and, Consistency in Allocating Costs Incurred For The Same Purpose - provide criteria for eliminating cost accounting alternatives which are unsound and weak. These standards are discussed below.

1. Consistency in Budgeting, Accumulating, and Reporting Costs

Provider agency practices used in budgeting costs for a proposed contract must be consistent with the provider agency's cost accounting practices used in accumulating and reporting costs. Budgeting and accounting practices must be consistent in:

- a. the classification of elements or functions of cost as direct or indirect;
- b. the indirect cost pools to which each element or function of cost is charged or budgeted to be charged; and
- c. the methods of allocating indirect costs to the contract.

2. Consistency in Allocating Costs Incurred For The Same Purpose

In order to avoid overcharging some cost objectives and to prevent double counting, each type of cost must be allocated to a contract or other cost objective only once and on only one basis. Double counting occurs most commonly when cost items are allocated directly to a cost objective, while the same cost items are included in indirect cost pools which are allocated to that cost objective.

3. Application of Standards

In following these standards, the provider agency must:

- a. prepare the contract budget consistently with the way in which it records and accumulates costs on its books and records;
- b. prepare its fiscal-year-end expenditure report consistently with its method of preparing the contract budget; and
- c. charge direct and indirect type cost to the contract consistently with the methods identified in the contract budget which, in turn, must be consistent with all other programs, contracts, and cost activities of the provider agency.

SECTION 5

STANDARD CONTRACT FISCAL ANNEXES

5.1 Introduction

5.2 Non-Cost-Related Contracts - Annex B-2

5.3 Cost-Related Contracts - Annex B and Annex B-2

Scope

Budget Period

Table - Illustration of Budget Periods

Annex B: Contract Budget Package and Instructions

Standard Forms

Sample Budget

5.1 Introduction

This section of the manual provides instructions for the Department's standard fiscal annex (es) for non-cost-related and cost-related contracts.

5.2 Non-Cost-Related Contracts - Annex B-2

The Annex B-2: Contract Rate Information Summary is used for non-cost-related contracts to indicate the fixed payment rate per unit of service delivered. The Annex B-2 is always prepared by the Department prior to contract execution and a copy forwarded to the provider agency along with the fully executed contract package.

STATE OF NEW JERSEY
DEPARTMENT OF HUMAN SERVICES
ANNEX B-2: CONTRACT RATE INFORMATION SUMMARY

PROVIDER: _____
CONTRACT #: _____
FEDERAL I.D.#: _____

DATE: _____
THIS ANNEX B-2 SUPERCEDES THE
ANNEX B-2 DATED: _____

Table with 5 columns: PROGRAM/SERVICE, UNIT OF SERVICE, RATE PER SERVICE UNIT*, TYPE OF RATE, EFFECTIVE PERIOD (FROM TO). Section I: RATES.

*THESE RATES ARE SUBJECT TO THE CONDITIONS IN SECTIONS II AND III
*****8*****

SECTION II: CONTRACT STIPULATIONS
*****88*****

- A. The service capacity of the Provider Agency is _____ for the term of this Contract.
(B. The Provider Agency shall submit to the Department a () monthly, () quarterly, () semi-annual, () annual report certifying to the actual program expenditures consistent with the Provider's approved budget set forth in the Contract Budget. This report is due _____ days after the end of the reporting period.
(C. The Provider Agency shall submit to the Department a () monthly, () quarterly, () semi-annual, () annual report certifying to the actual units of service delivered during the reporting period. This report is due _____ days after the end of the reporting period.
(D. Other: (Specify reporting requirements if B and C above are not applicable.)

SECTION III: GENERAL
*****8*****

- A. Limitations: Use of the rate(s) contained in this Annex is subject to any statutory or administrative limitations. Acceptance of the rate(s) agreed to herein is predicated on the condition that no information furnished by the Provider Agency and used in the establishment of the rate(s) as applicable is found to be materially incomplete or inaccurate.
B. Types of Rates:
1. Provisional: a provisional rate is a temporary or interim rate and is subject to adjustment on the basis of a final rate calculated when actual costs are reported.
2. Fixed: a fixed rate is a permanent rate, not subject to adjustment, which is agreed to for a specific future period, usually one year.
C. Notification of State agencies: Copies of this document may be furnished to other State agencies as a means of notifying them of the information it contains.
D. Other:

DHS (REV. 1/00)

5.3 Cost-Related Contracts - Annex B and Annex B-2

The Annex B: Contract Budget Package forms have been developed for Department of Human Services' cost-related third-party social service and training contracts. These forms are to be used for all cost-related contracts regardless of the payment method used. The forms provided for uniformity in the preparation of contract budgets and expenditure reports while allowing for variations which occur among contracts and individual provider agencies' books and records.

These instructions are confined to the subject of preparation of a budget which identifies the full allocable costs of work under generally accepted accounting principles. They do not mandate the amount of Department participation in the financing of a particular program or activity. The individual divisions within the Department may choose to refrain from participating or limit their participation in any given cost, even though the cost may be "allowable" or referenced in the instructions.

Please read this manual and the Department's Contract Policy and Information Manual before proceeding with these instructions. The instructions presuppose a thorough familiarity with the terms used and the policies established in the manuals. Pay particular attention to Section 4, Principles for Determining Costs in this manual. Then read through the instructions and the sample budget before completing the budget forms.

Scope

The Annex B must be completed to reflect the provider agency's total financial activities, including Department funded and non-funded components, unless:

1. the Department is charged for only direct costs and not charged for any indirect or general and administrative costs; and
2. the Department is not being charged for any allocated costs of any kind.

If the provider agency's total financial activities are not reflected on the Annex B, the provider may only charge the Department for "direct costs" as defined in Section 4.3 Cost Objectives, Direct Costs.

Budget Period

A budget package must be completed for every period of 12 months or less for which services are provided. Depending on (1) the

length of the proposed contract term and (2) whether or not the contract term and the provider agency's fiscal year begin on the same date, it may be necessary to prepare only one or as many as three budgets to cover an entire contract term. In most cases, as many budgets as are necessary to cover the entire contract term should be submitted simultaneously to the Department during contract negotiations.

The table on the following page serves to illustrate the budgets required for several combinations of contract term and provider agency fiscal year.

Table

ILLUSTRATION OF BUDGET PERIODS

Contract Term	Provider Fiscal Year	Number of Budgets	Budget Periods Covered
7/1/85 - 6/30/86 (1 year)	July 1 - June 30	1	7/1/85 - 6/30/86
7/1/85 - 6/30/86 (1 year)	January 1 - December 31	2	7/1/85 - 12/31/85 (6 mos) 1/1/86 - 6/30/86 (6 mos)
7/1/85 - 6/30/87 (2 years)	July 1 - June 30	2	7/1/85 - 6/30/86 (12 mos) 7/1/86 - 6/30/87 (12 mos)
7/1/85 - 6/30/87 (2 years)	January 1- December 31	3	7/1/85 - 12/31/85 (6 mos) 1/1/86 - 12/31/86 (12 mos) 1/1/87 - 6/30/87 (6 mos)

Annex B: Contract Budget Package and Instructions

An Annex B: Contract Budget Package must include the following forms:

- Annex B: Contract Information Form
- Annex B: Contract Expense Summary
- Annex B: Contract Expense Detail - Personnel
- Annex B: Contract Expense Detail - Other than Personnel

In addition to the forms listed above, the package must include the following schedules, as appropriate:

- Schedule 1: Cost Allocation Date
- Schedule 2: Revenue
- Schedule 3: Applicable Credits
- Schedule 4: Related Organizations
- Schedule 5: Depreciation/Use Allowance
- Schedule 6: Cost of Equipment
- Annex B-2: Contract Rate Information Summary

Annex B: Contract Information Form

The purpose of the Annex B: Contract Information Form is to provide general information about the provider agency, the contracts it has with the Department and other organizations and agencies, and the services it provides.

At the top of the form complete the following:

1. Agency Name: indicate the incorporated name of the provider agency.
2. Address: indicate the address of the provider agency, not specific program site address(es).
3. Phone: indicate the telephone number of the provider agency, not specific program site telephone number(s).
4. Chief Executive Officer: indicate the Chief Executive Officer or Executive Director of the provider agency, not program director(s).
5. The person preparing, not typing, the form should indicate his/her name and the date the budget package or expenditure report was completed. If the budget is revised, the date must be changed to reflect the date the budget package was revised.
6. Agency Federal I.D. #: indicate the provider agency's federal identification number.
7. Charities Registration #: indicate the provider agency's Charities Registration Number obtained from the Department of Law and Public Safety, Division of Consumer Affairs, Charities Registration Section.
8. Indicate whether the provider is non-profit agency, for-profit agency, or public agency.
9. Budget Period: indicate the beginning and ending date of the period covered by the attached budget. Asterisk any contract which is not concurrent with the provider agency's fiscal year and indicate the contract term.
10. Agency Fiscal Year End: indicate the last day (month and day) of the provider agency's fiscal year.
11. Schedules Completed: circle the number of each schedule completed and include in the budget package.
12. Indicate whether the budget is prepared on the case or accrual basis of accounting.

