



Contractor's Financial Procedures Manual

September 1, 2014

Effective with Program Attachments executed on or after September 1, 2014

**Department of State Health Services
Contract Oversight and Support Section**

Questions pertaining to information in this manual should be submitted to the following e-mail address: COSContractAdministration@dshs.state.tx.us

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Chapter 1 - Introduction

The Contractor's Financial Procedures Manual (CFPM) is intended to make available in a single document, financial management general terms and conditions for Department of State Health Services (DSHS) subrecipient contracts that are required to comply with Uniform Grant Management Standards (UGMS) and Federal grant financial management regulations. These general terms and conditions are common across all DSHS Divisions and apply to DSHS subrecipient contractors and lower tier subrecipients unless there are statutory, regulatory, or contract-specific requirements to the contrary (as specified in the Contract General Provisions, Statement of Work, and Special Provisions). Mental Health Performance Contracts with local mental health authorities are not subject to the CFPM; instead, local mental health authorities should refer to the Cost Accounting Methodology Manual and the Guidelines for Annual Financial and Compliance Audits of Community MHMR Centers. All other subrecipient Program Attachments with local mental health authorities are subject to the CFPM.

UGMS has been developed by the Office of the Governor to "promote the efficient use of public funds" and DSHS has implemented UGMS as the basis for all terms and conditions of its contracts. The purpose of this manual is to explain and clarify applicable laws, rules and regulations, DSHS policy and procedures pertaining to the administration and financial management of funds and materials awarded under a DSHS subrecipient contract. DSHS Contract General Provisions and related Special Provisions when included supersede the CFPM.

Contractors are responsible for the administration and financial management of all funds and materials received from DSHS. All contractors must comply with DSHS rules, policies and procedures, and follow all applicable Federal/state laws, rules and regulations.

This manual conveys basic financial guidance that will assist contractors to maintain

- adequate internal controls,
- detailed records that support receipts and expenditures,
- timely reporting of financial activity, and
- a complete and well-documented audit trail for all financial transactions.

The financial management principles presented in this manual are not intended to replace acceptable existing procedures being used by a contractor. Questions pertaining to the financial administration of DSHS contracts should be submitted to the following e-mail address: COContractAdministration@dshs.state.tx.us .

The CFPM replaces any previous editions of manuals that pertain to the financial administration of DSHS contracts. **Contractors should ensure that staff having responsibility for the financial administration of DSHS contracts are familiar with the CFPM.**

Chapter 2 - Board Oversight

Section 2.00 Board Oversight

All entities must have a governing body that is legally responsible for the integrity of the fiscal and programmatic management of the organization. Staff members, including the Chief Executive Officer, of a public or nonprofit entity must not serve on the employer's governing board as voting members.

The governing body must meet at least quarterly and maintain minutes that include the following:

- (1) Date, time, and place of the meeting;
- (2) Names of the members present; and
- (3) A summary of the discussion and action taken.

Non-Profit Organizations: The governing body has full responsibility for the financial management of its organization. In order to fulfill this obligation, the board should (at a minimum)

- (1) review detailed quarterly financial statements,
- (2) review and approve the annual budget,
- (3) approve all executive-level salaries,
- (4) review and approve each grant and/or contract awarded by DSHS, and
- (5) review audit reports and DSHS financial and programmatic monitoring reports.

DSHS strongly recommends that the full board of directors or an audit committee (of at least three board members) review at least quarterly a financial package consisting of (at minimum):

- statement of revenue and expenses,
- balance sheet, and
- financial and programmatic reports for each DSHS grant or contract.

Governmental Organizations: The governing body (city council, county commissioner's court, board of health, or board of directors of a health district) has the full responsibility for the financial management of the organization. This responsibility may be delegated to an oversight committee, the county or city auditor's office, or some other responsible group not directly associated with the day-to-day operations of the organization. Documentation should be maintained that clearly delineates the chain of responsibility for the financial management of that organization.

For each grant and/or contract awarded by DSHS, the oversight group should -

- (1) review and approve each grant and/or contract awarded by DSHS,
- (2) review financial and programmatic reports,
- (3) review audit reports and DSHS financial and programmatic monitoring reports, and
- (4) approve all executive-level salaries.

Copies of the financial information presented to the governing body or audit committee and the minutes of those meetings should be retained in accordance with your records retention policy, and should be made available for review by DSHS financial compliance monitors, upon request.

Section 2.01 Duty of Compliance

The contractor and its governing body bear full responsibility for the integrity of the fiscal and programmatic management of the organization. This provision applies to all organizations, including Section 501(c) (3) organizations as defined in the Internal Revenue Service Code as non-profit organizations. The responsibility of the contractor's governing body includes

- accountability for all funds, property and materials received from DSHS;
- compliance with DSHS rules, procedures, and applicable Federal and state laws, rules and regulations;
- adherence to conflict of interest disclosure requirements and contract terms; and
- correction of contract deficiencies identified through self-evaluation and DSHS oversight processes.

The contractor's governing body must ensure separation of powers, duties, and functions of board members and staff. Staff members, including the Executive Director, must not serve as voting members of the contractor's governing body. Contractor's staff and board members must be familiar with and understand the contract provisions and other requirements contained or referenced in the contract.

Section 2.02 Policy and Procedures Manual

DSHS contractors must have accounting and personnel policies that are approved by the board, reviewed periodically, and revised as needed. If the entity does not have a governing board, these must be approved by the appropriate oversight authority. The policy manual should be current, consistent with Federal and state laws and regulations applicable to grants, individualized to the programs (as needed), well organized, and easily accessible to all staff at all times. Contractors should require each employee to acknowledge they have read the policies and procedures applicable to the position and maintain documentation signed by the employee that the employee has read the policies and procedures.

The accounting policies and procedures should at minimum address the following areas:

- revenue/accounts receivable;
- billing/payment requests;
- cost allocation;
- payroll;
- expenditures/account payable;

- procurement of goods and services;
- match (if applicable);
- program income;
- fixed assets inventory and records;
- petty cash;
- travel; and
- subcontractor fiscal compliance monitoring (if applicable).

Chapter 3 - Reserved

Chapter 4 - Financial Administrative Systems Requirements

Section 4.00 General

DSHS contractors must maintain a financial management system that provides appropriate fiscal controls and accounting procedures to ensure -

- (a) accurate preparation of reports required by the contract and
- (b) adequate identification of the source and application of funds to ensure that such funds have not been used in violation of the contract terms and applicable laws and regulations.

For each kind of organization, there is a set of federal cost principles for determining allowable costs and uniform administrative requirements. The following chart lists the kinds of organizations and the applicable cost principles and administrative requirements.

Type of Entity	Cost Principles	Administration Requirement
State, Local and Tribal Governments	OMB Circular A-87 (2 CFR Part 225)	UGMS, OMB Circular A-102, Federal agency common rule
Non-Profit Organizations	OMB Circular A-122 (2 CFR Part 230)	UGMS, OMB Circular A-110 (2 CFR Part 215), Federal agency common rule
Educational Institutions	OMB Circular A-21 (2 CFR Part 220)	OMB Circular A-110 (2 CFR Part 215), Federal agency common rule
For-Profit Organizations other than a hospital and an organization named in OMB Circular A-122 (2CFR230) as not subject to that circular	48 CFR Part 31, or cost accounting standards that comply with cost principles acceptable by DSHS	UGMS, Federal agency common rule

A detailed description of a basic financial management system, required to carry out the contract satisfactorily, is provided in this manual. The system described is not intended to replace the systems and controls already in place if they meet the minimum acceptable standards as described in this manual.

The following sections (4.01 – 4.06) define the minimum acceptable standards of financial management necessary for a contractor to comply with DSHS requirements and ensure that the organization has a sound financial management system with adequate internal controls.

Section 4.01 Accounting System and Basis of Accounting

The accounting system must conform to Generally Accepted Accounting Principles (GAAP) applicable to recipients of State and Federal funds and comply with UGMS, Subpart C, Section 20 – Standards for financial management systems.

Accounting System - An effective accounting system will:

- identify and record all valid transactions
- record transactions to the proper accounting period in which transactions occurred
- describe transactions in sufficient detail to permit proper classification
- maintain records that permit the tracing of funds to a level of detail that establishes that the funds have been used in compliance with contract requirements
- adequately identify the source and application of funds of each Program Attachment
- generate current and accurate financial reports in accordance with contract requirements.

Other accounting system requirements for the DSHS contract include:

Separate Cost Center - A separate cost center must be maintained within the general ledger to capture costs incurred for carrying out the activities of each DSHS Program Attachment. This includes Program Attachments that are reimbursed on a unit-rate or fee-for-service basis. A cost center is defined as a unique series of general ledger accounts established for the purpose of accumulating and categorizing expenses related to a specific cost objective, e.g., DSHS Program Attachment. When a portion of the costs incurred for a DSHS Program Attachment is captured in the General Fund (or other similar fund), the costs must be recorded in unique general ledger accounts within the General Fund and be easily traceable to support documents. Multiple cost centers may be used, provided the total cost in each of the cost centers supports the reimbursement amount and the total allowable cost reported to DSHS.

Note: The exception to this rule is the Family Planning Program Attachment where the “total budget” concept is used that includes the full cost incurred for providing family planning services reimbursed by Title X, Title XX, Title XIX-FP, and the Women’s Health Program; in which case the allowable costs should be captured in one cost center.

Program Income - Each DSHS Program Attachment must have a unique revenue account(s) that captures all income generated from activities performed under a DSHS Program Attachment. Costs billed and program income reported to DSHS on reimbursement vouchers and Financial Status Reports should be reconciled to the general ledger prior to being submitted to DSHS.

Basis of Accounting - Basis of accounting means the accounting method used to record revenues and expenditures in the general ledger. GAAP prescribes using the same basis of accounting from one reporting period to the next to ensure consistency within the accounting records. The common bases of accounting are:

Cash Basis Accounting

Cash basis accounting provides for the recording of revenues when received in cash and the recording of expenditures when paid in cash. The cash basis of accounting does not facilitate accurate reporting of financial position. It is not a suitable basis for reporting the true cost of services of a DSHS Program Attachment. **Contractors that use cash basis accounting must make adjustments to the final billing and financial report submitted to DSHS so that expenses/costs are presented on an accrual basis and reflect actual costs incurred.** Although the contractor is not required to record these adjustments in the general ledger, these adjustments should be documented by memo entries along with a reconciliation of costs billed/reported to DSHS and cost recorded to the general ledger.

Modified Accrual Basis

Modified accrual basis accounting recognizes revenues (program income) when revenues are both measurable and available (collected) to liquidate liabilities of the current period; expenses are recognized when they are incurred. An expense is incurred when the contractor receives goods or services.

Accrual Basis

Accrual basis accounting recognizes revenues when earned and expenses are recognized when incurred. Revenue is earned in the period that the contractor provides goods or services; expenses are incurred in the period when the contractor receives goods or services. The accrual basis matches revenues and expenses respectively to the period in which they are earned and incurred. Accruals may be based on estimates provided the estimate does not differ materially from actual costs. Estimates should be based on historical experience and other facts and reasonable assumptions. **However, for the last month of the contract term, accruals must be based on actual costs.** Accrued payroll costs at the end of a contract term, using a reasonable accrual methodology that equitably allocates costs do not have to be adjusted.

Section 4.02 Accounting Records

Accounting records should identify, assemble, classify, record and report an entity's transactions and maintain accountability for the related assets and liabilities. Contractors must retain records in accordance with the DSHS State of Texas Records Retention Schedule, located at <http://www.dshs.state.tx.us/records/schedules.shtm> .

Minimum records should include Books of Original Entry that include the following journals and ledgers:

- cash disbursements journal
- cash receipts journal
- general journal
- payroll journal
- payroll expense distribution (of each employee) for each pay period to support journal entries
- general ledger with control accounts and sub-ledgers such as accounts payable and accounts receivable ledgers as applicable

Additional records to be maintained for review that includes the following documents:

- individual employee earnings records
- bank statements and canceled checks
- original vendor invoices and supporting documentation such as price quotes, authorizations, purchase orders, receiving reports, etc.
- executed contracts
- accounts payable detail
- accounts receivable detail
- payroll authorizations, W-4's (employee Federal income tax withholding information form), job descriptions, confidentiality statements, applications, transcripts, I-9's (Employment Eligibility Verification) and other related documents
- individual employee personnel activity/time sheets
- journal entries - including all documentation and calculations necessary for understanding and independent evaluation.

Section 4.03 Internal Control

Effective internal control and accountability must be maintained for all DSHS Program Attachment funds. These controls must assure that funds are used solely for authorized purposes in accordance with contract terms and applicable state and federal laws, rules and regulations. Sound management practices include systems, procedures and methods that will ensure that the contracting entity and the DSHS Program Attachment objectives will be achieved. Information (reports, memos, data) generated by these practices are used as feedback for other management functions, such as planning, organizing and directing so that necessary adjustments can be made.

According to the American Institute of Certified Public Accountants (AICPA) Committee on Auditing Procedure, "*internal control comprises the plan of organization and all the coordinated methods and measures adopted within an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.*"

This definition of internal control is broader than the meaning sometimes attributed to the term. It recognizes that a system of internal control extends beyond those matters that relate directly to the functions of the accounting and financial departments. In Statement of Auditing Procedures Number 29, the AICPA committee stated that *“internal control in the broad sense includes controls that may be characterized as either accounting or administrative.”*

The following definitions of administrative and accounting controls are found in the AICPA's Statement of Auditing Standards, No. 1, Section 320:

- Administrative control includes, but is not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.
- Accounting control comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets to include the following:
 - proper authorization of transactions and activities
 - design and use of adequate documents and records to help ensure the proper recording of transactions and events
 - segregation of duties that reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties (for example, assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets)
 - adequate safeguards over access to and use of assets and records, such as secured facilities and authorization for access to computer programs and data files
 - independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarizes the detail of account balances (for example, an aged trial balance of accounts receivable), and user review of computer-generated reports.