The lower half of the form has been provided to indicate specific information and provider agency's contracts and services. Indicate information concerning Department of Human Services contracts first, then list all other contracts. Attach additional forms as needed.

13. Contracting Departmental component: indicate the abbreviation of the division within the Department of Human Services with which the provider agency has the contract. If the contract is with an office within the Department, specify DHS and the office.

CBVI - Commission for the Blind & Visually Impaired

DMHS - Division of Mental Health Services

DDD - Division of Developmental Disabilities

DFD - Division of Family Development

DYFS - Division of Youth and Family Services

DMAHS - Division of Medical Assistance and Health Services

DDHH - Division of Deaf & Hard of Hearing

DDS - Division of Disability Services

DCBHS - Division of Child Behavioral Health Services

DAS - Division of Addiction Services

OOE - Office of Education

OPMRDD - Office of Prevention of Mental Retardation and Developmental Disabilities

DHS - Department of Human Services, Office of _____

14. Contract #: indicate the contract number. If the provider agency does not know the contract number, the Departmental component will complete this section.
15. Column # and Program Name: indicate the column number used for each program in the Annex B: Contract Expense Summary. Use the same column # and program name throughout the package.
16. Reimbursable Ceiling: indicate the contract reimbursable ceiling.
17. Type of Service: indicate the specific program service provided, e.g., homemaker, day care, and counseling. If the provider agency has an approved cluster, indicate the cluster name.
18. & 19. Contract Type and Payment Methodology: indicate the applicable contract type and payment method. Refer to Section 3, Types of Contracts for a discussion of the various contract types and payment methodologies.

Non-Cost-Related

- a. Fixed Rate
- b. Installment Payment

Cost-Related Contracts

- a. Fixed Price
 - (1) Fixed Rate
 - (2) Installment Payment
 - b. Cost Reimbursement
 - (1) Periodic Payment of Reported Expenditures
 - (2) Installment Payment
 - (3) Provisional Rate
20. Departmental Component Contract Person: indicate the Departmental Component's contact person for the contract.
21. Provider Agency Contact Person & Telephone #: indicate the name and telephone number of the individual within the provider agency who is knowledgeable of the contract and can answer questions about the contract budget.
22. Budget/Expenditure Report: The provider agency authorized signatory or fiscal officer must certify to the completeness/accuracy of the budget or expenditure report as submitted.
23. The box in the lower left hand corner is for Departmental Component use only.

Annex B: Contract Expense Detail

The Annex B: Contract Expense Detail forms serve a dual purpose. They are used to provide (1) the projected expense detail necessary to support the Annex B: Contract Expense Summary; and (2) the actual expense detail needed to satisfy expenditure reporting requirements. Refer to Section 6 for information concerning expenditure reporting. The Annex B: Contract Expense Detail forms and applicable Schedules 1-6 should be completed before the Annex B: Contract Expense Summary.

At the top of each form indicate the provider agency name, the purpose for which the forms are being completed, and the budget period covered. The space provided for contract number will be completed by Departmental Component personnel. In the space provided under Columns 2 thru 7, indicate the program name. The program name and the specific column used for projecting the budgeted costs for the program must be consistently used on each of the budget forms. All forms should be typed and all cost figures rounded off to the nearest whole dollar for each item and category.

On the Annex B: Contract Expense Detail forms, Column 1 should contain the provider agency's total costs. Columns 2 through 9 should reflect the allocation of Column 1 expenses to the various provider agency programs/activities. Separate columns must be used to identify costs applicable to each program/activity. For example, a multi-program/multi-funded provider agency may operate a day care program, a counseling program, and a homemaker program. Columns 2 through 4 should reflect the costs of the three separate programs. If there were no other programs, Columns 5, 6, and 7 are left blank.

It might be necessary to account separately for the costs of a particular component of a contracted program. If this is required, a separate column(s) should be used to show these costs. An example of this might be a requirement to identify the room and board cost of a residential treatment program. Costs associated with room and board, such as facility costs allocable to living areas, food service costs allocable to residential clients (other than food service costs funded by an educational program), and applicable personnel costs, would be included in one of the unused columns.

An agency operating more than six separate programs/service components should use additional budget forms to list the additional program/service components and include the costs in Column 1 under Total.

There are two versions of the Expense Detail form: the first, entitled Personnel, is to be used only for Budget Category A: Personnel; the second, entitled Other Than Personnel, is to be used for all budget categories.

The Annex B: Contract Expense Detail - Personnel form provides for cost detail pertaining to salaries and wages and fringe benefits. In the space provided under Columns 2-7 indicate the provider agency's various programs/service components by name. The first four unnumbered columns are provided to identify information about provider agency full and part-time employees, positions, and hours of employment. Column 1 amounts must equal the total salary/wages of the employee. Columns 2-9 are provided for the proper identification and allocation of costs to the appropriate provider agency program/activity. Sub-total the salary/wages before listing fringe benefit costs.

When listing fringe benefits use the space provided for title of position/employee name to list each fringe benefit. Show the total of each fringe benefit in Column 1 and show the direct or statistical allocation of the total to each program/activity in Columns 2-9.

After completing the Salaries and Wages and Fringe Benefits, indicate the total for each column and carry it forward to the Annex B: Contract Expense Summary, Budget Category A: Personnel.

The Annex B: Contract Expense Detail - Other Than Personnel form is a generic form which is to be used for all other cost detail. Use as many of the forms as are needed. The first item listed on this form should be Budget Category B: Consultants and Professional Fees.

After itemizing the costs for each Budget Category B through F, the total for each should be forwarded to the appropriate budget category on the Annex B: Contract Expense Summary. If a category does not have a budget amount, it should still be listed on the Contract Expense Detail form and a zero amount ("0") typed in Column 1: Total.

The following is a discussion of the six budget categories and items to be provided under each category. Specific types of costs of the provider agency should be grouped into the six major budget categories, i.e., Personnel, Consultants & Professional Fees, Materials and Supplies, Facility Costs, Specific Assistance to Clients, and Other.

Budget Categories A through G:

A. Personnel

1. Salaries and Wages - The salaries and wages of all full-time or part-time employees must be entered in this section under the appropriate program(s) or activity (ies).
2. Fringe Benefits - Itemize all supplementary compensation and benefits, such as FICA, State Unemployment and Disability Insurance, health insurance, life insurance, pension or retirement benefits, and workers' compensation. Allocate the total costs to all provider agency activities

(Columns 2 through 9) based on the distribution of total salaries and wages or by direct identification. Furnish supporting worksheets and schedules detailing the itemized expenses and the basis for the budgeted amounts.

If the provider agency has a fringe benefits rate approved by the U.S. Department of Health and Human Services or another governmental agency, this rate may be utilized for budgeting and expenditure reporting. Indicate the approved rate and attach a copy of the complete Negotiation Agreement containing the approved rate and apply the rate to the appropriate salaries and wages reflected in Columns 1 through 9.

B. Consultants and Professional Fees

These costs represent service agreements or fees for services rendered by professional organizations or by members of a profession who are not employees of the provider agency. These costs are for services such as medical, education, psychiatric/psychological, legal, accounting, employment, data processing, payroll preparation, and management services. Specify the service, rate and method of payment, and basis of allocation. Attach a copy of any such agreement.

C. Materials and Supplies

1. Consumable Supplies - Include the costs of materials and supplies necessary to carry out the objectives of the program. These may include medical, programmatic, vocational and recreational supplies. These types of costs should be identified specifically with a particular program. Other costs such as laundry, housekeeping, and office supplies and expenses are general and administrative in nature and should be indicated in Column 9. All costs should be adjusted to reflect any discounts, rebates, refunds, credits, or allowances received by the provider agency.

2. Food - Food costs for staff and clients must be shown separately. Costs of food and beverages should be charged to provider agency activities (including unallowable and general and administrative activities) based on the number of meals served. Food costs should be adjusted to reflect all discounts, allowances, and income received from other funding sources, such as the Child Nutrition Program sponsored by the N.J. Department of Education.

D. Facility Costs

These costs represent all expenses associated with the usage and maintenance of buildings and equipment utilized by the provider

agency. Facility costs constitute a significant portion of the total provider agency costs and must be allocated on a logical and equitable basis (usually square footage) so as to charge all functions of the provider agency with their appropriate share of the costs. The provider agency may elect to "cost allocate" the various facility costs or may include all the costs under General and Administrative Costs (Column 9) and allocate the facility costs, together with other general and administrative costs, in Budget Category G, General and Administrative Cost Allocation. If cost allocation is the method chosen, clearly indicate the basis for the allocation of each cost item. Provide adequate supporting documentation to justify the cost allocation (e.g., square footage layout of total facilities, indicating functional units utilizing the space).