The system of internal controls should encompass five major concepts:

- segregation of functions
- proper authorization
- proper recording of transactions
- limited access to assets
- evaluation of progress toward objectives.

Each concept is described below. These explanations illustrate the principles involved in developing a system of internal controls. The extent to which internal controls are established or practical is dependent upon the nature and size of the organization involved.

Segregation of Functions

The segregation of functions or duties is an important element in any system of internal control. For accounting control purposes, incompatible functions are those that place any person in a position to both perpetrate and conceal errors or irregularities in the normal course of the person's job. For example, anyone who records disbursements could either intentionally or unintentionally fail to record a check. If the same person also reconciles the bank account, the omission could be concealed through a false or inaccurate reconciliation.

Proper Authorization

Controls ensuring that transactions are carried out as authorized require independent verification that authorization was properly issued and that transactions conform to the terms of the authorization. This may be accomplished by independent comparison of transactions with specific authorization documents. For example, requiring two signatures on a check allows more than one person to review and approve that expenditure.

Proper Recording of Transactions

Accounting controls should also ensure that transactions are

- (1) recorded in the proper amounts,
- (2) recorded in the appropriate accounting period, and
- (3) classified in appropriate accounts.

Once an accounting period has been closed, no transactions should be posted to the closed period. If the period is re-opened (i.e., to post audit adjustments, year-end/contract-end adjustments) a revised DSHS Financial Status Report (FSR) must be prepared and submitted to DSHS when the adjustments affect a DSHS contract.

This is especially important in order to ensure the preparation of financial statements in conformity with Generally Accepted Accounting Principles. An example of this type of accounting control is the comparison, on a test basis, of canceled checks returned by the bank with the recorded disbursements to reveal any unrecorded checks.

Limited Access to Assets

Limiting access to assets to only those individuals having direct responsibility for assets can be an important control in the safeguarding of those assets. Choosing the personnel to whom asset access is authorized should be influenced by the nature and susceptibility to loss of that asset.

Section 4.04 Budget Control

All expenses charged to a DSHS cost reimbursement Program Attachment must be allowable and budgeted and reported in the appropriate budget category whether or not the expenditures were included in the original budget. Actual expenditures under each category must be compared with budgeted amounts for each Program Attachment.

For Program Attachments of \$100,000 or more, contractors should monitor expenditures to ensure that cumulative budget transfers among direct cost categories, with the exception of the Equipment category, do not exceed 25% of a Program Attachments total budget. Transfers to or from the Equipment category require prior approval from DSHS unless the transfers are done in accordance with the guidelines in Section 14.02 of this manual. Costs that result in cumulative budget transfers among direct cost categories that exceed 25% of the total Program Attachment budget are subject to being disallowed unless prior approval is obtained from DSHS. Article XIII – General Terms of the Contract General Provisions addresses prior approval requirements.

Contractors are not required to obtain approval from DSHS for cumulative budget transfers that exceed 25% among direct cost categories, other than the equipment category, for Program Attachments of less than \$100,000, provided that the total budget amount is unchanged.

Expenditures must be used for the benefit of the program and be related to performance or productivity data. The definition of the budget categories found on the DSHS Financial Status Report (Personnel, Fringe Benefits, Travel, Equipment, Supplies, Contractual, Other and Indirect Costs) and the documentation required to support charges to each category are discussed in detail in Chapter 6 – Cost Principles and Allowable Costs.

Section 4.05 Reports

Minimum financial reports or accounting activities should include the following:

- General ledger
- Financial statements, including the income statement, balance sheet and cash flow statement
- Trial Balance by month for each Program Attachment to assist in preparation of the monthly reimbursement voucher
- Reconciliation of reimbursement vouchers to the general ledger

- Financial Status Reports (FSRs) Form 269a and/or Form 270 for each Program Attachment (as required by the terms of the individual Program Attachments)
- Reconciliation of the FSR to the general ledger
- Reconciliation of equipment costs reported on the FSR to the equipment costs reported on the Property Inventory Report (Form GC-11) for each Program Attachment
- Monthly reconciliation of bank statement(s) to general ledger cash account(s)
- State and Federal payroll reports
- Close-out reports as required by contract terms.

Section 4.06 Cash Management

A DSHS contractor should pay their vendors and subcontractors prior to requesting reimbursement from DSHS when possible. Payment to the vendors and subcontractors must be made no later than the 10th day after receipt of payment from DSHS.

Chapter 5 - Reserved

Chapter 6 - Cost Principles and Allowable Costs

Section 6.00 Introduction

All costs charged to a DSHS Program Attachment must meet the general allowability criteria established by the Office of Management and Budget Circulars (OMB), and/or the Uniform Grant Management Standards (UGMS), as applicable. Different types of organizations are governed by different cost principles promulgated by the Federal OMB -

Educational Institutions	Circular A-21 (2 CFR Part 220)
State, Local and Indian Tribal Governments	Circular A-87 (2 CFR Part 225)
Non-Profit Organizations	Circular A-122 (2 CFR Part 230)

For-Profit organizations (other than hospitals) and organizations named in OMB Circular A-122 (2 CFR Part 230) as not subject to that circular are governed by 48 CFR Part 31, and/or the cost principles and uniform administrative requirements specified in the contract.

Although a cost may meet the allowability criteria established by the applicable OMB Circulars and UGMS, DSHS may restrict or cap the reimbursement of allowable costs. Any restriction and/or limitation of allowable costs will be specified in the Program Attachment's special provisions and/or the approved budget. If the contract limits payment of allowable costs, the total allowable cost allocable to a DSHS Program Attachment should still be captured in the general ledger and reported on the Financial Status Report (FSR). The total of all allowable costs not reimbursed by DSHS should be reported on the "Non-DSHS Funding" and/or the "Program Income" line of the FSR.

Unallowable costs should not be recorded in a DSHS Program Attachments cost center and should not be included in the total cost allocable to a DSHS Program Attachment, including the amount reported as "Non-DSHS Funding".

Section 6.00.01 Period of Availability of Funds

Contractor must have incurred a cost within the contract term of the Program Attachment to be eligible for reimbursement under a DSHS Program Attachment. The benefit from the cost of goods or services charged to a DSHS Program Attachment must be realized within the applicable term of that DSHS Program Attachment. A Program Attachment should not be charged with the cost of goods or services that will benefit a subsequent period or another DSHS Program Attachment. Obligating funds means you have incurred an expense, even if it is not paid for yet. Liquidating funds means that you have fully expended them. The following guidelines must be used when charging the cost of consumable goods, services, and property to a DSHS Program Attachment.

Consumable Goods

A DSHS Program Attachment may be charged only with the cost of consumable goods that are received within the contract term of the Program Attachment and are reasonably expected to be consumed within the contract term.

Services

A DSHS Program Attachment may be charged only with the cost of services that were rendered within the contract term of the Program Attachment.

Property, Equipment, and Controlled Assets

Unless amended by a Special Provision to the contract, Contractor's must initiate the purchase of all equipment as approved in writing by DSHS, in the first quarter of the Contract or Program Attachment term. Requests to purchase previously approved property after the first quarter of the Program Attachment must be submitted to the contract manager assigned to the Program Attachment. A DSHS Program Attachment may only be charged with the cost of property, equipment, and controlled assets that are received within the contract term of the Program Attachment. With prior approval from DSHS, property, equipment, and controlled assets may be received after the end of the contract term but within the contract close-out period, provided the purchase order or contract was executed prior to the end of the contract term. In this case, the contractor should record a memo entry that identifies the equipment expenditures that were reported to DSHS but recorded in the general ledger in an accounting period subsequent to the end of the contract term. If the contractor's accounting system does not allow for the recording of memo entries, the contractor must have documentation on file that identifies the cost as a reconciling item to expenditures reported to DSHS and provides an audit trail to the recording of the equipment cost in the general ledger. These transactions must be completed in time to meet the close-out requirements of the contract including submission of the voucher and Financial Status Report.

Items purchased in large quantities that do not benefit the Program Attachment during the term of the contract or that are purchased merely to spend down the grant are subject to being questioned. With prior approval from DSHS, exceptions may be made for the cost to stock inventories to established levels that were in effect at the beginning of the contract term or costs associated with a DSHS Program Attachment where the primary purpose of the award is to establish infrastructure (e.g., equipment, caches of supplies, renovation). In this case, the above guidelines for "Property, Equipment, and Controlled Assets" may be applied.

Section 6.01 Composition of Total Cost

The total cost of an activity funded by a DSHS Program Attachment is the sum of allowable direct and allocable indirect costs less any applicable credits.

Section 6.01.01 Direct Costs

Direct costs are those that can be identified specifically with a particular final cost objective of the organization. Direct costs charged to a DSHS Program Attachment are those allowable costs that are attributable to carrying out program activities of a DSHS Program Attachment. The cost of administrative and support activities should be budgeted and reported as indirect costs.

Section 6.01.02 Indirect Costs

Indirect costs are those that have been incurred for a common or joint purpose benefiting more than one cost objective and cannot be readily identified with a particular final cost objective. Indirect costs do not include the cost of goods or services used to carry out direct activities under a DSHS contract. Part 6.05.08 of this Section provides a more detail discussion on indirect costs.

Section 6.01.03 Applicable Credits

Applicable credits refer to those receipts, or reduction of expenditures that operate to offset or reduce expense items that are allocable to a DSHS Program Attachment direct or indirect cost. Section 6.02.04 of this chapter provides a more detail discussion on this subject.

Section 6.02 Determining if a Cost is Allowable

A cost is allowable if it meets all of the following criteria:

- (a) must be reasonable;
- (b) allocable to the project for which the contract is awarded;
- (c) necessary for proper and efficient administration of the proposed project;
- (d) consistently treated as a direct or indirect cost;
- (e) net of applicable credits;
- (f) adequately documented;
- (g) permitted under the appropriate cost principles prescribed in Uniform Grant Management Standards (UGMS);
- (h) not restricted or prohibited by the terms and conditions of the contract; and
- (i) in accordance with Generally Accepted Accounting Principles.

Section 6.02.01 Determining Reasonableness

As a general rule, a cost is reasonable if:

- (a) it does not exceed that which would be incurred by a prudent individual or organization under the circumstances prevailing at the time the decision was made to incur the cost, and
- (b) it is necessary for the performance of the project (Statement of Work) defined in the Program Attachment.

In determining whether a given cost is reasonable, consideration must be given to factors such as whether the cost is generally recognized as ordinary and necessary for the performance of the Statement of Work defined in the Program Attachment. Other considerations are the market price of comparable goods or services and whether there was arms-length bargaining.

Section 6.02.02 Determining Allocability

A cost may be charged to a Program Attachment if:

- (a) it benefits the project (DSHS Program Attachment) either directly or indirectly;
- (b) it is assigned (charged to DSHS) in accordance with the relative benefit received;
- (c) it is authorized or not prohibited by State and local laws or regulations;
- (d) it is not included as a cost or used to meet cost-sharing or matching requirements of any other Federal or State award in either the current or a prior period; and
- (e) it conforms to any limitations or exclusions set forth in the applicable cost principles, Federal or State laws, and the terms of the contract.

Any cost allocable to a specific Federal or State award may not be shifted to other Federal or State awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award.

Section 6.02.03 Determining Consistent Treatment

Costs must be treated consistently in accordance with the organization's established accounting system without regard to the source of funds supporting the expenditures. This means that costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect.

Section 6.02.04 Determining Net Costs (Applicable Credits)

Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to a Program Attachment as direct or indirect costs. Examples of such transactions are purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the organization relate to allowable costs, they must be

credited to the Program Attachment either as a cost reduction or cash refund, as appropriate.

In determining net reimbursable costs, the billable expenses for a given period must be net of the amount of program income collected during the period. Chapter 8 - Program Income, discusses the effect of program income in much greater depth.

Section 6.02.05 Determining Adequate Documentation

An allowable cost must be supported by the organization's accounting records and be adequately documented. For example, a cash disbursement by the organization must:

- (a) have an invoice indicating that the goods or services were received and approved for payment;
- (b) have time sheets or other record of actual work hours by cost objective, along with employee signature and supervisory signature;
- (c) have the appropriate authorized signature(s) on the check
- (e) be recorded in the appropriate check register, disbursement journal and general ledger.

The source documentation should explain the basis of the costs incurred, as well as show the actual dates of the expenditure, amount, and the general ledger account number charged. Documentation required may include, but is not limited to the following:

- travel records
- time sheets
- purchase orders
- receiving reports
- invoices
- contracts
- mileage records
- billing records
- telephone bills, and
- other documentation that verifies the expenditure and appropriateness to the Program Attachment, including bank statements and cancelled checks.

More specific documentation requirements are provided following each budget category definition in Section 6.05 of this chapter.

Section 6.03 Limitations on Administrative Costs

Some DSHS Program Attachments set limits on the maximum amount of allowable administrative costs that may be reimbursed. This limit or "cap" will be outlined in the Program Attachment.

In order to identify all administrative costs, it will be necessary for the organization to establish a code (or codes) in its accounting chart of accounts that identifies these costs as administrative costs. Non-Federal and/or non-State revenue sources must be used to pay for costs that cannot be recovered as a result of the cap limitation.