1. Depreciation/Use Allowance (and interest expense applicable to depreciable capital assets) - Complete Schedule 5. In Column 1 indicate the total allowable depreciation/use allowance as reflected in Schedule 5, Column K, and distribute the total cost to Columns 2 through 9.
2. Rental of Space - Itemize the total allowable rental costs for space and land, and attach copies of rental agreements.
3. Maintenance and Repair - Itemize the normal upkeep costs which neither add to the permanent value of the property nor appreciably prolong its useful life. Such costs may include housekeeping, minor repairs and the purchase of small items of maintenance equipment and tools which are considered recurring costs and which do not meet the definition of equipment as defined in the Glossary.
4. Utilities - Itemize the costs of electricity, telephone, gas, oil, water, and sewerage.
5. Insurance - Itemize the cost of insurance applicable to facilities.
6. Other - Itemize the cost of any miscellaneous facility-related costs not listed in paragraph 1 through 5 above.

E. Specific Assistance to Clients

Include in this category cash given to clients and expenditures made to purchase personal items for client use. These types of costs may be budgeted only if applicable to contract services and approved by the Department.

1. Allowances - The amount of any allowance paid to each client must be consistent with program objectives. Show all calculations supporting the total amount budgeted,

including the amount per client for the applicable period and the client population.

2. Personal Items - These include such items as health and beauty aids necessary to maintain clients' hygiene, clothing, and personal appearance.
3. Other - Itemize all other expenses associated with specific assistance to clients not covered in paragraph 1 and 2 above.

F. Other

Include in this category all other costs not covered in the previous categories. Examples are:

1. Travel and Transportation - Include travel costs related to program operations. Itemize costs for transporting clients, staff travel, vehicle operating costs, depreciation of vehicles, rental costs and vehicle/travel related insurance.
2. Training, Conferences, and Meetings - Include training costs and expenses for meetings and conferences which are for the dissemination of technical information relative to the provider agency's program activities.
3. Dues and Subscriptions - Include costs for memberships in trade, business, professional, or technical organizations and for subscriptions to professional periodicals.
4. Interest - Include total interest expense not related to capital assets. Interest expense applicable to depreciable capital assets should be included in Schedule 5 and, as instructed above, in Budget Category D, Facility Costs.
5. Insurance - Itemize all insurance costs not included previously.
6. Miscellaneous - Itemize all other costs not specifically provided for in the budget categories and subcategories discussed above.
7. Indirect Cost Rate

Government Approved

If the provider agency has an indirect cost rate approved by the U.S. Department of Health and Human Services or another governmental agency, it may utilize the rate for budgeting and expenditures reporting. Indicate (1) the approved rate; (2) the type of rate (i.e., provisional,

fixed, predetermined, final); and (3) the base on which it is applied (e.g., total direct salaries and wages, total direct costs). Submit a copy of the complete Negotiation Agreement containing the approved rate. Apply the negotiated rate to the appropriate base, and include the resultant amount in Column 1, Total Cost, and in Column 9, General and Administrative Costs. Do not include any amount for indirect costs in Columns 2 through 8 at this time. The distribution of the indirect costs to the provider agency activities in these columns is to be made in Budget Category G, General and Administrative Cost Allocation on the Annex B: Contract Expense Summary.

If an approved indirect cost rate is used, any expense item included in the indirect cost pool must not be included in any other part of the budget as a direct program cost. For example, the cost applicable to the provider agency's chief executive officer should not appear in Budget Category A: Personnel as a direct program cost if it is part of the indirect cost pool used to compute the approved rate.

G. General and Administrative Cost Allocation

The general and administrative (G&A) or indirect costs of the provider agency represent costs which are incurred for common or joint objectives and which are not readily subject to treatment as direct costs. Minor direct cost items may be considered as G&A costs for reasons of simplicity and practicality. The purpose of this line in the budget is to distribute the G&A costs (Column 9) from Budget Categories A through F to the various programs and activities itemized in Columns 2 through 8. Such distribution must be based on the relative benefits provided to those programs and activities.

The total G&A costs of Categories A through F may be distributed to Columns 2 through 8 based on one allocation method, e.g., direct salaries and wages or total indirect costs, provided the distribution basis fairly represents the benefits accruing to the programs and activities. Where it is necessary to utilize more than one allocation method to distribute two or more G&A cost groupings equitably, attach a cost allocation plan supporting the distribution. Examples of a G&A cost allocation on more than one basis follow:

<u>G&A Cost Groupings</u>	<u>Basis for Allocation</u>
1. Administrative salaries and wages plus applicable fringe benefits; auditing and legal fees, office supplies, postage,	Total direct costs (Budget Categories A through F) of programs and activities represented in Columns 2

- communications, dues and subscriptions, and miscellaneous. through 8
2. Maintenance and housekeeping salaries and wages plus applicable fringe benefits; and facility costs. Square foot usage of programs and activities represented in Columns 2 through 8.

For further explanation and clarification of G&A (indirect) costs, refer to Section 4, Principles For Determining Costs.

The following instructions apply if the provider chooses to use total direct costs as the distribution base for allocating G&A costs (Column 9):

1. Indicate the total costs of Categories A-F in Columns 1-9;
2. Indicate each Column's percentage of the Total (Column 1);
3. Subtract the amount of Column 9 from Column 1;
4. Divide the total amount of each column (2-8) by the difference of Column 1 minus 9 (step 3);
5. Multiply the resulting percentage from step 4 by the total amount of Column 9;
6. Indicate the resulting amount for each column (the amount for each column represents the program's/activity's proportionate share of the G&A costs);
7. Transfer the amount for each column to the Annex B: Contract Expense Summary, Category G: General and Administrative Cost Allocation, Columns 2-8.

If the provider chooses to use total salaries and wages as the distribution base for allocating G&A costs, the same procedural steps should be used, substituting total salary and wage costs for total costs.

Schedule 1: Cost Allocation Data

Proper cost allocation requires that the distribution base used to allocate items or groupings of indirect costs be the best suited for assigning these costs to the cost objective (e.g., contract, program, or activity) in proportion to the relative benefit derived. There must be a traceable cause and effect relationship or a logical and reasonable relationship between the distribution base and the costs being allocated.

Schedule 2: Revenue

Itemize revenues, whether generated by providing services or contributed to the provider agency for the support of its budgeted costs, by program/activity. The various types of revenue must be grouped into the following categories to facilitate the review process:

Department Contract Generated Revenue - List all income generated by the provider agency in connection with the delivery of Department contract services, e.g., Department client rental payments and Department client fees, interest, any income and/or dividends earned on Department funds, and income from third party insurance.

Provider Agency Revenue Used as Cost Sharing - These revenues should be sub-divided into two categories: required cost sharing and voluntary/negotiated cost sharing.

1. Required Cost Sharing:

- a. When the Department provides funding for the delivery of less than 100% of the program, the provider agency must identify the other funding sources and the total amount from each source. In addition, back-up must be provided to verify that the other funding sources are being charged their proportionate share of the cost of the program.
- b. When the Department requires match for certain contracts, for example, for SSBG service (not training) contracts, the provider agency must meet certain matching requirements as specified in Department Policy Circular P6.01.

2. Voluntary/Negotiated Cost Sharing:

When other resources (income from endowments, fund raising, gifts) are available to reduce the cost of services delivered to contract clients, the amount of provider agency participation in the cost of the programs will be based on an agreement between the Department and the provider agency, taking into consideration the provider agency's fund balances, the formal plans (as approved by the governing board) for deployment of fund balances, and the provider agency's ability to generate the needed revenues.

Prior year overpayment - when the Department has determined an amount to be a prior year overpayment requiring provider agency repayment to the Department, the source and amount of the overpayment, with Department approval, should be shown as revenue to reduce the cost of services.

Provider Agency Revenue Not Used as Cost Sharing - List other revenues received or generated by the provider agency which will

not be used to reduce the cost of Department funded programs, but which will be used to fund other budgeted costs.

The sub-totals for each category should be totaled at the bottom of the schedule and transferred to Annex B: Contract Expense Summary, Line K.

Schedule 3: Applicable Credits

Applicable Credits means the receipts or reductions of expenditures which operate to offset or reduce expense items allocable to the contract as direct or indirect costs. Any rental incomes, planned sales of scrap or incidental services, or other recoveries of expenditures should be included on this schedule. Estimate the applicable credits or miscellaneous income items which are anticipated for the budget period. Where possible, utilize past experience and data to make a realistic projection of the credits. Indicate the total amount of the credit or income item anticipated for the budget period.

Specify the appropriate treatment of each credit or income item by indicating the budget category and expense item in Annex B: Contract Expense Detail which was offset or reduced. If the credit or income item is not applicable to the budgeted expenditures, indicate so under the "Treatment" column and include a brief explanation in the space provided for explanatory notes.

Schedule 4: Related Organization

Report on this schedule any budgeted or actual purchases from related organizations. A related organization is one under which one party is able to control or influence substantially the actions of the other. Such relationships include but are not limited to those between (1) divisions of an organization; (2) organizations under common control through common officers, directors, or members, and (3) an organization and a director, trustee, officer, or key employee or his/her immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

Costs of services, facilities, and supplies furnished by organizations related to the provider agency must not exceed the competitive price of comparable services, facilities, or supplies purchased elsewhere.