Section 6.03.01 Limitations on Meal and Food Costs

The cost of meals and refreshments are unallowable except for the following:

- where specifically approved in the federal award or state law as part of the project or program activity and preapproved in the contractor's budget
- as part of a per diem or subsistence allowance provided in conjunction with allowable travel.

Section 6.04 Unallowable Costs

The guidelines and standards of the applicable OMB circular should be applied in determining the allowability or unallowability of a specific cost. A cost determined to be unallowable in accordance with the applicable cost principles or other terms and conditions in the contract must be identified and excluded from any billing or claim applicable to the contract. Unallowable costs include, but are not limited to, the following:

- advertising and public relations (Advertising for recruitment of personnel, disposal of materials, promotion of a DSHS Program Attachment activity or procurement of goods/services is allowable. Refer to the applicable OMB circular for guidance.)
- alcoholic beverages
- bad debts
- contingency provisions/reserves
- contributions and donations
- entertainment
- fines and penalties (i.e., late payment fees, bank overdraft charges, etc.)
- fundraising
- general government expenses
- incentives in the form of cash or cash equivalents to intended recipients of DSHS Program Attachment services
- interest (unless specifically authorized by applicable OMB Circulars and/or Uniform Grant Management Standards)
- individual membership and license fees; however, with prior approval from DSHS the cost of membership and license fees in a professional or technical organization may be allowed if treated as a fringe benefit or an employee development cost, if paid according to an established organizational policy consistently applied regardless of the source of funds

- membership in business, technical, and professional organizations involved in lobbying efforts; however, if an organization is not involved in lobbying efforts and the contractor can demonstrate how membership in a professional/technical organization benefits the DSHS program(s), costs of membership may be allowed with prior approval from DSHS
- lobbying
- tips or gratuities.

Section 6.05 Budget/Expense Categories and Required Documentation

DSHS cost reimbursement contracts generally require that costs be budgeted and reported in one of eight expense categories. All costs charged to a DSHS Program Attachment should be classified and reported under one of the eight expense categories. A description of the eight expense categories and documentation requirements follows.

- Personnel
- Fringe Benefits
- Travel
- Equipment
- Supplies
- Contractual
- Other
- Indirect Costs

Section 6.05.01 Personnel

Definition

Personnel costs are the actual cost of salaries and wages paid to employees of the organization devoted to the DSHS-funded project. The Personnel budget category should include only the gross salary/wages of employees who perform activities directly related to carrying out the Program Attachment's Statement of Work. The salary/wages of employees (i.e., executive office, accounting office, etc.) who do not perform activities directly related to carrying out the Program Attachments Statement of Work should be classified under the "Indirect" budget category.

Personnel costs must also include fringe benefits in the form of expense allowances that are paid to an employee. However, these allowances may only be included in the Personnel category if the allowances are included in the employee's gross taxable income. Allowances, property, or services provided to employees that qualify under IRS rules as a "working condition fringe" or a "de minimis fringe" (excluded from gross taxable income) should be budgeted under the "Other" budget category. The IRS defines "working condition fringe" as any property or services provided to an employee of the employer to the extent that, if the employee paid for such property or services, such payment would be allowable as a deduction under IRS rules; and "de minimis

fringe” as any property or service the value of which is (after taking into account the frequency with which similar fringes are provided by the employer to the employer’s employees) so small as to make accounting for it unreasonable or administratively impracticable. For example, a cell phone provided by the employer that is primarily used for noncompensatory business purposes would be considered a “de minimis fringe”.

Employees who work on both direct and indirect activities must record (on their time sheet) the actual time worked on each activity. For example, if during a given day the Chief Executive Officer (CEO) works 3 hours performing program activities and 5 hours performing general administrative activities, the CEO’s time sheet must reflect the hours worked on each activity.

Employees who work on activities related to determining eligibility, billing third party payors, and medical records may be classified as direct costs and budgeted under the Personnel category. The time an employee spends on these activities must be allocated to all programs in accordance with the relative benefit received from the functions performed by the employee. In order to be allowable as a direct cost, the cost of employees performing these activities cannot be included in determining an organization’s indirect cost rate or be allocated as an indirect cost.

Personnel costs are allowable to the extent that they are reasonable and conform to the established, consistently applied policy of the organization and reflect no more than the time actually devoted to the project. The DSHS contract General Provisions prohibit the use any funds provided under a DSHS Contract to pay the premium portion of overtime except under the following conditions:

- 1) with the prior written approval of DSHS;
- 2) temporarily, in the case of an emergency or an occasional operational bottleneck;
- 3) when employees are performing indirect functions, such as administration, maintenance, or accounting;
- 4) in performance of tests, laboratory procedures, or similar operations that are continuous in nature and cannot reasonably be interrupted or otherwise completed;
- or
- 5) when lower overall cost to DSHS will result.

Source Documentation

Charges for personnel payroll costs, whether charged directly or indirectly, must be based on documented payrolls approved by a responsible official(s) of the organization.

For these costs to be allowable, the following documentation is needed:

- a) Time sheets or other record of actual hours worked hours must-

- reflect an after-the-fact distribution of the actual time spent on each activity,
- be signed by the employee and supervisor having first-hand knowledge of the activities performed by the employee, (an electronic means to sign times sheets is acceptable provided the contractor can demonstrate and document that only the employees' actions would result in the identification of the activities to be charged, and that it complies with Uniform Grant Management Standards, Attachment B, paragraph 11.h)
- be prepared at least monthly and coincide with one or more pay periods,
- account for the total activity for which employees are compensated by the organization, and
- identify the various programs/cost objectives and time that the employee worked each day on a specific program/cost objective.

Time sheets must also be maintained for other employees whose compensation is allocated as an indirect cost.

Employees of a governmental entity who work solely on a single program or cost objective may use periodic certifications as support for personnel costs. This option is permitted by OMB Circular A-87 (2 CFR Part 225) and is only applicable to governmental entities. The certification must-

- specify the program/cost objective that the employee worked on;
- be prepared at least semi-annually; and
- be signed by the employee and supervisor having first-hand knowledge of the activities performed by the employee.

Budget estimates, time studies or other distribution percentages determined before the services are performed do not qualify as support for charges to a DSHS Program Attachment. The above requirements apply to professional and nonprofessional employees whose compensation is charged, in whole or in part, directly or indirectly to a DSHS Program Attachment. The basic formula to be used to distribute an employee's pay to specific cost objectives (i.e. DSHS Program Attachments) for a specific pay period is as follows:

$$\frac{\text{Hrs Worked on Cost Objective Z During Period}}{\text{Total Hours Worked During Period}} \times \text{Total Gross Pay for Period} = \text{Allocable Charge to Cost Objective Z}$$

Use of the preceding formula, when applied to an employee's total gross pay (which includes compensation for released time), ensures that each cost objective in which the employee worked receives its fair share of the employee's compensation for the released time.

- b) Current job description for each employee that delineates the program(s) or cost objectives under which the employee works.
- c) Compensation and payroll policies.

- d) Employee personnel files that include date of hire; start date; authorizations for rates of pay, benefits and employee withholding; Federal forms W-4 (payroll tax withholding exemptions) and I-9 (Employment Eligibility Verification); and authorization approving the hire and any subsequent pay increases.
- e) Accounting records supporting payroll expenditures and payroll deductions posting to the general ledger along with proof of payment (e.g., payroll journal; cash disbursement journal; payroll expense distribution report; check register).

Direct Allocation

Personnel costs of staff that spend time overseeing multiple programs or multiple direct activities (e.g., program director) may be captured in a unique cost center and allocated as a direct cost using a base that results in an equitable distribution to all benefited programs/activities. Likewise other costs associated with the office of this position may also be allocated using the same base if it results in an equitable distribution. Costs must not be allocated based on proportion of funding, estimates, or predetermined percentages. Staff time (i.e., of the program director) or other costs that can be identified as only benefiting a specific program/activity, should be charged as a direct cost to the specific program/activity. These costs should be reported under the respective budget category on the Financial Status Report.

Substitute Timekeeping System

When it is not feasible to maintain a record of time and effort (time sheet) in accordance with the requirements listed above and the applicable OMB circular, the organization may use a substitute system with the prior approval of DSHS. Contractors that wish to use a substitute system must complete Section III – Method for Charging Salaries and Wages of the Cost Allocation Plan (see Appendix A of this manual) and submit the entire plan to the DSHS Contract Oversight and Support Section for approval prior to implementation. The methodology used in a substitute system must incorporate a quantifiable measure of each employee's daily effort for each pay period. Budget estimates and predetermined percentages are not acceptable.

Example: A clinical nurse provides services to patients where the cost of the services is eligible to be reimbursed under a DSHS Program Attachment. The nurse also sees numerous other patients during the day whose cost of services is covered by various third-party-payors and/or funding sources. If it is impracticable for the nurse to maintain a daily time record of time spent with each patient by payor/funding source, then an alternative method will need to be used for time distribution reporting.

One alternative would be to distribute the total time worked on providing clinical services in proportion to the number of patients seen by payor/funding source. For instance, if the patient census for a given pay period revealed that 10% of the

patients seen were eligible to receive services under the DSHS Program Attachment, then 10% of the nurse's time for that specific pay period (spent on clinical services) could be distributed to the DSHS Program Attachment. This alternative method would be acceptable provided that the time and effort required for the provision of services to patients under the DSHS Program Attachment is comparable to the time and effort required to provide services to the other patients.

If the time and effort were not comparable, then an evaluation of the time and effort spent on the services would need to be performed to arrive at a weighted allocation. The alternative method must result in an equitable measure of the time and effort the nurse spent on providing clinical services to patients under each payor/funding source.

In this example, if the nurse worked on another non-clinical activity that is also funded by the DSHS Program Attachment, such as providing education services, the time sheet would need to capture the actual time worked on providing clinical services and educational services. The time spent on providing clinical services could be captured in a separate cost center or cost pool and then allocated to the DSHS Program Attachment cost center.

Example: Intake staff that conduct the initial intake or eligibility processes and determine eligibility concurrently for a DSHS-funded Program Attachment as well as other programs may find it impracticable to identify and charge actual time spent incidental to each funding source. In this case, each program receives a common benefit and should therefore receive an allocable share of these costs. Costs could be directly charged to a cost center or cost pool for intake and distributed to the proper funding stream (program). A typical allocation base would be the number of positive eligibility determinations made for each program.

Note: This allocation method (patient census) could also be used to allocate other expenses (e.g., supplies) used in providing the service (e.g., clinical services), provided it resulted in an equitable allocation of costs to each of the funding sources. For instance, the cost of supplies used in providing clinical services under the DSHS Program Attachment must be comparable to the cost of supplies used in providing clinical services under the other funding sources.

Section 6.05.02 Fringe Benefits

Definition

Fringe benefits are allowances and services provided by the organization to its employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the employer portion of FICA and Medicare, the cost of employee insurance, pensions, and unemployment benefit plans. The cost of fringe benefits is allowable (in proportion to the amount of time or effort employees devote to

the DSHS-funded project) to the extent that the benefits are reasonable and are incurred under formally established and consistently applied policies of the organization.

Source Documentation

Fringe benefit costs should be allocated on the same basis as salary and wages. Source documents must be available for examination even when payroll is out-sourced. Source documents include the following:

- a) Quarterly payroll tax reports for FICA and unemployment taxes
- b) Original vendors' invoices
- c) Proof of payment

Unemployment claims for contractors that qualify as "reimbursing employers" under the Texas Unemployment Compensation Act (Texas Labor Code 201) must be supported by the original billing statement from the Texas Workforce Commission. Contractors that have established reserves under a self-insurance program should charge claims against the reserve. Contractors that do not have a reserve established for unemployment claims must allocate claims expense to all activities of the organization as an indirect cost.

Section 6.05.03 Travel

Definition

Travel is defined as the cost of transportation, lodging, meals and related expenses incurred by employees of the organization while performing duties relevant to the proposed project. Where meals are furnished without charge or at a nominal cost (e.g., as part of the registration fee), the proposed per diem or subsistence allowance must take this into consideration and be adjusted accordingly.

- Travel costs related to the general administration of an organization (that are deemed to be allowable in accordance with the applicable cost principles) should be allocated as indirect costs. This includes auto mileage paid to employees on the basis of a fixed mileage rate for the use of their personal vehicle.
- Costs related to client transportation, allowable travel costs of non-employees, and employee conference registration fees should be classified under the "Other" expense category.
- Travel costs incurred by a third party under contract should be included within the terms of the contract and be budgeted under the "Contractual" expense category.
- Travel advances should be recorded as prepaid expenses and not recorded as an expense until after the trip has been completed when actual expenses are known.

Source Documentation

Travel costs are allowable based on the organization's formal travel policy provided the costs are deemed by DSHS to be reasonable and necessary. The policy should specify reimbursement limits for meals, lodging and the mileage rate. If the organization has no formal travel policy, State of Texas travel regulations, including maximum per diem and subsistence rates prescribed in those regulations will be used to determine the maximum reimbursable amount of travel costs DSHS will pay. Out-of-state travel requires prior written approval by the contract manager assigned to the Program Attachment. If the out-of-state travel was clearly delineated in the organization's approved budget, prior approval is assumed. Source documents include the following:

- a) Travel authorization and expense reports signed by the traveler and approved by responsible manager. A separate travel expense report should be submitted for each trip taken and must include:
 - o dates of travel,
 - o travel destination,
 - o the purpose of the trip,
 - o an itemization of expenses, and
 - o the general ledger account(s) charged.