Schedule 5: Depreciation/Use Allowance

Column A: Depreciable Capital Asset Items include buildings (excluding land), equipment, furniture, and fixtures, as well as capital asset improvements and renovations which materially increase the value or useful life of an asset. Refer to Section 4, Principles for Determining Costs - Depreciation and Use Allowances for further explanation.

Itemize individual capital assets within a particular type of asset if they require a separate basis for allocation. Attach additional sheets if necessary.

Column B: Acquisition Cost means the actual price paid for an asset, or, in the case of a donated item, the fair market value of the asset at the time it was donated.

Column C: Exclusions mean (1) any portion of the acquisition costs in Column B which was borne directly or indirectly by any level of government and (2) the acquisition cost of any listed asset for which legal title is not held and (3) any portion of the cost of buildings and equipment contributed by or for the provider in satisfaction of a statutory matching requirement.

Column D: Column B minus Column C.

Column E: Indicate the accumulated depreciation reported on the provider agency's books and records. This includes any prior period charges made to Department contracts.

Column F: Determine the net book value of a capital asset only if the item is depreciated on the provider agency's books and records. The net book value is calculated by subtracting the accumulated depreciation in Column E from the adjusted cost basis in Column D.

Column G: Indicate the annual depreciation expense which will be recorded on the provider agency's books and records and published in its financial statements for the period which most nearly corresponds with the budget/reporting period. The calculation of the depreciation amount must be in accordance with generally accepted accounting principles and the governing principles for determining costs.

Column H: Where depreciation is not reported on the provider agency's books and records, apply the appropriate use allowances (two percent for buildings and capital improvements and six and two-thirds percent for equipment) to the adjusted cost basis figures in Column D. If an asset is fully depreciated, no use allowance is permitted without prior approval of the Department.

Column I: Indicate the annual interest expense attributable to Column A assets that are depreciated on the provider agency's books and records. The amount(s) shown should be for the provider agency's fiscal year which

most nearly correspond with the budget/reporting period. Interest expense is not allowable for assets to which a use allowance is applied (Column H) in lieu of depreciation. For this reason, provider agencies are encouraged to maintain adequate records to permit the recording and charging of depreciation in accordance with generally accepted accounting principles and the governing principles for determining costs.

Column J: Column G plus Column I.

Column K: Include the proportionate amounts of either Column J (Annual Depreciation and Interest Expense) or Column H (Annual Use Allowance) to reflect the amount applicable to the number of months in the budget/reporting period. If the period is the provider agency's fiscal year, include the full amount. If less than 12 months, include the appropriately prorated amount.

Schedule 6: Cost of Equipment

On this schedule detail the purchase of equipment, i.e., items of nonexpendable tangible personal property having a useful life of more than 2 years and an acquisition cost of \$5,000 or more per unit. Such purchases must be in compliance with Section 4, Principles for Determining Costs, and the Department Policy Circular P4.05, Equipment. Department participation in the purchase of equipment will preclude Department participation in depreciation and/or use allowance for these items in the current or any future contracts. Supporting documentation in the form of bids, price quotes, etc., must be submitted with the contract package.

Note: Column 9 General and Administrative Costs is not included on this schedule since the cost of equipment is unallowable as an indirect cost.

Annex B-2: Contract Rate Information Summary

The Annex B-2: Contract Rate Information Summary is used for cost related contracts which are paid on a rate per unit of service delivered. The Annex B-2 is always prepared by the Department prior to contract execution and a copy forwarded to the provider agency along with the final contract package.

Annex B: Contract Expense Summary

This form summarizes the provider agency's expense information for the applicable budget period. It should be completed after the Annex B: Contract Expense Detail forms and all supporting schedules have been completed.

Columns 1 through 9, Line A through G, should include expenses in accordance with Section 4, Principles For Determining Costs. Column 1 should contain the provider agency's total costs for each category as itemized in the contract expense detail forms. Columns 2 through 9 should reflect the allocation of Column 1 expenses to the various agency programs and activities.

Column 1 - Total: Fill in the total provider agency costs by category. These figures must correspond with the various category totals contained in the contract expense detail forms, Column 1 - Total. The figures in Column 1 should constitute the provider agency's total financial activities for the applicable budget period, unless the Department is not charged for any indirect, general and administrative, or allocated costs.

Column 2 through 7: The costs included in Columns 2 through 7 represent costs of the various provider agency programs. These costs are taken from the category total contained in the contract expense detail form, Columns 2 through 7.

Column 8 - Unallowable Costs: Enter the provider agency's total projected unallowable costs as defined in Section 4, Principles For Determining Costs. The figure to be entered for each budget category is the total of unallowable costs for each program, as reflected in the contract expense detail forms, Column 8.

Column 9 - General & Administrative Costs: Enter the provider agency's total projected expenses which are general in nature (not directly identifiable with any one program) and/or administrative costs which benefit the provider agency's total operations.

LINES H-P

Line H - Total Operating Costs: In Columns 1 through 9, enter the totals of lines A through G.

Line I - Equipment: Total equipment costs shall be included in Column 1 and distributed to the appropriate program(s)/activities in Columns 2 through 8. Schedule 6: Cost of Equipment and accompanying worksheets must be submitted as supporting documentation.

Line J - Total Cost: In Columns 1 through 8, add Line I and Line H. The resultant amounts will reflect all costs of the provider agency's programs/activities and equipment before revenue.

Line K - Revenue: in Columns 1 through 8, enter the provider agency's revenues as reflected in Schedule 2: Revenue.

Line L - Net Cost: in Columns 1 through 8, subtract Line K from Line J. The resultant amount will reflect the total cost of programs and equipment after revenue but before any profit.

Line M - Profit: Inclusion of profit in the cost of the contract is allowable only in the case of for-profit provider agencies. Any profit included must be a fixed amount agreed to in negotiations with the Department. Any amount for profit when added to any budgeted amount for interest expense (as shown in Schedule 5: Depreciation/Use Allowance, Column 1) may not exceed 10% of the contract's Net Cost (Line L). Enter the amount, if any, agreed to in negotiations with the Department.

Line N - Reimbursable Ceiling: In Columns 1 through 7, enter the total of Line L and Line M (where applicable). This total is the maximum Department payment for those programs funded by the Department of Human Services.

Line O - Budgeted Units of Service: Indicate the budgeted units of service to be delivered under each program.

Line P - Unit Cost: Indicate the cost for each budgeted unit of service (Line N minus Line I Divided by Line O).

STATE OF NEW JERSEY
DEPARTMENT OF HUMAN SERVICES
ANNEX B-2: CONTRACT RATE INFORMATION SUMMARY

PROVIDER: _____
CONTRACT #: _____
FEDERAL I.D.#: _____

DATE: _____
THIS ANNEX B-2 SUPERCEDES THE
ANNEX B-2 DATED: _____

SECTION I: RATES

Table with 5 columns: PROGRAM/SERVICE, UNIT OF SERVICE, RATE PER SERVICE UNIT*, TYPE OF RATE, EFFECTIVE PERIOD (FROM TO)

*THESE RATES ARE SUBJECT TO THE CONDITIONS IN SECTIONS II AND III

*****8*****

SECTION II: CONTRACT STIPULATIONS

*****88*****

- A. The service capacity of the Provider Agency is _____ for the term of this Contract.
B. The Provider Agency shall submit to the Department a () monthly, () quarterly, () semi-annual, () annual report...
C. The Provider Agency shall submit to the Department a () monthly, () quarterly, () semi-annual, () annual report...
D. Other: (Specify reporting requirements if B and C above are not applicable.)

SECTION III: GENERAL

*****8*****

- A. Limitations: Use of the rate(s) contained in this Annex is subject to any statutory or administrative limitations.
D. Types of Rates:
3. Provisional: a provisional rate is a temporary or interim rate and is subject to adjustment on the basis of a final rate calculated when actual costs are reported.
4. Fixed: a fixed rate is a permanent rate, not subject to adjustment, which is agreed to for a specific future period, usually one year.
E. Notification of State agencies: Copies of this document may be furnished to other State agencies as a means of notifying them of the information it contains.
D. Other:

DHS (REV. 1/00)

Contract Budget Package
Standard Forms

DHS (Rev 7/86) Agency Name: _____ Contract #: _____		STATE OF NEW JERSEY DEPARTMENT OF HUMAN SERVICES ANNEX B: CONTRACT EXPENSE SUMMARY PAGE _____ TO _____					Purpose: <input type="checkbox"/> Budget Preparation <input type="checkbox"/> Expenditure Report <input type="checkbox"/> Interim <input type="checkbox"/> Fiscal-Yr-End <input type="checkbox"/> Final Period Covered: _____ to _____			
	1	2	3	4	5	6	7	8	9	
Budget Categories	Total							Unallowable Costs	Gen. & Adm Costs	
A. Personnel (including fringe benefits)										
B. Consultants & Professional Fees										
C. Materials & Supplies										
D. Facility Costs										
E. Specific Assistance to Clients										
F. Olther										
G. Gen. & Adm. Cost Allocation	>>>>>>>>									
H. Total Operating costs										
I. Equipment (Schedule 6)										
J. Total Cost										
K. Less Revenue (Schedule 2)										
L. Net Cost										
M. Profit										
N. Reimburseble Ceiling										
O. Units of Service										
P. Unit Cost										

Contract Budget Package

Sample Budget

**STATE OF NEW JERSEY
DEPARTMENT OF HUMAN SERVICES
ANNEX B: CONTRACT INFORMATION FORM
PAGE 1 OF 12**

Agency Name: First Street Social Service Agency
 Address: 123 First Street
Anytown, NJ 12345
 Phone: 201-567-8910
 Chief Executive Officer: Jane Lloyd
 Prepared by: V. Harden

Agency Federal I.D. #: 2 2 - 3 4 5 6 7 8 9
 Charities Registration #: 1 2 3 4 5 6 7 8 9
 Non-Profit Agency For -Profit Agency Public Agency
 Budget Period: 1/1/85 to 12/31/85 Agency Fiscal Year End: 12/31
 Schedules Completed:
 Cash Basis or Accrual Basis

Contracting Division	Contract #	Column # and Program Name	Reimbursable Ceiling	Type of Service	Contract Type	Payment Method	Division Contact Person	Provider Agency Contact Person & Telephone #
DMHS	MH185001	2. Homested	\$72,962	Trans. Care	CR	I	D. Jones	A. Nelson 292-0034
DYFS	N1236N	3. Child Care Ctr	\$139,169	Child Care	NCR	FR	D. Brown	S. Martin 984-9836
DYFS	N1236N	4. Family Conn.	\$29,716	Fam con.	CR	I	J. Williams	M. Howard 292-9876
DDD	Z897P	5. First Step	\$57,991	Voc. Trng	CR	I	T. Wallace	D. McIntire 984-8976

Division Use Only
 Contract # _____
 Effective Dates _____ to _____
 Division _____

Budget: I certify that the cost data used to prepare this contract budget is current, complete, and in accordance with the governing principles for determining costs.

Expenditure Report: I certify that the expenditures reported herein are current, accurate, and in accordance with the contract budget and the governing principles for determining costs.

 (Signature)
 Agency Authorized Signatory

 Fiscal Officer

DHS (REV 7/86)										
Agency: First Street Social Service Agency Contract #: _____		STATE OF NEW JERSEY DEPARTMENT OF HUMAN SERVICES ANNEX B: CONTRACT EXPENSE SUMMARY PAGE <u> 2 </u> TO <u> 12 </u>					Purpose: (X) Budget Preparation () Expenditure Report () Interim () Fiscal-Yr-End () Final Period Covered: <u> 1/1/86 </u> to <u> 12/31/86 </u>			
	1	2	3	4	5	6	7	8	9	
Budget Categories	Total	Homestead	Child Care Center	Family Conn.	First Step	Home Bound	New Start	Unallowable Costs	Gen. & Adm Costs	
A. Personnel (including fringe benefits)	\$356,755	\$37,389	\$75,062	\$14,424	\$34,053	\$10,388	\$28,852	\$0	\$156,600	
B. Consultants & Professional Fees	\$65,300	\$5,000	\$10,500	\$500	\$5,000	\$0	\$0	\$15,000	\$35,300	
C. Materials & Supplies	\$30,000	\$10,500	\$10,500	\$500	\$5,000	\$0	\$0	\$0	\$3,500	
D. Facility Costs	\$104,733	\$8,011	\$40,250	\$7,404	\$14,655	\$5,602	\$5,602	\$0	\$23,209	
E. Specific Assistance to Clients	\$6,000	\$6,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
F. Olther	\$6,540	\$380	\$550	\$0	\$0	\$180	\$0	\$5,000	\$430	
G. Gen. & Adm. Cost Allocation	>>>>>>>								-\$219,039	
H. Total Operating costs	\$569,328	\$67,280	\$136,862	\$22,828	\$58,708	\$16,170	\$34,454	\$20,000		
I. Equipment (Schedule 6)										
J. Total Cost		\$67,280	\$136,862	\$22,828	\$58,708	\$16,170	\$34,454	\$20,000		
K. Less Revenue (Schedule 2)										
L. Funding Request	\$0	\$67,280	\$136,862	\$22,828	\$58,708	\$16,170	\$34,454	\$20,000		
M. Profit										
N. Reimbursable Ceiling	\$356,302	\$67,280	\$136,862	\$22,828	\$58,708	\$16,170	\$34,454	\$20,000		
O. Unit of Service		Days	Days	Hours	Clients					
P. No. of Units	>>>>>>>	\$2,500	\$13,000	\$1,830	\$70					
Q. Unit Cost		\$27	\$11	\$12	\$839					

DHS (REV 7/86) Agency Name: First Street Social Service Agency Contract #: _____	STATE OF NEW JERSEY DEPARTMENT OF HUMAN SERVICES ANNEX B: EXPENSE DETAIL PERSONNEL PAGE <u>3</u> OF <u>12</u>	Purpose: (X) Budget Preparation () Expenditure Report Period Covered: <u>1/3/86</u> to <u>12/31/86</u>
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BUDGET CATEGORY: PERSONNEL				1	2	3	4	5	6	7	8	9
Position Title/Name	Pos. #	Hours per Week	Employment Date	Total Cost	Homestead	Child Care Ctr.	Family Conn.	First Step	Home Bound	New Start	Unallowable Costs	Gen. & Adm Costs
A. Personnel												
Exec Dir/J. Lloyd	1	35	Jul-82	\$40,500								\$40,500
Soc. ServDir/ L. Flannagan	2	35	Jun-80	\$29,250								\$29,250
Fin Dir/L. Armstrong	3	35	Jun-80	\$27,000								\$27,000
Adn. Asst./V. Harden	4	35	Jun-80	\$20,000								\$20,000
Dir./Coun./D. Jefferson	5	35	Sep-89	\$15,000						\$15,000		
Counselor/B. Greene	6	35	Jun-86	\$10,000						\$10,000		
Dir./Coun./J. Clarke	7	35	Sep-94	\$9,000					\$9,000			
Director/A. Nelson	8	35	Aug-95	\$24,000	\$24,000							
Resi/Caregiver/D. Hughes	9	35	Sep-90	\$8,400	\$8,400							
Dir./Coun/M. Howard	10	35	Dec-95	\$12,500			\$12,500					
Dir./Hd. Tech/S. Martin	11	35	Feb-96	\$13,500		\$13,500						
Teacher Asst. I/L. Bilik	12	35	Aug-93	\$11,250		\$11,250						
Teacher Asst. II/F. Jackson	13	35	Sep-95	\$11,369		\$11,369						
Teacher Asst. III/S Wilkes	14	35	Aug-94	\$9,739		\$9,739						
Sub-Total this Page				\$241,508	\$32,400	\$45,858	\$12,500		\$9,000	\$25,000		\$116,750

DHS (REV 7/86) Agency: First Street Social Service Agency Contract #: _____	STATE OF NEW HERSEY DEPARTMENT OF HUMAN SERVICES ANNEX B: CONTRACT EXPENSE SUMMARY PERSONNEL PAGE <u>4</u> OF <u>12</u>	Purpose: (X) Budget Preparation () Expenditure Report Period Covered: <u>1/1/85</u> to <u>12/31/85</u>
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BUDGET CATEGORY: PERSONNEL				1	2	3	4	5	6	7	8	9
Position Title/Name	Pos #	Hrs/ Wk	Eplym't Date	Total Cost	Home stead	Child Care Ctr.	Family Conn.	First Step	Home Bound	New Start	Unallowable Costs	Gen. & Adm Costs
Subtotal from prev page				\$241,508	\$32,400	\$45,858	\$12,500		\$9,000	\$25,000		\$116,750
Teach Asst./A Migliore	15	35	Apr-80	\$9,593		\$9,593						
Teach Asst./V.P. Arber	16	35	Mar-83	\$9,593		\$9,593						
Dir./Teach/D. McIntire	17	35	Mar-82	\$11,000				\$11,000				
Teach Asst. I/B Butler	18	35	Mar-83	\$9,500				\$9,500				
Teach Asst. II/C. Lawrence	19	35	Apr-84	\$9,000				\$9,000				
Maint. Per/M. Robbins	20	35	Aug-82	\$10,452								\$10,452
Maint. Per/A. Manjon	21	35	Nov-81	\$8,500								\$8,500
TOTAL SALARIES				\$309,146	\$32,400	\$65,044	\$12,500	\$29,500	\$9,000	\$25,000		\$135,702
FICA				\$21,795	\$2,284	\$4,586	\$881	\$2,079	\$635	\$1,763		\$9,567
SUI				\$9,429	\$988	\$1,984	\$381	\$900	\$273	\$764		\$4,139
Group Medical Insurance				\$15,612	\$1,636	\$3,284	\$631	\$1,490	\$455	\$1,263		\$6,853
Wokers Compensation				\$773	\$82	\$163	\$32	\$74	\$23	\$60		\$339
TOTAL FRINGE				\$47,609	\$4,989	\$10,018	\$1,924	\$4,553	\$1,388	\$3,852		\$20,898
TOTAL PERSONNEL				\$356,755	\$37,389	\$75,062	\$14,424	\$34,053	\$10,388	\$28,852		\$156,600