Reimbursement using a mileage rate must be supported by a detail record of point-to-point mileage with odometer readings or copies of mapping web site mileage (e.g., Bing). Maps from a mapping web site must also display point-to-point miles, with a separate map between each destination. If an organization uses an online mapping web site to determine mileage, the name of the mapping web site should be designated in the organization's travel policy. Original receipts must be attached to all travel expense reimbursement vouchers;

- b) Original receipted bills that are itemized and contain detail billing information for all hotel charges, airline tickets (showing itinerary and costs), and all other expenses. A credit card receipt is not acceptable support for reimbursement of expenses;
- c) Mileage logs signed by the traveler and appropriate manager. Mileage logs must include -
 - o date of travel,
 - o to and from destination(s),
 - o record of point-to-point mileage with odometer readings or copies of mapping web site mileage, and
 - o the purpose of each trip;
- d) Proof of payment.

Contractors that do not have an established travel policy should refer to the following link for State travel requirements:

State of Texas Textravel - <https://fmx.cpa.state.tx.us/fmx/travel/textravel/index.php>

DSHS-designated online mapping web site:
<http://www.bing.com/maps/#JnJ0cD0IN2UmcnRvcD0wJTdlMA>

Section 6.05.04 Equipment

Definition

The Equipment budget category includes the following items:

- Equipment - defined as tangible nonexpendable personal property with an acquisition cost of \$5,000 or more and a useful life of more than one year.
- Real Property – defined as land, including land improvements, structures and appurtenances thereto (i.e. permanent fixtures) and renovations to real property costing \$5,000 or more.
- Other Intangible Property – defined as non-copyrightable intangible property costing \$500 or more that is developed, produced or obtained by contractor, including domain names, URLs, software licenses, etc.

Equipment items must be approved for purchase by DSHS, and be reported to DSHS annually on Form GC-11 available at: <http://www.dshs.state.tx.us/contracts/forms.shtm>
The acquisition cost is the net invoice unit price of an item of equipment, including freight and shipping costs, the cost of any necessary modifications, attachments, accessories or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired.

Additional information on equipment is located in Chapter 14 – Property Management of this manual.

Source Documentation

Contractors must have written approval from DSHS prior to the purchase of any equipment item. If equipment is clearly defined in the Program Attachment budget, prior approval is presumed. Source documents include the following:

- a) written evidence of DSHS's prior approval of the purchase
- b) quotations from vendor
- c) approved purchase order and/or contract
- d) receiving reports
- e) original vendor invoice

- f) general account number(s) charged and the amount charged to each account
- g) proof of payment.

Section 6.05.05 Supplies

Definition

The “Supplies” budget category is comprised of the following two separate and distinct components:

Consumable supplies - defined as consumable items that are directly associated with the Program Attachment’s Statement of Work and are necessary to carry out the activities stated in the Program Attachment. These may include medical supplies, drugs, office supplies, patient educational supplies, software, and any other consumable item necessary to carry out the DSHS project. General facility and maintenance supplies (e.g., janitorial, exterminator, etc.) may also be charged to this category if allocated using a direct cost allocation plan; otherwise they should be allocated as an indirect cost. Supplies used in the general administration of the organization (e.g., executive director’s office, accounting office) should be allocated as an indirect cost.

Controlled assets – defined as nonexpendable, tangible personal property having a useful lifetime of more than one year and an acquisition cost of \$500 or more, but less than \$5,000. Controlled assets include –

- firearms regardless of the acquisition cost,
- desktop and laptop computers (including notebooks, tablets and similar devices),
- non-portable printers and copiers,
- emergency management equipment,
- communication devices and systems such as but not limited to FAX machines, cellular/mobile telephones, hand-held radios, Blackberry devices, pagers, telecopiers,
- medical and laboratory equipment, and
- media equipment, such as but not limited to video recorders, cameras, CD players, TVs, VCRs, camcorders, DVD players.

Refer to Chapter 14 of this manual for additional requirements applicable to controlled assets.

Source Documentation

- a) approved purchase requisition, approved purchase order
- b) evidence of receipt (i.e., receiving report)
- c) original invoice

- d) general ledger account number(s) charged and the amount charged to each account

Section 6.05.06 Contractual

Definition

The “Contractual” category should include all contracts for the provision of goods and/or services that are directly associated with carrying out the Statement of Work. This includes –

- contracts that delegate substantive portions of the Statement of Work or convey property to a third party (subrecipient contracts);
- vendor contracts for the provision of goods or services directly related to carrying out activities in the Statement of Work (e.g. lab services, physicians, radiology).

Contracts for the provision of goods or services that are not directly related to carrying out the DSHS program (e.g. maintenance, copier, etc.) are considered to be vendor contracts and are appropriately budgeted in the “Other” or “Indirect” cost categories.

Contractors are responsible to DSHS for the performance of any subcontractor and must not contract with a subcontractor, at any tier, that is debarred or suspended or excluded from or ineligible for participation in federal or state assistance programs. Contracts with all subcontractors, whether vendor or subrecipient, must be in writing and include the requirements stipulated in DSHS Subrecipient Contract General Provisions, Article XII General Business Operations of Contractor.

Contracts for general and administrative services (i.e., accounting, audit, payroll, temporary staffing) are not included in this category; they are properly classified in the “Other” or “Indirect Cost” category.

To limit liability if continued DSHS funding is not forthcoming, it is recommended that recipients insert a clause in their contracts stipulating that payment beyond the end of the current budget period is contingent on continued DSHS funding.

Contractors must adhere to state and federal requirements in determining vendor and subrecipient status for contractors. It is important that contractors appropriately determine whether its subcontracts are vendor contracts or subrecipient contracts. The vendor versus subrecipient determination must be made before the contractor is listed on the budget that is submitted to DSHS.

The Federal Office of Management and Budget (OMB), through [Circular A-133](#), Audits of States, Local Governments, and Non-Profit Organizations and Uniform Grant Management Standards have provided guidance regarding the characteristics of a vendor versus a sub-recipient. OMB Circular A-133 and UGMS caution that in making

the determination of whether a sub-recipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement.

Subrecipient Contracts

Subrecipient is defined as a non-federal or non-state entity that expends federal or state awards received from a pass-through entity (such as the Department of State Health Services), or receives property in lieu of money to carry out a federal or state program, but does not include an individual who is a beneficiary of such a program. A subrecipient may also be a recipient of other federal or state awards directly from a federal or state awarding agency. (See: UGMS – Part IV, State of Texas Audit Circular, Sub-part A-General, Sec.105 - Definitions) (See OMB A-133, Sub-part A-General, Sec. 105 – Definitions)

Subrecipient Characteristics

The contractor -

- determines who is eligible to receive the various types of state or federal financial assistance;
- has its performance measured against program objectives and whether or not they are met;
- has responsibility for programmatic decision-making;
- has responsibility for adhering to applicable federal program compliance requirements;
- uses the funds to carry out a program of the organization (rather than providing goods or services for a program of the pass-through entity); and
- receives funding for the acquisition of equipment/property or equipment/property in lieu of funding.

A contract with a subrecipient must comply with the requirements stated in the DSHS Contract General Provisions, including the sections in Article XII that are applicable to subrecipient contracts. If the organization plans to enter into a contract that delegates a substantial portion of the scope of the project that equals or exceeds \$100,000, the organization must submit justification to DSHS and receive prior written approval from DSHS before entering into the contract. For contracts that identify the contractor name, services to be provided, and a justification acceptable to DSHS in the Program Attachment budget, pre-approval is presumed.

Contractor shall monitor both financial and programmatic performance and maintain pertinent records that shall be available for inspection by DSHS. Contractor shall ensure that subcontractors are fully aware of the requirements placed upon them by state/federal statutes and regulations and under the DSHS Contract.

Vendor Contracts

Vendor is defined as a dealer, distributor, merchant or other seller providing goods or services that are required for the conduct of a state program. This definition also includes providers of services that are ancillary to the DSHS program such as medical doctors and other health care service providers, and providers of laboratory and radiology services. These goods or services may be for an organization's own use or for the use of beneficiaries of the state program. (See UGMS – Part IV, State of Texas Audit Circular, A-General, Sec.105 – Definitions; OMB Circular A-133, Sec. 105 - Definitions)

Vendor Characteristics

The contractor -

- provides goods and services within normal business operations;
- provides similar goods or services to many different purchasers;
- operates in a competitive environment;
- provides goods or services that are ancillary to the operation of the program; and
- is not subject to compliance requirements of the federal program.

Subcontracts for the acquisition of goods and services that are necessary to carrying out the DSHS program and do not delegate a substantial portion of the scope of work for the project will, as a general rule be considered vendor contracts. For example, subcontracts for ancillary services such as laboratory and radiology services would be considered to be vendor contracts. Likewise subcontracts with a medical doctor or other health professionals, where the subcontractor does not determine eligibility, would typically be considered vendor contracts.

Source Documentation

Subrecipient Contracts

- a) Evidence of DSHS written prior approval for contracts that equal or exceed \$100,000, and documentation that provides evidence of compliance with the Contract General Provisions, Article XII, Contracts with Subrecipient Subcontractors section;
- b) Requirements in the DSHS contract that flow-down to the contractor's lower tier subrecipients. Subrecipient subcontracts must include, at a minimum -
 1. clear description of the services to be provided and what costs will be reimbursed (allowable and/or unallowable);
 2. procedures for submitting reimbursement requests and supporting documentation;

3. reporting requirements, including, format, frequency, due date and destination;
 4. requirements for record keeping, documentation of expenditures and record retention period;
 5. required property maintenance and recordkeeping elements, if any equipment or other assets are allowed;
 6. list and location of rules or laws (including applicable OMB Cost Principles and financial administrative requirements) the subcontractor is expected to follow;
 7. consequences for failure to meet any of the contractual requirements; and
 8. single audit requirements, as applicable.
- c) Reimbursement request, vouchers, or invoices that support payments made to the subcontractor and evidence of approval by responsible employee who is able to attest to the performance of the subcontractor in relation to the payment amount;
- d) Evidence of programmatic and financial monitoring effort (i.e., review/analysis of supporting documentation, reconciliation of costs to general ledger, reports, etc.);
- e) General ledger account number(s) charged and the amount charged for each payment

Vendor Contracts

- a) An executed contract or purchase order that at minimum includes the following:
1. Name and address of all parties
 2. A detailed description of the goods and/or services to be provided
 3. A measurable method and rate of payment and total not-to-exceed amount of the contract
 4. The term of the contract (beginning and ending date)
- b) Invoice that clearly identifies service(s) performed and the rate of payment (i.e., number of units x rate of payment; number of hours x hourly rate)
- c) Approval by responsible employee who is able to attest to the invoice's accuracy and receipt of goods/services
- d) General ledger account number(s) charged and the amount charged to each account

Section 6.05.07 Other

Definition

All other allowable direct costs not listed in any of the above categories are to be included in the “Other” category. This includes vendor contracts for goods and services which are acquired for general use of an organization. Some of the costs listed below may be treated as indirect cost. Their treatment as “Other” (direct) or indirect must be consistent throughout the organization. Typical costs that may be budgeted in the “Other” category are the approved DSHS Program Attachment’s share of -

- space and equipment rental;
- utilities and telephone expenses;
- data processing services;
- printing and reproduction expenses;
- postage and shipping;
- janitorial services;
- exterminating services;
- security services;
- client incentives (prior approval by DSHS is required);
- equipment repairs or service maintenance agreements (warranties);
- periodicals, pamphlets, and professional organization memberships; (organization cannot be involved in lobbying);
- advertising directly related to the program activities specified in the Program Attachment’s Statement of Work;
- registration fees;
- vehicle maintenance costs;
- patient transportation;
- training costs, speaker’s fees, stipends, and;
- allowances, property, or services provided to employees that qualify under IRS rules as a “working condition fringe” or a “de minimis fringe” (excluded from gross taxable income), for example, a cell phone provided by the employer that is primarily used for noncompensatory business purposes.

Source Documentation

Contracts for the procurement of goods and services in the “Other” category must be in writing and be supported by the following source documentation:

- a) a purchase order that is properly completed and approved or an executed contract that at minimum includes -
 - name and address of all parties;
 - a detailed description of the goods and/or services to be provided;
 - a measurable method and rate of payment and total amount of the contract; and
 - the term of the contract (beginning and ending date).
- b) original invoice

- c) evidence of receipt (e.g., receiving report)
- d) general ledger account number(s) charged and the amount charged to each account

Costs for goods and services obtained through general business practices should include at a minimum a copy of the original invoice, general ledger account number(s) charged and the amount charged to each account and proof of payment.

Section 6.05.08 Indirect Costs

Definition

Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective (i.e., DSHS Program Attachment) and not readily assignable to the cost objectives specifically benefitted. Because of the diverse characteristics and accounting practices of organizations, it is not possible to specify the types of cost that may be classified as indirect cost in all situations. However, typical examples of indirect costs may include central service costs of a governmental unit; general administration and general expenses such as salaries and expenses of executive officers, personnel administration, accounting, and contracted administrative services; depreciation or use allowances on buildings and equipment; and the costs of operating and maintaining facilities, etc.

Source Documentation

Governmental Entities

Governmental entities claiming indirect costs under a Central Service Cost Rate agreement and/or Indirect Cost Rate agreement must provide evidence of a current rate agreement approved by a Federal cognizant agency or state single audit coordinating agency.

Governmental entities that do not have an approved rate agreement may prepare a central service cost allocation plan or an indirect cost rate proposal in accordance with the requirements of UGMS and OMB Circular A-87 (2 CFR Part 225). The proposal must be prepared using the “fixed rate” option as defined in UGMS. The plan/proposal and related supporting documentation must be maintained on file for audit or review. Governmental entities claiming central service costs or indirect costs based on a rate must submit a certification that complies with UGMS requirements along with a statement of the effective rate and base. Acceptance of the central service cost/indirect cost rate by DSHS does not signify approval of the rate but that the rate may be used when charging such costs to DSHS.

In the absence of an approved rate agreement or rate proposal, the governmental entity may use a cost allocation plan. Chapter 7 – Cost Allocation identifies the required elements of a cost allocation plan.

Non-profit Organizations

Non-profit organizations claiming indirect costs under an Indirect Cost Rate agreement must provide evidence of a current rate agreement approved by a Federal cognizant agency or state single audit-coordinating agency.

In the absence of an approved indirect cost rate agreement, the organization must prepare a cost allocation plan. Chapter 7 - Cost Allocation discusses the required elements of a cost allocation plan.

Note: In the case where an organization has an approved central service cost or indirect cost rate and the DSHS program negotiates a rate that is less than the approved rate, this creates a funding deficiency. Just because an organization receives less funding than the actual cost of carrying out the activity in the Program Attachment's Statement of Work, or the contract limits payment of administrative costs, does not mean that the Program Attachment should not be allocated its fair share of costs. Indirect costs allocable to a particular Program Attachment that are not reimbursed by DSHS cannot be shifted to other Federal or State grants, or be charged as a direct cost. The contractor must fund these costs from local or unrestricted sources.

Chapter 7 - Cost Allocation

Section 7.00 Introduction

Allocability is one of the fundamental cost principles used in determining whether or not costs are allowable. It is a measure of the extent to which a cost benefits a particular cost objective (i.e. activity funded by a DSHS Program Attachment) and can be charged to that cost objective. Likewise, costs that do not benefit a particular cost objective are not allocable to and cannot be charged to that cost objective. Measuring benefit is a critical requirement and key task to be performed in allocating costs. Throughout this section the requirement is stressed that a cost is allocable to a cost objective only to the extent of benefits received by that cost objective.

The total cost of a cost objective (i.e., DSHS Program Attachment) is the sum of allowable direct costs and the allocable portion of allowable indirect costs, less applicable credits. In order to correctly and fairly allocate indirect costs, it is necessary to first identify and segregate costs as either direct or indirect.

- Direct costs are those that can be identified specifically with a particular final cost objective of the organization. Direct costs charged to a DSHS Program Attachment are those allowable costs attributable to carrying out the activities specified in the Program Attachment's Statement of Work and can be directly assigned relatively easily with a high degree of accuracy.
- Indirect costs are those that have been incurred for a common or joint purpose and are not readily chargeable to a specific cost objective. They are often aggregated into intermediate groupings, usually called cost pools, and are periodically allocated to final cost objectives.

This section provides for general guidance on cost allocation procedures to ensure that costs are properly and equitably distributed to the benefiting cost objectives. Depending on the organization and function, an entity may use a cost allocation plan and/or an indirect cost rate to identify and assign indirect costs to benefiting cost objectives. All subrecipient organizations are required to submit a Cost Allocation Plan to DSHS with the exception of Local Mental Health Authorities with only Mental Health Performance Contracts for Authority, Adult, Children and Adolescent Program Attachments.

Section 7.03 – Submission of Cost Allocation Plan identifies submission requirements in more detail.

Section 7.01 Types of Cost Allocations

The Cost Allocation Plan is a document that identifies, accumulates and distributes all allowable costs that are allocated (instead of being directly charged) to benefiting cost objectives and identifies the allocation methods used for distributing costs. The base period should coincide with the period in which the costs to be allocated were incurred. All costs allocated to a DSHS Program Attachment must be supported by a

methodology defined in the Cost Allocation Plan. Formal accounting records to substantiate the propriety of the allocated charges must support all costs included in the plan.

Section 7.01.01 Direct Cost Allocation

OMB Circular A-122 (2 CFR Part 230) permits the use of a direct cost allocation method for non-profit organizations. DSHS will accept direct cost allocation plans submitted by governmental entities if the circumstances warrant the need for direct cost allocation.

A determining factor in deciding whether a cost can be allocated using a direct cost allocation plan is the allocation base and the type of cost. The base must accurately measure the degree of benefit derived by each cost objective and must remain constant. For example, facility-related costs could be allocated with a high degree of accuracy to each cost objective in proportion to the square footage occupied by the cost objective. The square footage occupied by a cost objective typically remains fairly constant over a period of time. The cost can be allocated and charged directly to the general ledger through the accounts payable application at the time of payment. However, cost pools may be used for some categories of allocable direct costs for periodic allocation to benefited cost objectives.

Under this concept, the organization separates costs into three basic categories: general administration and general expenses; fundraising; and other direct program/functions (which includes projects performed under Federal and state grant awards). Joint costs such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each cost objective using a base most appropriate to the particular cost being prorated. Each joint cost must be prorated using a base that accurately measures the benefits provided to each award or other activity. The base should be drawn from the same period during which the costs to be allocated have been incurred. The bases must be established in accordance with reasonable criteria, and be supported by current data. The cost bases should be re-evaluated at least annually and when changes within the organization would result in an inequitable distribution of joint costs.

A common allocation base for facility-related costs is the building square footage occupied by the program or cost objective; with common areas being allocated based on the number of full-time-equivalents (FTE) assignable to each program/cost objective or another base that best measures the relative degree of benefit. In this case, the cost allocation can be reflected on each invoice/billing (e.g., utility bill, rent) as it is paid or be charged to a cost pool with similar costs using an allocation base most appropriate for those particular costs. An allocation base for general clinic supplies could be actual patient census that identifies patients by payor source, provided that the level of supplies used in the care of each patient is comparable. Where supplies can be easily identified for use on clients under a particular program, the cost of the supplies should be direct charged to the specific program.

When direct cost allocation methods are used, indirect costs consist exclusively of general administration and general expenses. Refer to Section 7.01.04 “Indirect Cost Allocation Plan” below for guidance on allocating indirect costs.

Direct costs that are allocated to a final cost objective (DSHS Program Attachment) using a direct cost allocation plan should be reported under the proper direct cost category on the Financial Status Report (FSR). Likewise, these costs should be classified and recorded in the appropriate general ledger account under the final cost objective. For example, building rental costs should be recorded in the general ledger under a general ledger account for “Rent” and reported on the FSR under the “Other” budget/expense category.

Section 7.01.02 Central Service Cost Allocation Plans (CSCAP)

CSCAP are relevant only to governmental entities. Most governmental entities provide certain services, such as computer centers, purchasing, accounting, personnel administration, etc., to operating departments on a centralized basis. Since activities performed under a DSHS Program Attachment are performed within an operating department of the governmental entity (i.e., Health Department), there needs to be a process whereby these central service costs can be identified and assigned to all benefited departments of the governmental entity on a reasonable and consistent basis. The central service cost allocation plan provides this process.

Approved Rate Agreement

A governmental entity may use a rate under a Central Service Cost Allocation Plan rate agreement approved by a Federal cognizant agency or state single audit coordinating agency to charge central service costs to a DSHS Program Attachment. A current copy of the approved rate agreement must be on file with DSHS or be submitted with the application or response to a solicitation document.

Rate Proposal

Governmental entities that do not have an approved rate agreement may prepare a central service cost allocation plan rate proposal in accordance with the requirements specified in Uniform Grant Management Standards (UGMS) and Office of Management and Budget (OMB) Circular A-87 (2 CFR Part 225). The proposal and related supporting documentation must be maintained on file for audit or review.

Governmental entities claiming central service costs based on a rate proposal must submit a Certificate of Central Service Cost Plan form found in Appendix B of this manual. A current certification and statement of the effective rate and base must be on file with DSHS or be submitted with the application or response to a solicitation document. Acceptance of the central service cost rate by DSHS does not signify approval of the rate.

In the absence of an approved rate agreement or rate proposal, the governmental entity

may allocate actual indirect costs and describe the allocation methodology in the DSHS Cost Allocation Plan.

Guidelines for preparing Central Service Cost Allocation Plan rate proposals are available at the following web links:

OMB CIRCULAR A-87 (2 CFR Part 225), ATTACHMENT C
http://www.whitehouse.gov/omb/circulars_a087_2004

OMB CIRCULAR A-87 IMPLEMENTATION GUIDE and
CIRCULAR A-87 COST PRINCIPLES AND PROCEDURES FOR DEVELOPING COST
ALLOCATION PLANS AND INDIRECT COST RATES FOR AGREEMENTS WITH THE
FEDERAL GOVERNMENT
<https://rates.psc.gov/fms/dca/asmb%20c-10.pdf>

Section 7.01.03 Indirect Cost Rate Agreements/Proposals

Governmental Entities

A governmental entity may use a rate under an Indirect Cost Rate Agreement, approved by a Federal cognizant agency or state single audit coordinating agency to charge indirect costs to a DSHS Program Attachment. A current copy of the approved indirect cost rate agreement must be on file with DSHS or be submitted with the application or response to a solicitation document.

Governmental entities that do not have an approved Indirect Cost Rate Agreement may prepare an indirect cost rate proposal in accordance with the requirements of Uniform Grant Management Standards (UGMS) and Office of Management and Budget (OMB) Circular A-87 (2 CFR Part 225). The proposal must be prepared using the “fixed rate” option as defined in UGMS. The proposal and related supporting documentation must be maintained on file for audit or review. Governmental entities claiming indirect costs based on a rate must submit a certification using the Certificate of Indirect Costs form found in Appendix C of this manual. A current certification and statement of the effective rate and base must be on file with DSHS or be submitted with the application or response to a solicitation document. Acceptance of the indirect cost rate by DSHS does not signify approval of the rate.

In the absence of an approved indirect cost rate agreement or indirect cost rate proposal, the governmental entity may allocate actual indirect costs and describe the allocation methodology in the DSHS Cost Allocation Plan. Section 7.01.04 – Indirect Cost Allocation Plan discusses the required elements of a cost allocation plan.

Guidelines for preparing indirect cost rate plans are available at the following web links:

OMB CIRCULAR A-87 (2 CFR Part 225), ATTACHMENT E –
http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html

OMB CIRCULAR A-87 IMPLEMENTATION GUIDE and
CIRCULAR A-87 COST PRINCIPLES AND PROCEDURES FOR DEVELOPING COST
ALLOCATION PLANS AND INDIRECT COST RATES FOR AGREEMENTS WITH THE
FEDERAL GOVERNMENT
<https://rates.psc.gov/fms/dca/asmb%20c-10.pdf>

Non-Profit Organizations

A non-profit organization may use a rate under an indirect cost rate agreement, approved by a Federal cognizant agency or state single audit coordinating agency to charge indirect costs to a DSHS Program Attachment. A current copy of the approved rate agreement must be on file with DSHS or be submitted with the application or response to a solicitation document.

In the absence of an approved indirect cost rate agreement, the organization must prepare a cost allocation plan. Section 7.01.04 – Indirect Cost Allocation Plan discusses the required elements of a cost allocation plan.

For-Profit Organizations

For-profit organizations must prepare a cost allocation plan in accordance with 48 CFR Part 31 – Contract Cost Principles and Procedures. Section 7.01.04 – Indirect Cost Allocation Plan discusses the required elements of a cost allocation plan.

Section 7.01.04 Indirect Cost Allocation Plan

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. To facilitate equitable distribution of indirect expenses to the final cost objectives served, it may be necessary to establish a number of pools or intermediate cost centers. These costs must be accumulated monthly in the pools or intermediate cost centers and distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. The base should be drawn from the same period during which the costs to be allocated have been incurred.

The indirect cost allocation plan should identify expenses classified as indirect and documents the methodology used to distribute these expenses to final cost objectives. Cost allocation methods may vary, based on the types of costs being allocated. The objective of the method used should be to ensure a reasonable and equitable allocation of each type of cost. The cost bases should be re-evaluated at least annually and when changes occur within the organization that would result in an inequitable distribution of indirect costs.

Indirect costs that are allocated to the final cost objective (DSHS Program Attachment) using an indirect cost allocation plan should be reported under the “Indirect Cost” budget/expense category on the FSR.

Cost Pools and Intermediate Cost Centers

A cost pool is an accounting structure used to accumulate similar costs pending distribution by allocation to benefited final cost objectives (cost centers). A primary consideration in establishing a cost pool is its allocation base. The base should have a common relationship to the types of costs captured in a cost pool so that it results in an accurate measure of benefits. For example, general administrative costs might be captured in a number of cost centers (i.e., accounting, executive office, personnel) that can be pooled and then allocated to benefited final cost objectives.

Section 7.01.05 Shared Costs

When activities supported by a DSHS Program Attachment are also supported by other funding sources, issues arise as to how costs should be allocated among the sources of support. Costs that are readily assignable to a specific cost objective (i.e., DSHS Program) funded by more than one funding source are referred to as shared costs. Costs assigned to that cost objective must be allowable under any of the funding sources contracts.

When the cost of a DSHS-funded activity is also supported by other funding sources, costs should be allocated (billed) to the sources of support as follows:

- If the proportions that shared direct costs benefit each funding source can be determined, they should be allocated to each funding source on the basis of the proportional benefit.
- If cost benefit proportions cannot be determined, the shared direct costs and indirect costs should be allocated in proportion to the amount of funding specified in the contract of each funding source.
- If a contractor wishes to allocate costs funded by multiple funding sources in disproportionate amounts to a DSHS Program Attachment, the contractor must obtain prior written approval from DSHS as noted in Contractor’s Cost Allocation Plan, Section II – Allocation of Costs Among Multiple Funding Sources.