DHS (REV 7/86)		STATE OF NEW HERSEY DEPARTMENT OF HUMAN SERVICES ANNEX B: CONTRACT EXPENSE SUMMARY OTHER THAN PERSONNEL PAGE <u>5</u> OF <u>12</u>						Purpose: (X) Budget Preparation () Expenditure Report Period Covered: <u>1/1/86</u> to <u>12/31/85</u>		
Agency: First Street Social Service Agency Contract #: _____										
		1	2	3	4	5	6	7	8	9
BUDGET CATEGORY	Basis for Allocation	Total Cost	Home Stead	Child Care Ctr	Family Conn	First Step	Home Bound	New Start	Unallowabl e Costs	Gen. & Adm Costs
B. Consult & Prof Fees										
Buckley, Jones&Vogel CPA	\$75/hr, direct	\$3,000								\$3,000
Melton & Hartman , Esq.	\$175/hr, direct	\$300								\$300
B. Alexander, MSW	\$25/hr, direct	\$5,000	\$5,000							
K. Christopher, MSW	\$25/hr, direct	\$5,000			\$5,000					
H. Largen, MSW	\$25/hr, direct	\$5,000					\$2,500	\$2,500		
R. Stevens, Fundraiser	per year, direct	\$15,000							\$15,000	
APR Payroll Services	per year, direct	\$32,000								\$32,000
TOTAL CONSULT. & PROF FEES		\$65,300	\$5,000		\$5,000		\$2,500	\$2,500	\$15,000	\$35,300
C. Materials & Supplies										
Office supplies	direct	\$2,500								\$2,500
Maintenance Supplies	direct	\$2,000	\$500	\$500						\$1,000
Classroom Supplies	direct	\$5,000		\$2,500		\$2,500				
Food	direct	\$20,000	\$10,000	\$7,500		\$2,500				
TOTAL MATERIALS & SUPPLIES		\$30,000	\$10,500	\$10,500	\$500	\$5,000				\$3,500

DHS (REV 7/86)										
Agency: First Street Social Service Agency		STATE OF NEW JERSEY					Purpose:			
Contract #: _____		DEPARTMENT OF HUMAN SERVICES					(X) Budget Preparation			
		ANNEX B: CONTRACT EXPENSE DETAIL					() Expenditure Report			
		OTHER THAN PERSONNEL					Period Covered: <u>1/1/86</u> to <u>12/31/86</u>			
		PAGE <u>6</u> OF <u>12</u>								
		1	2	3	4	5	6	7	8	9
BUDGET CATEGORY	BASIS FOR ALLOCATION	Total Cost	Home Stead	Child Care Ctr	Family Conn	First Step	Home Bound	New Start	Unallowable Costs	Gen. & Adm Costs
D. Facility Costs										
Rental of space/equip	direct-(127 1st St.)	\$25,200		\$25,200						
Gas & Electric	direct-(127 1st St.)	\$5,250		\$5,250						
Fuel Oil	direct-(127 1st St.)	\$8,700		\$8,700						
Gas & Electric	direct-(125 1st St.)	\$2,500	\$2,500							
Fuel Oil	direct-(125 1st St.)	\$3,400	\$3,400							
Gas & Electric	123 1st St - Schedule 1	\$2,650			\$353	\$707	\$265	\$265		\$1,060
Fuel Oil	123 1st St - Schedule 1	\$47,700			\$6,360	\$12,720	\$4,770	\$4,770		\$19,080
Depreciation - 123 1st St	Schedule 1 & 5	\$2,222			\$289	\$600	\$222	\$222		\$889
Depreciation - 125 1st St	Schedule 5	\$1,111	\$1,111							
Liability Ins	direct-(127 1st St)	\$950		\$950						
Liability Ins.	direct-(125 1st St.)	\$800	\$800							
Liability Ins. (123 1st St)	Schedule 1	\$1,700			\$227	\$453	\$170	\$170		\$680
Telephone	direct - per bills	\$2,550	\$200	\$150	\$175	\$175	\$175	\$175		\$1,500
TOTAL FACILITY COSTS		\$104,733	\$8,011	\$40,250	\$7,404	\$14,655	\$5,602	\$5,602		\$23,209

DHS (REV 7/86)										
Agency: First Street Social Service Agency		STATE OF NEW JERSEY DEPARTMENT OF HUMAN SERVICES ANNEX: B CONTRACT EXPENSE DETAIL OTHER THAN PERSONNEL						Purpose: (X) Budget Preparation () Expenditure Report		
Contract #: _____		PAGE <u>7</u> OF <u>12</u>						Period Covered: <u>1/1/86</u> to <u>12/31/86</u>		
		1	2	3	4	5	6	7	8	9
BUDGET CATEGORY	Basis for Allocation	Total Cost	Home Stead	Care Ctr	Family Conn	First Step	Home Bound	New Start	Unallowable Costs	Gen. & Adm Costs
E. Specific Assistance to Clients										
Personal Items	direct	\$6,000	\$6,000							
Total Spec. Assist. To Clients		\$6,000	\$6,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
F. Other										
Conferences and Meetings	direct	\$300		\$50						\$250
Travel	direct	\$540	\$180				\$180			\$180
Admission Fees	direct	\$700	\$200	\$500						
Fundraising Expenses	direct	\$5,000							\$5,000	
TOTAL OTHER		\$6,540	\$380	\$550	\$0	\$0	\$180	\$0	\$5,000	\$430
G. Gen. & Adm Allocation	Total: Categories A-F									0
	% of Total		12%	22%	5%	9%	3%	7%	4%	38%
	% of G&A									
	G&A Allocation									0

DHS (REV 7/86)		STATE OF NEW JERSEY DEPARTMENT OF HUMAN SERVICES SCHEDULE 2: REVENUE PAGE <u>9</u> OF <u>12</u>						Purpose: (X) Budget Preparation () Expenditure Report Period Covered: <u>1/1/86</u> to <u>12/31/86</u>	
Agency: First Street Social Service Agency Contract #: _____									
	1	2	3	4	5	6	7	8	9
DESCRIPTION	TOTAL	Homestead	Child Care Ctr.	Family Conn	First Step	Home Bound	New Start	UNALLOWABLE COSTS	GEN & ADM COSTS
Agency Revenue Used as Cost Sharing									
United Fund	\$100,000	\$35,937	\$20,864	\$14,636	\$28,563				
Community Chest	\$47,682		\$47,682						
Fundraising	\$33,142							\$33,142	
Agency revenue not used as Cost Sharing									
Community Chest	\$40,666					\$4,620	\$36,046		
Fundraising	\$50,000					\$25,000	\$25,000		
TOTAL	\$271,490	\$35,937	\$68,546	\$14,636	\$28,563	\$29,620	\$61,046	\$33,142	
SUPPORTING DOCUMENTATION IS REQUIRED SUBSTANTIATE THE ALLOCATIONS									

DHS (REV 7/86)										
Agency: First Street Social Services Agency Contract #: _____			STATE OF NEW JERSEY DEPARTMENT OF HUMAN SERVICES SCHEDULE 2: REVENUE PAGE <u>11</u> OF <u>12</u>				Purpose: (X) Budget Preparation () Expenditure Report Period Covered: <u>1/1/86</u> to <u>12/31/86</u>			
A	B	C	D	E	F	G	H	I	J	K
DEPRECIATION CAPITAL ASSET ITEMS	ACQUISITION COST	EXCLUSIONS	ADJUSTED COST BASIS (Col B minus Col C)	ACCUMULATED DEPRECIATION REPORTED ON FINANCIAL STATEMENTS	NET BOOK VALUE (Col D minus Col E)	ANNUAL DEPRECIATION REPORTED ON FINANCIAL STATEMENTS	ANNUAL USE ALLOWANCE	INTEREST EXPENSE	ANNUAL DEPRECIATION AND INTEREST EXPENSE (Col G + Col I)	ALLOWABLE DEPRECIATION/USE ALLOWANCE
Bldg., 123 First Street	\$100,000	\$10,000	\$90,000	\$77,778	\$12,222	\$2,222			\$2,222	\$2,222
Bldg., 125 First Street	\$50,000	\$5,000	\$45,000	\$4,444	\$40,556	\$1,111			\$1,111	\$1,111
TOTALS	\$150,000	\$15,000	\$135,000	\$82,222	\$52,778	\$3,333	\$0	\$0	\$3,333	\$3,333

SECTION 6

EXPENDITURE REPORTING

6.1 Introduction

Basic for Reporting Expenditures and Revenue

6.2 Interim Expenditure Reports

6.3 Fiscal-Year-End Report

6.4 Final Expenditure Report

Final Expenditure Reporting
Treatment of Unpaid Expenses and Uncollected Revenue

6.5 Table - Illustration of Reporting Frequency

6.6 Instructions for Completing the Contract Expenditure Reports

6.1 Introduction

In most instances, cost-related contracts, regardless of the payment methodology employed, require the submission of expenditure reports to the Department. The following subsections establish policies and procedures applicable to expenditure reporting. It should be noted that the reporting requirements set forth here are minimum and may be supplemented by the contracting division. Specific reporting requirements for individual contracts are contained in the contract annex(es).