In this case, where a cost objective is funded by multiple funding sources, there is a distinction between cost allocation and billing costs based on funding. Billing costs based on funding is acceptable only after the cost has been direct charged or allocated to the cost objective using one of the allocation plans described under Section 7.01 - Types of Cost Allocations. The contractor’s financial management system must include adequate internal controls and must ensure that costs are not double billed.

The proportion of expense borne by each funding source can be accounted for by -

- 1) allocating the cost based on proportion of funding directly to a separate cost center established for each funding source, or;

- 2) the establishment of an intermediate cost center or cost pool that is subsequently allocated to a final cost center established for each funding stream (i.e., DSHS Program Attachment), or;
- 3) capturing the total costs allocable to the cost objective in one cost center and accounting for the portion of costs funded by each funding source in separate revenue accounts.

When closely related work is supported by more than one funding source, it may become necessary to make cost corrections from one funding source to the other. These types of corrections should be infrequent and should be made promptly after the original charges have been recorded in the contractor’s general ledger. Frequent, tardy, and unexplained transfers, particularly where they involve projects with significant cost overruns or unexpended funds, raise serious questions about the propriety of the transfers as well as the overall reliability of the contractor’s accounting system and internal controls. Any transfer must be supported by documentation that adequately explains why the transfer was made.

Where a DSHS Program Attachment-funded activity will also be funded by other funding sources, the other funding source(s) and amount(s) should be disclosed in the application to contract instrument (e.g., request for proposal). **Note: Payments received from Medicaid, Medicare, or third party payors for services provided under a DSHS Program Attachment are typically not considered an “other funding source” and should be treated as program income.**

Section 7.02 Allocation Bases

The table below provides an example of some costs that may be allocated using a direct or indirect cost allocation plan and some typical cost allocation bases. Other allocation bases may be used provided they result in an equitable basis for distributing the cost to all benefited cost objectives.

Type of Cost	Base (s)
Fringe Benefits	Direct salaries or actual labor hours (full-time-equivalents) charged to each program/cost objective
Supplies (i.e., general office supplies used on multiple activities)	Direct salary costs, actual direct labor hours (full-time-equivalents) or modified total direct costs (MTDC) ¹
Building rent	Square footage used by each program/cost objective; direct salary or labor hours charged to each program/cost objective OR charged to indirect cost pool
Building insurance	
Building repairs & maintenance	
Janitorial services	
Utilities	
Telephone (basic)	# of instruments
Computer support	# of computers

Single Audit expense	Indirect cost pool OR by amount of actual reimbursement received from each funding source
Copier	Copy log/meter OR direct salaries
Postage	Direct usage
Indirect cost pools	Direct salaries, direct labor hours OR MTDC ¹

¹ Modified Total Direct Costs (MTDC) consists of all direct costs, including sub-grants and subcontracts up to the first \$25,000 of each sub-grant or subcontract and excludes equipment and other items that would result in an inequity in the distribution of indirect costs.

Section 7.03 Submission of Cost Allocation Plan

All subrecipient contractors must have a cost allocation plan in the format provided in Appendix A of this manual that has been accepted by DSHS with the exception of Local Mental Health Authorities with only Mental Health Performance Contracts for Authority, Adult, Children and Adolescent Program Attachments the following:

If a plan has not been accepted the subrecipient contractor must submit a cost allocation plan using the “Cost Allocation Plan” (CAP) template found in Appendix A of this manual to DSHS no later than the 60th calendar day after the effective date of the contract.

When a current contractor enters into a new contract, the contract General Provisions stipulate that by signing the contract, the contractor certifies that the CAP on file with DSHS is current. In the event that there is any change in the cost allocation or substitute timekeeping methodology during the term of the contract, a new CAP must be submitted to DSHS within 30 days after the after the effective date of the change. In addition to submitting the updated plan, a description of the changes should be summarized in a cover letter. DSHS Contract Oversight & Support staff will review the CAP and notify the contractor in writing when the CAP or revised CAP has been accepted.

The CAP must be certified by the organization’s Chief Financial Officer (CFO) and Chief Executive Officer (CEO) and submitting by an e-mail attachment to: coscap@dshs.state.tx.us. The e-mail must be sent by the organization’s CFO or the CEO. The officer sending the e-mail must copy the other officer. For example, if the CFO sends the e-mail, the CEO must be copied on the e-mail sent to DSHS. By sending the e-mail, both the CEO and CFO attest to having read the Cost Allocation Plan Certification and thereby certify the plan.

For organizations that do not have a CFO or CEO, the CFO equivalent is the individual responsible for maintaining the organization’s general ledger and attesting to the accuracy of the accounting records (e.g., County Auditor, Finance Director, or designee). The CEO equivalent is the individual responsible for the overall administration of the organization or in the case of a university, the overall

administration of the DSHS Program Attachment (e.g., the executive director of a health department, principal investigator).

Cost Allocation Plans may also be mailed to:

Department of State Health Services
Contract Oversight & Support Section
P. O. Box 149347 Mail Code 1326
Austin, TX 78714-9347

Chapter 8 - Program Income

8.00 Definition and Purpose

Program income (PI) is defined as gross income generated by a DSHS contract supported activity or earned as a direct result of the contract agreement during the Program Attachment period. Program income includes, but is not limited to, fees for services performed or income from the sale of items fabricated under the contract agreement, proceeds from the sale of tangible personal or real property, usage or rental fees, sale of services such as laboratory tests, computer time, and patent or copyright royalties. Program income also includes interest earned in excess of \$250 per year on advances for Program Attachments funded by state funds. Section 10.03.01 Interest Earned on Advances provides a more detail discussion on interest earned on advances by both state and federal funds. In summary, program income is revenue generated by virtue of the existence of the program (activities funded under the DSHS Program Attachment).

Most commonly under DSHS contracts, program income is income resulting from fees collected, for services rendered by a contractor that are wholly or partially funded by a DSHS Program Attachment. Examples of program income are fees paid by patients, third party reimbursements from Medicaid, Medicare, commercial insurance payments, etc.

Program income may also be generated through donations from DSHS clients as a direct result of the services provided under a Program Attachment. An example of this situation is when a DSHS patient is not required to pay a co-payment; however, the patient makes a voluntary cash donation.

Program income must be accounted for in the contractor's general ledger in a unique revenue account(s) specific to each DSHS Program Attachment activity. It must be spent on the same Program Attachment activities during the period in which it was generated and it may not be carried forward to the succeeding contract term. Program income not expended in the term in which it is earned must be remitted to DSHS.

DSHS share of program income must be expended prior to requesting reimbursement for the current Program Attachment's award amount.

Section 8.01 Required Documentation

Uniform Grant Management Standards (UGMS), Subpart C, Section 20, requires the contractor to maintain accounting records that adequately identify the source and application of funds provided for contract activities. Accounting records must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds were expended for allowable costs and were not used in violation of the restrictions and prohibitions of applicable statutes. Total program income generated by each Program Attachment-funded activity must be recorded in the contractor's general

ledger under unique revenue account(s). Cash receipts/collections should be reconciled daily to accounting records (e.g., cash receipts journal) and monthly to the general ledger revenue account(s).

Section 8.02 Program Income Allocation Plan

Program income earned as a result of a Program Attachment activity that is jointly funded by DSHS and other non-DSHS funding sources (e.g., local government, organizations own funds or other grants) must be allocated to each funding source through a PI allocation plan. The initial PI allocation should be based on the ratio of the amount of the budget borne by DSHS to the total budget. The final PI allocation (DSHS share) will be based on the ratio of the amount of expenses actually funded by DSHS to the total amount of expenses funded by all sources for the same Program Attachment activities. The following formula is an example of how DSHS share of program income should be calculated for each Program Attachment:

$$\frac{\$60,000 \text{ (Amount of budget/expenses funded by DSHS)}}{\$100,000 \text{ (Total budget/expenses funded by all sources, including the DSHS amount)}} = .6 \text{ or } 60\%$$

The percentage thus obtained is applied to the total PI collected under the Program Attachment to determine an amount allocable to DSHS. For example, if the total PI collected was \$5,000, then the amount allocable to DSHS would be \$3,000 (60% of \$5,000). The percentage allocable to non-DSHS sources would be obtained by subtracting the DSHS percentage from 100% (i.e., 100%-60% = 40%).

A PI allocation plan must be prepared upon the execution of a DSHS subrecipient contract and be available upon request. The plan should be updated periodically so it lists all active Program Attachments and the percentage of DSHS and non-DSHS funding for each Program Attachment. The initial PI allocation percentages should be based on the proportionate share of funding from each funding source as approved in the budget. If the proportionate share of actual funding as approved in the budget changes by more than 10%, then an addendum to the PI allocation plan will be required in order to align PI allocation with actual funding by each source. DSHS contractors may update PI allocations more frequently to align allocation with actual funding by source. The addendum must fully explain the reason for the change in funding. At the end of the contract term, the final PI allocation must be based on the percentage of actual total funding provided by each funding source for the DSHS program. The program income reported on the final voucher and FSR must be allocated based on the proportion of actual expenses funded by each funding source.

Section 8.03 Program Income Disposition Requirements

The contractor's share of PI may be expended at the contractor's discretion; however, the DSHS portion of PI must be expended on activities specified in the Program Attachment's Statement of Work and is subject to the terms and conditions of the

Program Attachment under which PI was earned. Also, according to Article V – Terms and Conditions of Payment of the contract General Provisions, DSHS’s share of PI, along with any rebates, refunds, contract settlements, audit recoveries and interest earned must be disbursed (expended) prior to requesting reimbursement including advances from DSHS.

Under fee-for-service and unit rate Program Attachment(s), disbursement of program income can be demonstrated by a reduction in the gross billings by the cost of services that exceed the amount of reimbursement. For example, if the cost of providing services was \$100,000 and program income was \$10,000, reimbursements (billings) should be adjusted so that reimbursement does not exceed \$90,000 (\$100,000 - \$10,000).

Unless otherwise required under the terms of the DSHS contract, the contractor must use the “Addition” alternative for the use of program income to further the program objectives of the DSHS Program Attachment under which the program income was earned. The DSHS share of program income must be expended on allowable costs prior to requesting reimbursement.

Section 8.04 Program Income Restrictions

DSHS proportionate share of PI may not be used to supplant state or local funds. Contractors must use PI to increase state or local funds that are currently available to the contractor to fund allowable costs of the DSHS Program Attachment. Furthermore, DSHS share of PI may not be expended for indirect costs in excess of the amount approved in the budget or for equipment purchases unless DSHS approval is given in an initial contract or through a contract budget amendment. Indirect costs allocable to the DSHS Program Attachment should still be captured in the DSHS cost center and reported on the FSR, but indirect costs in excess of the amount in the approved Program Attachment budget must be financed with non-DSHS funds.

PI cannot be transferred from one Program Attachment to another (i.e., used to fund services provided under another contract Program Attachment), nor can it be carried forward to the succeeding Program Attachment in the subsequent contract term. PI not expended during the term of the Program Attachment must be remitted to DSHS. See Chapter 12.00 - Disallowances and Overpayments, for instructions on refunds.

Contractors must use PI, when it is not included in establishing rates in a fixed Fee-for-Service contract, to provide additional services in accordance with the schedule of fees.

Section 8.05 Reporting Program Income

DSHS share of PI must be reported as a deduction from gross expenses on the monthly reimbursement request. For example:

Gross Allowable Expenses incurred this month	\$XXXXXX
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Less: Program Income	\$ (XXXX)
Non-DSHS Funding	\$ (XXXXX)
Advance Re-payment	\$ (XXXX)
Net Reimbursable Expense	\$XXXXXX

PI must also be reported on the Financial Status Report (FSR) Form 269a. Title X (Family Planning) contractors must also report PI on a Form B13X.

The amount of PI reported as DSHS's share on the final FSR should be based on the amount of actual funding from Non-DSHS sources as reported on the final FSR. The Contractors share of program income should be reported as Non-DSHS funding if it is used to fund allowable expenses of the DSHS program. All adjustments related to PI should be made on the final reimbursement request. Adjustments that result in an overpayment must immediately be refunded to DSHS.

Section 8.06 Monitoring Program Income

DSHS will monitor the use of PI reported on the FSR for compliance with the PI allocation plan. The PI reported must be consistent and match the PI allocation plan. Amounts reported on the final FSR will be the basis for determining DSHS's share of PI.

Chapter 9 - Match

Section 9.00 Introduction

Match represents the portion of a Program Attachments allowable cost not borne by DSHS. Federal and state agencies may fund a sponsored activity at less than the full cost, with the expectation that the recipient (and/or sub-recipient) will provide a portion of the total funding needed. This method of financing, generally referred to as cost sharing or match, imposes an obligation on the contractor (and/or lower tier subcontractor) to provide a specified portion of funding to accomplish the Program Attachment activities.

Requirements for match will be stated in the solicitation document and will be included in the contract language. The requirement may be expressed as a dollar value or expressed as a percentage of total program cost based upon the approved program budget. The source and amount of costs and/or the value of third-party in-kind contributions proposed by the applicant to meet a matching or cost-sharing requirement must be identified in the application budget.

Match requirements can be fulfilled through expenditures of a contractor's own cash resources and/or the use of in-kind contributions. DSHS may establish specific requirements as to the allowability and/or the allocability of costs and in-kind contributions claimed as match. An item of cost or in-kind contribution used to fulfill a match requirement must comply with the same statutes, rules, regulations, contract terms, and guidelines applicable to the DSHS funded program.

Section 9.01 Applicable Statements

Contractors must adhere to the cost principles and administrative requirements specified in the contract General Provisions.

Section 9.02 Criteria

Costs incurred or contributions used to satisfy match requirements must meet all criteria defined in the applicable Cost Principles, Uniform Grant Management Standards, and applicable Federal Common Rule. Costs or contributions, at minimum must -

- be an allowable cost under the applicable federal cost principle;
- be necessary and reasonable for the efficient accomplishment of project or program objectives;
- be verifiable within the contractor's (or subcontractor's) records;
- be included in the approved budget (applies only to cost reimbursement Program Attachments);
- not be included as contributions toward any other federally-assisted project or program (match can count only once);
- not be paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or match;

- conform to other provisions of governing circulars/statutes/regulations as applicable for the contract; and
- be adequately documented.

Contractors are expected to share (match) in project costs at the level indicated in the approved categorical budget. Circumstances that arise during the term of the contract that affect the work plan or approved budget must be submitted to DSHS for re-approval. Contractor's request for budget (including match) revisions or other amendments must be submitted in writing to the contract manager assigned to the Program Attachment. Budget revisions or amendments requested during the last quarter of the Contract or Program Attachment term may not be granted. For fee-for-service or unit rate Program Attachments, changes in the work plan affecting match obligations must be submitted on the form prescribed by the DSHS program for re-approval by DSHS.

Cost reported as match must be supported by expenditures incurred during the contract term. Likewise, the value of in-kind contributions reported match must be supported by documentation reflecting the use of goods and/or services during the contract term. Resources used as match must support activities that are included in the contract's statement of work and/or approved program work plan description. Expenditures and in-kind contributions that do not benefit the program activity within the term of the Program Attachment should not be reported as fulfilling a match requirement. All program costs must be documented in auditable records whether they are charged to award funds for reimbursement or used to substantiate the fulfillment of match requirements.

Expenditures or contributions cannot be used or reported as fulfilling a match requirement more than one time. If match will benefit more than one project, it should be prorated in an equitable manner among the projects (e.g., based on the percentage of each project's cost to total combined project costs).

Funding sources have authorization to limit or deny the use of funding awards to fulfill matching purposes in securing other funding unless directed or approved by the awarding agency. DSHS prohibits the use of funds for matching purposes unless specific authorization is given by DSHS in writing.

Section 9.02.01 Match – Unit-Rate and Fee-For-Service Contracts

There are three basic sources of match under unit-rate and fee-for-service (FFS) contracts. They include the following:

- 1) The costs of services that are not reimbursed by DSHS or another federal or state grant may be claimed as cash match. The cost of these services are paid for with the contractors own funds. The contractor must have documented evidence to support the expenditures incurred for the provision of services claimed as match and cash resources utilized.

2) There may be some services that the contractor is unable to provide. If approved by DSHS, the contractor may subcontract for those services. If the subcontractor's customary charge for the service is more than allowed under the DSHS contract, the discount (difference between customary charge and DSHS reimbursement rate) may be claimed as match. For example, DSHS enters into a contract for the provision of women health services and the contractor is not able to provide mammograms. With DSHS approval, the contractor may contract with a local hospital for the mammogram. The difference (discount) between the hospital's customary charge for the mammogram and the amount reimbursed by DSHS may be claimed as in-kind match.

3) Some DSHS unit-rate or FFS contracts may require provision of other services in addition to the services that are reimbursed at the unit-rate or established fee. For example, under the DSHS Breast & Cervical Cancer Services contract, contractors are reimbursed a set fee for specific diagnostic services. The contractor is also required to perform outreach activities, the cost of which is not reimbursed by DSHS. Since the outreach activities are required under the contract; the allowable costs incurred by the contractor for carrying out outreach activities may be claimed as cash match. The contractor must capture outreach activity costs in a separate cost center.

Section 9.03 Cash Match

Cash match is defined as an expenditure of cash by the contractor on allowable costs of the DSHS Program Attachment that are borne by the contractor. Indirect costs not reimbursed by DSHS may be included as part of match requirements only with the prior approval of DSHS. These costs (cash match) should be recorded in the same cost center as costs that are reported and reimbursed by DSHS or in a separate cost center or series of unique accounts (e.g., in the General Fund) that together comprise the total cash expenditures on the DSHS Program Attachment.

Special considerations must be made when claiming the cost of property and equipment borne by the contractor. If the primary purpose of the DSHS Program Attachment is to assist the contractor in the acquisition of property, then the portion of acquisition cost of property that is borne by the contractor may be claimed as cash match. If acquisition of property is not the primary purpose of the DSHS Program Attachment, only depreciation or use allowance may be claimed. Contractors should follow their established policy for capitalizing and depreciating property acquired with non-DSHS funds. Contractors that do not have an established policy for capitalizing and depreciating property must use the DSHS threshold dollar amount for equipment and controlled assets as a basis for determining whether the property acquisition cost should be expensed or capitalized.

Costs borne by the contractor may be funded by other unrestricted sources including donations from individuals, private foundations and fundraising organizations.

Section 9.04 In-Kind Match

In-kind match is defined as the dollar value of non-cash contributions by a third party given in goods, commodities, or services that are used in activities that benefit a DSHS Program Attachment project and that are contributed by non-federal third parties without charge to the contractor. Third party in-kind contributions must meet all of the following criteria to be acceptable as match:

- The contribution must be **necessary** to accomplish the statement of work as described in the contract.
- Must be goods or services that the contractor would have to pay for if they were not donated.
- The contribution must be in the form of goods or services that if the contractor were to pay for them, the payment would be a reimbursable cost under the contract.
- The contribution must meet the same requirements as allowable costs claimed for reimbursement under the DSHS Program Attachment.
- The contribution must be **adequately documented**. Documentation should include:
 - a description of the goods or services contributed
 - the purpose of the goods or services as related to contract performance
 - the basis for determining value and supporting calculations and the documentation
 - time sheets for volunteer personnel services
 - **any additional documentation necessary to authenticate the transaction.**
- The value of in-kind contributions **must be recorded in the contractor's general ledger under a unique set of accounts (i.e., a separate and distinct cost center)** and reported to DSHS under the appropriate cost category on the Financial Status Report (FSR) Form 269a or other required reporting formats as specified by DSHS for disclosure of cost sharing/match obligation fulfillment. If a contractor's financial management system will not permit the recording of in-kind donations in the general ledger, a separate ledger may be maintained for in-kind donations.

In-kind contributions will be subject to the same financial review procedures as cash expenditures and must be supported with appropriate documentation. Documentation for in-kind contributions should be supported by the same methods used by the organization to support all other costs.

Section 9.04.01 In-Kind Match - Valuation

Valuation is a vital factor with regard to in-kind contributions. The value of each contribution must be documented, including the calculations involved (if applicable). If the value for a contribution is not readily determinable, a simple estimate will **not**

suffice. Estimated amounts signify a lack of documentation for actual values and are likely to be disallowed. In addition, donor-assigned values are not likely to be accepted.

In determining the value of in-kind contributions, the amount claimed will be considered reasonable to the extent that it is consistent with the value placed on similar work or services performed within the organization. In cases where the type of service provided is not found within the organization, the amount claimed would be considered reasonable to the extent that it is comparable to that paid for similar services in the labor market in which the contractor competes for the service involved. The reported amount for a contribution should be based on an independent assessment of the **fair market value (FMV)**. Third-party appraisals or published prices are acceptable forms of documentation. Surveys providing **verifiable** data representative of the services involved will be an acceptable basis for evaluating reasonableness of costs claimed as in-kind contributions.

Good(s) or service(s) claimed as in-kind match must represent donations, that if not donated, would have to be paid for with DSHS program funds. **The key words here are “would have to be paid for”**. Goods or services claimed as in-kind match must not be ordinarily provided at no-cost and must be something of value with a cost basis that the contractor would normally have to pay for. In addition, the goods or services must be substantive and add an incremental value to the DSHS Program (i.e., expand or add to the services).

There are some organizations that do not require payment for the goods and services they provide. In this case, the goods or services are routinely provided free to the DSHS contractor so there is no cost basis for claiming an in-kind contribution. For example, ordinarily a DSHS program would not have to pay for public service announcements, newspaper articles, talk shows, use of space at libraries, community centers, detention centers, and public schools; therefore, there is no cost basis for claiming an in-kind contribution. An underlying purpose of match is to lay the groundwork for long-term program sustainability within the community by increasing resources. Goods or services that are routinely provided for free to governmental or nonprofit organizations do not increase resources and therefore would not be acceptable as in-kind match.

In order for the value of goods or services to be considered as in-kind match, the organization that contributed them must have an established practice of routinely charging other organizations for the goods or services. For example, if a public school has an established practice of charging and collecting a fee from outside organizations for the use of its facility, then the customary fee could be used as in-kind match. However, the use of classroom space to carry out activities of a DSHS program during school hours when the student is required to be in attendance is not considered to be a donation. Texas Education Code, Chapter 25 requires compulsory school attendance by students each school day for the entire period designated by the school district. Therefore, the classroom space during hours when students are required to be in school would not be acceptable as in-kind match. The school district is required to

provide the classroom space when the student is in attendance; therefore, it is not a cost that would have to be paid for by the DSHS program.

Section 9.05 In-Kind Match Backup Documentation

Listed below are general guidelines for backup documentation to support the most common types of in-kind contributions. Each organization must determine the backup documentation required for other types of in-kind contributions based on the minimum documentation requirements listed above.

Speakers and Other Professional Services

To adequately document the contribution of a speaker or other professional's time, a document should, at minimum, include the following information:

- Name, address, phone number and occupation of the person.
- The date and actual time (e.g., 7:00 to 9:00 p.m. – not just number of hours) that the services were provided.
- The name (e.g., John F. Kennedy High School) and address of the site where the service was provided.
- The specific type of service provided (e.g., Delivered speech on [specific topic of speech]).
- The rate of pay for the service. (Note – The rate of pay should be based on the service provided – not the individual's rate of pay in his/her profession.)
- A signature and date line for the speaker or professional attesting to the validity and accuracy of the invoice.

In addition to the above, documentation should be on file to justify the basis of the rate of pay (i.e., how the fair market value for the service was arrived at) being charged to the contract for the speaker, or other professional services.

Volunteer Workers

A time sheet should be used to adequately document the volunteer's time contributed to contract-related activities. At a minimum, the time sheet should provide the following information:

- Name, address and phone number of the person. (Address and phone number of each volunteer may be kept in a central file.)
- The date and actual time (e.g., 7:00 to 9:00 p.m. – not just number of hours) that the volunteer worked.
- The job site where work was performed.
- The specific type of service provided (e.g., secretarial services, set up tables and chairs for workshop, etc.) or job description on file.
- The rate of pay for the service. (Note – The rate of pay should be based on the service provided – not the individual's rate of pay at his/her regular job.)
- A signature and date line for the volunteer attesting to the validity and accuracy of the time sheet.

- Name, address, and phone number of the person or entity (e.g., XYZ Office Supply, Public Library, etc.) that is making the contribution.
- The date of the contribution.
- A **detailed** description of the contribution that describes each item being contributed (Office Max Copy Paper, Parker F-6000 Ball Point Pens, etc.), should be listed as a separate line item on the invoice with the number of units, the price/value per unit and the extended price/value for the item. Likewise, donations of equipment should describe the make, model, serial number, etc. for each piece of equipment with the price per unit and extended price for the equipment.
 - The price per unit for donations of equipment, furniture, etc. should be the Fair Market Value (FMV) of the item on the date of the contribution. Therefore, if the item was not new when donated, the item's age, condition, useful life, etc., are contributing factors in determining the FMV of the item and must be documented.
 - Preferred documentation to substantiate the current value of donated goods (e.g., supplies, stamps, etc.) would be the invoice or cash register receipt that was given to the person or entity making the donation when they originally purchased the goods, less any depreciation. If this is not available, then other sources (e.g., an Office Depot catalog) could be used as the basis for valuing the donated goods.
- A signature and date line for (1) the person making the contribution or (2) the representative of the organization making the contribution attesting to the validity and accuracy of the contributed items.

In addition to the above, documentation should be on file to justify the cost basis of each item (i.e., how the FMV for the item was arrived at) that is being charged to the contract. For example, when determining the value of the contributed item, consideration should be given to such factors as prior depreciation of the donated item, whether the item is new, used, or damaged, and the overall condition of the item.

Special considerations must be made when claiming the value of donated equipment. If the primary purpose of the DSHS Program Attachment is to assist the contractor in the acquisition of property, the market value of the property at the time of the donation may be counted as match. If acquisition of property is not the primary purpose of the DSHS Program Attachment, only depreciation or use allowance may be counted for donated equipment or buildings. The depreciation or use allowance for this property is not treated as a third-party contribution. Instead, they are treated as costs incurred by the contractor and should be computed and allocated in accordance with the applicable cost principles, in the same way that depreciation or use allowance for purchased equipment and buildings.