Basic for Reporting Expenditures and Revenue

There are three types of contract expenditure reports: interim, fiscal-year-end, and final. These reports must be on Department-approved forms (refer to Section 5, Standard Contract Fiscal Annexes) and must be certified by the provider agency's chief executive officer or authorized fiscal officer.

1. Interim expenditure reports may be prepared on a cash or accrual basis depending on the provider agency's method of accounting. However, reported expenditures and revenue must be treated consistently according to the manner in which costs were budgeted; must be consistent with the provider agency's account structure and reporting practices; and must be reconciled with the provider agency's books and records.
2. Interim expenditure reports will include expenditures applicable to State agency funded contracts and not include organization-wide expenditures.
3. Fiscal-year-end and final expenditure reports must be completed on an organization-wide basis if the provider agency is charging the State agency for indirect, general and administrative or allocated costs. If a provider agency is not charging the State agency indirect, general and administrative or allocated costs, the fiscal-year-end and final expenditure reports will not be required to be completed on an organization-wide basis.

6.2 Interim Expenditure Reports

Interim expenditure reports are completed at periodic intervals - monthly, quarterly or semi-annually - during the contract term. The frequency of interim reporting is determined by the Department on the basis of several factors. Primary among them is the extent, if any, of past experience with the provider agency and the service. Where a lack of experience makes it difficult to predict costs and levels of operation, monthly interim reports are generally the most appropriate. With experience and stability in operation, the frequency of expenditure reporting may be reduced.

Interim expenditure reporting must be cumulative within the provider agency's fiscal year. This means, for example, if a second interim report period falls within the same provider agency fiscal year as the first report period, the second report must reflect cumulative figures for the two periods.

If a contract term spans more than one provider agency fiscal year, a fiscal-year-end report must be completed at the end of any fiscal year which falls during the contract term. In such cases, interim reporting then begins again and continues either until contract termination or until the close of another provider agency fiscal year, whichever occurs first.

Interim expenditure reports must be submitted on the following forms:

Annex B: Contract Information Form

Annex B: Contract Expense Summary

Schedule 2: Revenue

Schedule 3: Applicable Credits

Other supporting schedules as requested by the Department.

At the end of the contract term the provider agency may submit an interim report for costs incurred during the final reporting period of the contract. The provider agency must clearly designate that such report is an interim report. This interim report, submitted at the end of the contract, will allow the provider agency, at its option, to be reimbursed for period costs without having to wait for submission of the final expenditure report.

6.3 Fiscal-Year-End Report

A fiscal-year-end expenditure report must be submitted at the fiscal year end of the provider agency (not State) which falls during the contract term. The purpose of the report is to reconcile contract expenditures with the provider agency's annual audited financial statements. The fiscal-year-end report is an organization-wide report and must reflect cumulative contract expenditures either from the beginning of the contract term or from the most recent provider agency fiscal year commencement, whichever occurred later.

A fiscal-year-end expenditure report must be submitted on the following forms:

1. Annex B: Contract Information Form
2. Annex B: Contract Expense Summary
3. Annex B: Contract Expense Detail - Personnel
4. Annex B: Contract Expense Detail - Other than Personnel
5. Schedule 1: Cost Allocation Data
6. Schedule 2: Revenue
7. Schedule 3: Applicable Credits
8. Schedule 4: Related Organizations
9. Schedule 5: Depreciation/Use Allowance
10. Schedule 6: Cost of Equipment

In addition, copies of the provider agency's worksheets used to reconcile the fiscal-year-end expenditure report to the annual audited financial statements must be submitted to the Department.

6.4 Final Expenditure Report

Final expenditure reports are completed at contract termination, whether such termination occurs by means of routine expiration of the contract term or prior to term for some reason. Like fiscal-year-end reports, a final report must reflect cumulative contract expenditures either from the beginning of the contract term or from the most recent provider agency fiscal year commencement, whichever occurred later.

Final Expenditure Reporting

The provider agency is required to report final contract expenditures on a modified accrual basis to ensure that both contract-related expenses and revenues are appropriately reported, and that such expenses and revenues are actually paid and collected.

Upon termination of the contract, there may be instances when costs have been incurred during the contract term but payment will not be made or revenues have been earned during the contract term but have not been collected. In order to reimburse the provider agency properly for these costs and to ensure actual payments and collections, a final expenditure report is required. Within a maximum of 90 days following the termination of the contract, the provider agency must make every effort to -

1. pay for all allowable contract costs incurred but not paid during the contract term; and
2. collect all revenue earned but not collected during the contract term.

Within a maximum of 120 days following termination of the contract, a final expenditure report shall be submitted to the Department. The provider agency in this report shall -

1. include cumulative contract expenditures and revenues either from the beginning of the contract term or from the most recent provider agency fiscal year commencement, whichever occurred later; and
2. certify that all expenditures have been paid and all revenues have been collected during the specified time frames.

In accordance with Department Policy Circular P7.01, Contract Closeout, the Department shall review the final expenditure report and make any adjustments. To this end -

1. the Department shall promptly pay the provider agency the amount due but as yet unpaid for providing contract services; and
2. the provider agency shall immediately refund any amount determined to be an overpayment which the Department has not authorized to be retained for use by the provider agency on a successor contract.

A final expenditure report must be submitted on the same Department-approved forms required for fiscal-year-end reports (see Subsection 6.3, Fiscal-Year-End Report). If the contract term ends concurrently with the provider agency's fiscal year, the fiscal-year-end report will double as the final expenditure report.

If there is a contract audit, official settlement of contract reimbursement will be based on the result of the audit conducted subsequent to the termination of the contract.

Treatment of Unpaid Expenses and Uncollected Revenue

Generally, contract expenses incurred during the contract term, but not paid by the provider agency within 90 days after the termination of the contract, may not be paid under a successor contract. On an exceptional basis, with the specific written approval of the Department, applicable contract expenses incurred during the contract term, but not paid by the provider agency during the 90 days after termination of the contract, may be paid under a successor contract (refer to Section 4.7, unallowable item 13, Pre-Award Costs, page 6).

Applicable program revenue earned during the contract term but not collected by the provider agency within the 90 days after the termination of the contract, shall be treated in the following manner.

1. if there is a successor contract, all applicable revenue received shall be applied as revenue to the successor contract.
2. if there is no successor contract, all applicable revenue received shall be refunded to the Department by check made payable to the Treasurer, State of New Jersey.

Table
Illustration of Reporting Frequency

The following Table serves to illustrate interim, fiscal-year-end, and final expenditure reporting requirements for several combinations of contract term, provider agency fiscal year, and require reports.

Contract Term	Provider Fiscal Year	Reporting Frequency	Interim Reports		Fiscal-Year-End Reports		Final Report
			Number	Periods Covered	Number	Periods Covered	Covers
7/1/83-6/30/84 (1year)	July 1-June 30	Monthly	12	7/1/83-7/31/83 7/1/83-8/31/83 etc. until 7/1/83-6/30/84	1	7/1/83-6/30/84	N/A*
7/1/83-6/30/85 (2 years)	July 1-June 30	Quarterly	8	7/1/83-9/30/83 7/1/83-12/31/83 7/1/83-3/31/84 7/1/83-6/30/84 7/1/84-9/30/84 7/1/84-12/31/84 7/1/84-3/31/85 7/1/84-6/30/85	2	7/1/83-6/30/84 7/1/84-6/30/85	N/A*
7/1/83-6/30/85 (2 years)	Oct 1-Sept 30	Semi-Annual	5	7/1/83-9/30/83 10/1/83-3/31/84 4/1/84-9/30/84 10/1/84-3/31/85 4/1/85-6/30/85	2	7/1/83-9/30/83 10/1/83-9/30/84	10/1/84-6/30/85
7/1/83-6/30/85 (2 years)	Jan 1-Dec 31	Annual	2	7/1/83-6/30/84 7/1/84-6/30/85	2	7/1/83-12/31/83 1/1/84-12/31/84	1/1/85-6/30/85

* Provider fiscal-year-end report doubles as final report.

6.6 Instructions for Completing the Contract Expenditure Reports

The Annex B: Contract Budget Package forms are the same forms used in preparation of the contract expenditure reports. Each time these forms are used the purpose must be indicated on the Annex B: Contract Expense Summary form. The contract expenditure report summarizes actual expenditures for the applicable reporting period for Department funded contracts. The Annex B: Contract Expense Summary form should be completed after the Contract Expense Detail: Personnel, and Other Than Personnel, and all supporting schedules. The forms are to be typed and all expense figures rounded off to the nearest whole dollar.

Furnish all information required at the top of the Annex B: Contract Expense Summary form. The "Period Covered" at the upper right should indicate the date of the contract term, but not past the end of the provider agency's fiscal year end (the report period ends on the date through which expenditures are reported on the form).

All completed columns and categories of the contract expenditure report should include actual expenditures in accordance with the governing cost principles for determining costs. In completing the contract expenditure report, the following principles should apply.

1. Interim expenditure reports must include expenditures and revenue applicable to Department funded contracts and not include organization-wide expenditures.
2. Fiscal-year-end final expenditure reports must be completed on an organization-wide basis if the provider agency is charging the Department for indirect, general and administrative, or allocated costs.
3. If a provider agency is not charging the Department indirect, general and administrative, or allocated costs, organization-wide fiscal-year-end and final expenditure reports are not required.

The following instructions apply to fiscal-year-end and final expenditure reporting:

Columns 1 through 9, and lines A through M of the Annex B: Contract Expense Summary should include actual expenditures in accordance with the governing principles for determining costs. Column 1 should contain the provider agency's total operating expenditures for the contract term. Columns 2 through 9 should reflect the allocation of the total operating expenditures to the various provider agency programs and activities.

Reported expenditures, revenues and all applicable credits must (1) be treated in a manner consistent with the way in which they were budgeted (2) be consistent with the provider agency's account structure and recording practices, and (3) be reconciled to its books, records, and audited financial statements. For fiscal-year-end reporting, the provider agency must furnish copies of its audited financial statements and any worksheets used to reconcile the contract expenditure report to the audited financial statements.

When completing Annex B: Contract Expense Summary, fill in Line O, Units of Service (indicate the total number of service units delivered) and Line P, Unit Cost (the actual cost per unit of service delivered).

SECTION 7

**MEDICAID RATE REVIEW PROCESS
FOR RESIDENTIAL TREATMENT CENTERS
PARTICIPATING IN THE MEDICAID PROGRAM**

7.1 Introduction

7.2 Guidelines

Provider Agreement
Upper Limits on Payment Rates
Late Submission of Cost Reports
Suspension of Payments
Appeal Process
Audit Requirements

7.1 Introduction

This section of the manual contains additional guidelines to be used to establish per diem rates for public-operated and private provider agencies furnishing residential treatment services under the State's Medicaid Program. These guidelines have been developed in consultation with the Division of Medical Assistance and Health Services (DMA&HS) and are in accordance with applicable federal regulations as set forth in the Code of Federal Regulations. The Division of Youth and Family Services in conjunction with the DMA&HS is responsible for ensuring that only allowable costs and/or payment rates are paid to providers participating in the Medicaid Program.

The Department believes that the application of these guidelines will generally produce equitable rates for reimbursement to agencies for providing routine resident care. The Department recognizes, however, that no set of guidelines can be developed which might not result in some inequities if applied rigidly and indiscriminately in all situations. Inequities can be in the form of rates that are unduly high or low.

Accordingly, in a case where a residential treatment provider believes that, due to an unusual situation, the application of these guidelines results in an inequity, the Department is prepared to review the particular circumstances with the provider through the appeal process described below. Appeals on the grounds of inequities should be limited to circumstances peculiar to the provider affected. They should not address the broader aspect of the guidelines themselves.

Reimbursement rates for contracted services may be established using a cost analysis or price analysis method as described in Section 3, Types of Contracts. Per diem rates for inpatient psychiatric services for individuals under age 21 provided in State-operated residential treatment centers are based on reasonable costs reported on quarterly cost reports. These cost reports are based on a Cost Allocation Plan for administrative costs of the New Jersey Department of Human Services, Division of Youth and Family Services and are used in lieu of the contract budget/expenditure forms applicable to contract service provider agencies. This Cost Allocation Plan is in accordance with federal rules and regulations contained in 45 CFR, Part 95 and is approved by the federal Department of Health and Human Services.

Reimbursement rates established by the Department will be subject to on-going verification of all applicable provider agency records. It should be noted that the Department reserves the right to question and exclude from rates any unreasonable costs. The formula for calculating Medicaid reimbursement rates has been developed to meet the following overall goals:

1. to provide sufficient reimbursement to ensure adequate levels of resident care; and
2. to comply with federal requirements for a reasonable rate.

7.2 Guidelines

Provider Agreement

The Department will not make payments to a provider for residential treatment services without a formal provider agreement as set forth in the Code of Federal Regulations, Title 42, Subpart B, 442.10 through 442.30. This provider agreement is in addition to the regular contract execute between the provider and DMA&HS.

Upper Limits on Payment Rates

The Department will not pay a rate higher than the lower of (1) the customary charges of the provider for the same service or (2) the prevailing charges in the locality for comparable services under comparable circumstances.

Late Submission of Cost Reports

To ensure the timely receipt of cost reports, the Department will send a reminder letter to the provider 30 days prior to the date on which the cost report is due.

If the provider has not filed its cost report by the first day after the due date (allowing for any approved extensions), the Department will send a first demand letter to the provider. The letter will inform the provider that if the report is not received within 30 days of the date of the demand letter, the Department may reduce the per diem rate by 20 percent.

If the Department does not receive the cost report or a response to the first demand letter within 30 days, a recommendation may be made to reduce the per diem rate, and a second demand letter will be sent. This letter will inform the provider of the recommended rate reduction. The letter will also inform the provider that if the cost report or a response is not received within 30 days from the date of the letter, the Department may suspend payments.

If the Department does not receive the cost report or a response to the second demand letter within 30 days, payments may be suspended, and all prior payments to the provider may be declared overpayments.

In the case of a terminated provider agreement, the Department will inform the provider in writing that the final cost report is due within 45 days of the termination date. If the provider does not respond or submit a cost report within 45 days, the Department may declare that an overpayment has been made to the provider.

The provider may submit a written request to the Department for a 30-day extension to any of the reporting requirements listed above. The provider must give adequate justification for the requested extension. The request must be received by the Department prior to the due date for the report in question. The Department may accept or reject the requested extension based on the written justification furnished by the provider.

Suspension of Payments

When the Department determines that a provider does not maintain adequate records for the determination of reasonable costs or charges under the residential treatment program, payments to the provider shall be suspended until the Department is assured that adequate records are maintained. Before suspending payments, the

Department shall send written notice to the provider of its intent to recommend suspension. The notice shall explain the basis for the Department's determination with respect to the provider's records and shall identify the specific recordkeeping deficiencies. The provider will be given the opportunity to submit a statement (including any pertinent evidence) as to why the suspension should not be effected.

As indicated in the previous section, Late Submission of Cost Reports, the Department may also suspend payment to a provider for failure to submit required reports.

Appeal Process

When a residential treatment provider believes that, due to an unusual situation, the application of these guidelines results in an inequity, the provider may appeal the rate component(s) affected by the situation. All appeals must be submitted in writing to the Director, Division of Medical Assistance and Health Services, Department of Human Services, within 30 days of notification of the rate. Two levels of appeal are available to providers.

Level I

The first level of appeal represents an informal administrative process and can include two stages. The first stage appeal will be heard by an Assistant Commissioner of the Department of Human Services. The provider should be prepared to present such substantiating material as may be required for an informal discussion of the subject matter. This level of appeal will attempt to reach equitable resolutions of matters peculiar to individual providers. It will not be expected to resolve issues which have policy implications or broader applicability. The

Assistant Commissioner's recommendation will then be forwarded to the DMA&HS Director for approval.

If the provider is not satisfied with the results of the first stage of the Level I appeal, a second stage may be requested. The second stage may be requested. The second stage appeal will be heard by a panel of designated representatives from the Assistant Commissioner's Office and DMA&HS. This panel will be chaired by a senior member from DMA&HS. The DMA&HS Director will schedule an appropriate time and place for the panel to hear the appeal. The panel will record and submit its recommendations to the Director for final resolution.

Level II

If the provider is not satisfied with the results of the Level I appeal, the contested rate issues will be referred to the Office of Administrative Law for a formal hearing pursuant to the Administrative Procedures Act.

It should be noted that professional fees related to legal actions against the State are unallowable costs.

Any adjustment resulting from an appeal will be effective:

1. from the beginning of the reimbursement period if an error in computation was made by the Department or if the appeal was submitted within the specified period; or
2. from the first of the month following the date of appeal for non-computational matters if the appeal is submitted after the specified period.

The date of submission is defined as the date received by the Department.

Audit Requirements

Private provider agency's records are subject to audit as described in Section 2.4, Audit and Department Policy Circular P7.06, Audit. State-operated residential treatment facilities are also subject to audit. The scope of the audit for Medicaid purposes depends on the type of rate established for the provider agency. Audits must be performed in accordance with generally accepted auditing standards.