Building and/or Office Space (In-Kind Lease/Rent)

The contribution for the use of property or space within a building, by a landlord that leases property/space to the public, should be supported by a lease agreement. The

contribution for the use of property/space by an organization or individual that does not customarily lease property to the public should be supported by a document very similar to a lease agreement. In either case, the document should include at a minimum, the following information:

- Name, address, and phone number of the person or entity that is making the contribution. Note - **This must be a third-party donation. A contractor (or its subcontractors) cannot charge in-kind rent on a building or office space that it owns.** However, the contractor (or subcontractor) is allowed to charge depreciation or use allowance for the building or office space that it owns but only as prescribed by Federal/state regulations.
- The specific period that the lease will cover. (Note - The ending date of the lease should coincide with the ending date of your contract with DSHS.)
- The price for the full term of the lease and/or the hourly, weekly, or monthly rate being charged for the use of the building or office space.
- A **detailed** description of the building or office space contributed. The detailed description should include, at a minimum, the following:
 - The square footage of the building or office space provided.
 - The time when the building or space is being used. In other words, is the space available for your exclusive use 24 hours a day 7 days a week or do you have access to it only on Friday nights from 7:00 to 9:00 P.M.?
 - Any other pertinent information that would have a bearing on establishing the fair market price of the building or office space.
- A signature and date line for the person (if an individual) or authorized representative (if an entity) making the donation of the in-kind lease attesting to the validity and accuracy of the contribution.

In addition to the above, documentation should be on file to justify the monetary basis of the lease agreement (i.e., how the fair market value for the rent of the building or space was determined). Justification of the monetary basis should be something that can be objectively documented such as, but not limited to, the following:

- A copy of a recent lease for the same building or space that is being donated.
- Quotes from realtors for buildings or space in the same area and in relatively the same condition as the building or space that is being donated.
- An independent realtor's assessment or report as to the market value of the building or space being donated.

If the agreement does not state specific dates and times that the space is used for DSHS program activities, a billing statement must be received from the donor that identifies the square footage of the space, location, dates and times the space was used, the billing rate, and the amount of the bill being donated.

Office Furniture or Equipment (In-Kind Rental Agreement)

To adequately document the contribution for the use of furniture or equipment, a document should be used that is very similar to a lease agreement (i.e., a pro-forma lease) on which, at a minimum, the following information is provided:

- Name, address, and phone number of the person or entity that is making the contribution. Note - **This must be a third-party donation. A contractor (or its subcontractors) cannot charge in-kind rent on office equipment and furniture that it owns.** However, the contractor (or subcontractor) is allowed to charge depreciation or use allowance for equipment that it owns but only as prescribed by Federal/state regulations.
- The specific period that the rental agreement will cover. (Note - The ending date of the rental agreement should coincide with the ending date of the contract with DSHS.)
- A description of each specific piece of furniture or equipment including its date of purchase (if available), purchase price (if available), age, condition, make, model, serial number, etc.
- The rental rate for each piece of furniture or equipment.
- A signature and date line for (1) the person donating the furniture or equipment or (2) the representative of the entity donating the furniture or equipment.

In addition to the above, documentation must be on file to justify the monetary basis of the pro-forma rental agreement (i.e., how the fair market value for the furniture and equipment was determined). Justification of the monetary basis (rental rate) should be something that can be objectively documented such as, but not limited to, the following:

- A copy of a recent rental agreement that details the established rental rate for the furniture or equipment being donated.
- Quotes from rental stores for the monthly rental rates of furniture or equipment of the same type and condition.
- Rental rate quote(s) from independent companies (e.g., Xerox, IBM, Pitney Bowes, etc.) that are in the business of renting and/or leasing office furniture or equipment.

Section 9.06 Match Reporting Requirements

Match must be reported on the Match/Reimbursement Certification Form (Form B-13A) referenced in Section 9.06.04 of this chapter. Match shall be reported on the cycle specified in the Program Attachment Statement of Work.

NOTE: Some Program Attachments use the DSHS clinical management system, Clinical Management for Behavioral Health Services (CMBHS) system. When specified, match must be reported using the method provided by the CMBHS instead of Form B-13A.

If an FSR and B-13A are due for the same reporting period, the FSR must be completed prior to completing Form B-13A. The cumulative cash expenditures and/or in-kind contributions reflected on the FSR should then be used to populate the appropriate lines of Form B-13A to facilitate proper completion of the form.

Section 9.06.01 – How to Calculate Match

Contractors must provide match at the ratio reflected in the Program Attachment. The applicable match ratio percentages must be calculated as follows:

- The Contractor’s match ratio percentage must be calculated by dividing the Contractor’s Share of funding of the Program Attachment by the total amount of the Program Attachment. This percentage must be used to determine the Contractor’s Required Match as reflected on line 13 or 21 of the Match/Reimbursement Certification (Form B-13A).
- DSHS’ percentage of the Program Attachment must be calculated by dividing DSHS’s Share of funding of the Program Attachment by the total amount of the Program Attachment. This percentage must be used to determine DSHS’s Maximum Cumulative Share as reflected on lines 14 or 22 of the Match/Reimbursement Certification (Form B-13A).
- If applicable, cumulative program income collected shall be deducted from cumulative project costs prior to the calculation of the required amount of match.

See Exhibits 9.06.01 and 9.06.02 for an illustration of how to calculate the match ratio percentages for both categorical budget and unit rate/fee-for-service contracts.

Exhibit 1 - Calculation of Match Ratio Percentages for Categorical Budget Contracts

Following is an example of a typical budget page as reflected in a categorical budget Program Attachment with a match requirement:

PERSONNEL	\$22,896.00
FRINGE BENEFITS	\$283.00
TRAVEL	\$478.00
EQUIPMENT	\$0.00
SUPPLIES	\$1,700.00
CONTRACTUAL	\$374,823.00
OTHER	\$149,045.00
TOTAL DIRECT CHARGES	\$549,225.00

INDIRECT CHARGES	\$0.00
TOTAL	\$549,225.00
DSHS SHARE	\$424,225.00
CONTRACTOR SHARE	\$125,000.00

The contractor's match ratio percentage is calculated by dividing the **Contractor's Share** of the Program Attachment budget by the total amount of the Program Attachment budget:

Contractor Share of Budget	\$125,000.00	
-----	-----	= 22.76%
Total Program Budget	\$549,225.00	

Conversely, DSHS's percentage of the Program Attachment is calculated by dividing **DSHS's Share** of the Program Attachment budget by the total amount of the Program Attachment budget:

DSHS Share of Budget	\$424,225.00	
-----	-----	= 77.24%
Total Program Budget	\$549,225.00	

The same result may also be achieved by subtracting the contractor's percentage of 22.76% from 100% (100% - 22.76% = 77.24%).

Exhibit 2 - Calculation of Match Ratio Percentages for Unit Rate/Fee-For-Service Contracts

Following is an example of the funding section for a Unit Rate/Fee-For-Service Program Attachment with a match requirement:

<u>SECTION IX. FUNDING:</u>
Funding Source: 93.959; State

Program Amount: \$1,747,693.00
 Match Required: \$87,384.65

Total: \$1,835,077.65

The contractor's match ratio percentage is calculated by dividing the **Contractor's Share** (i.e., Match Required) of the Program Attachment funding by the total amount of the Program Attachment funding (the total Program Attachment funding may also be referred to as the total Program Commitments):

Contractor Share of Funding (Match Required)	\$ 87,384.65		
-----	-----	=	4.76%
Total Program Funding	\$1,835,077.65		

Conversely, DSHS's percentage of the Program Attachment is calculated by dividing **DSHS' Share** (i.e. Program Amount) of the Program Attachment by the total amount of the Program Attachment funding:

DSHS Share of Funding	\$1,747,693.00		
-----	-----	=	95.24%
Total Program Funding	\$1,835,077.65		

The same result may also be achieved by subtracting the contractor's percentage of 4.76% from 100% (100% - 4.76% = 95.24%).

Section 9.06.02 – Disallowance of Match

If **cash match** or **in-kind match** is disallowed, it is DSHS's policy to require a refund of only the amount of disallowed costs that is equivalent to DSHS's percentage of the total funding. For example, if DSHS's percentage of the total funding is 77.24% (as determined in Exhibit 9.06.01 of this chapter) and a total of \$10,000 in **cash match** or **in-kind match** is disallowed, the contractor will be required to refund only \$7,724 (\$10,000 x 77.24%).

Even though it is DSHS policy to require a refund of only the amount of disallowed costs equivalent to DSHS's percentage of the total funding, the net refund due may be affected by other factors such as the remaining allowable cash expenditures and/or in-kind contributions. Therefore, once the adjusted/correct level of expenditures has been determined, Form B-13A must be re-computed to determine the exact amount of the refund. If necessary, administrative offsets (voucher reductions) and/or refunds from the DSHS contractor will be imposed until the proper level of match participation is achieved.

Section 9.06.03 – Match Reconciliation, Billings and Reimbursement

Contractors must request payment as specified under the “Billing Instructions” section of the DSHS Program Attachment. When Form B-13A is due, reimbursement requests may not be processed until after the B-13A and, if required, corresponding FSR(s) have been received by DSHS.

To facilitate reconciliation of match and processing of the reimbursement request for categorical budget Program Attachments, the corresponding FSR(s) and B-13A report should be submitted simultaneously. Once calculations on the FSR(s), Form B-13A and the reimbursement request have been reconciled, reimbursements will be processed in accordance with the normal policies and procedures of DSHS’s Claims Processing Unit.

To be eligible to receive reimbursement from DSHS, contractors must ultimately provide match, at a minimum, at the ratio reflected in the Program Attachment. If match is not met, adjustments consisting of administrative offsets (voucher reductions) and/or refunds from the DSHS contractor may be imposed until the proper level of match participation has been achieved. To avoid the need to submit a refund, or having reimbursement requests reduced or withheld altogether, it is strongly recommended that DSHS contractors use Form B-13A to calculate each monthly reimbursement request whether or not the B-13A is due.

NOTE: Since there is no cash outlay for third-party in-kind contributions received by an agency, contractors will not be entitled to receive reimbursements from DSHS for the portion of match consisting of third-party in-kind contributions. Therefore, if a contractor’s participation consists solely of third-party in-kind contributions (i.e., contractor made no cash outlay), no reimbursements will be made. This issue is addressed by proper completion of Form B-13A.

Section 9.06.04 – Match/Reimbursement Certification Form and Instructions

The Match/Reimbursement Certification Form (Form B-13A) and instructions are located online at <http://www.dshs.state.tx.us/grants/forms.shtm>. The form is in the Microsoft Excel format and contains formulas to facilitate proper completion. To prevent the possibility of errors, the formulas should not be modified.

Chapter 10 - Reimbursement

Section 10.00 Reimbursement Requests

Methods for submitting reimbursement requests can vary with each Program Attachment. Specific instructions for submitting reimbursement requests and billings are provided in the Program Attachment. No DSHS subrecipient contractor can be reimbursed any amount in excess of allowable direct and indirect costs; this applies to all Program Attachments, including those that are reimbursed using a unit-rate, fee-for-service, or other payment methodology.

Substance abuse Program Attachments under a cost reimbursement payment method must bill monthly by the last business day of the month following the end of the month covered by the bill through the DSHS electronic clinical management system CMBHS. Contractors under unit rate payment method must bill at least once per month, and more frequently if deemed necessary through CMBHS.

For Program Attachments that require reimbursement claims to be submitted on a State of Texas Purchase Voucher (Form B-13), unless otherwise specified in the Program Attachment, contractors must submit voucher (Form B-13) monthly by the last business day of the month following the end of the month covered by the bill. The voucher and any other applicable support documentation can be submitted via facsimile or mail. Vouchers and support documentation that do not require signatures can also be submitted via email. Select one method of submission for each voucher. Delays in payment may result if using more than one method of submission. If there are any questions about the receipt of a voucher, contractors may contact the Claims Processing Unit. If the voucher is mailed, submit to the following address, unless otherwise stated in the Program Attachment:

Department of State Health Services
Claims Processing Unit, MC 1940
P.O. Box 149347
Austin, TX 78714-9347

All vouchers must reflect the complete contract I.D. that includes: the document number, Program Attachment number, purchase order number and program name. Vouchers that do not reflect this information may be returned to the contractor. This information can be found on the top of the first page of each Program Attachment forming the contract. The voucher (DSHS Form B-13) and instructions for completing the form are located at the following link:

<http://www.dshs.state.tx.us/grants/forms.shtm>. The reimbursement amount should reflect the gross expenses incurred for the DSHS-funded activity as recorded in the general ledger less any applicable credits and adjustments. For example:

Gross expenses	\$\$,\$\$\$.\$\$
Less:	

Program income	\$\$.\$
Non-DSHS funding	\$\$\$.\$
Advance repayment	\$\$\$.\$
Net reimbursement requested	<u>\$\$\$.\$</u>

Please note that Title X contractors must submit a Form B13X along with the reimbursement voucher. The form and the instructions to complete the Form B13X are located at the following link: <http://www.dshs.state.tx.us/grants/forms.shtm>

Section 10.00.01 Time for Payment by Contractor

A contractor that receives reimbursement from DSHS must pay a vendor or subcontractor the appropriate share of the reimbursement not later than the 10th day after the contractor receives the reimbursement.

Section 10.01 Final Billing

Contractors must submit a reimbursement or final payment request no later than 45 calendar days following the end of the applicable term for goods received and services rendered during the term. Reimbursement or payment requests received in DSHS offices more than 45 calendar days following the end of the applicable Program Attachment term will be denied. Consideration of requests for an exception will be made on a case-by-case basis subject to the availability of funding. The 45-day deadline may be modified by a contract special provision.

Section 10.02 Sanctions

DSHS may temporarily or permanently withhold payments from a contractor for the following programmatic and financial noncompliance items:

- failure to submit required financial reports;
- failure to respond to financial compliance monitoring reports;
- failure to submit required independent audit reports;
- failure to submit a Cost Allocation Plan if applicable to the organization;
- failure to meet program requirements as specified in the Program Attachment’s Statement of Work;
- failure to provide pertinent records and documents for the purpose of examination relating to an audit of Program Attachment(s);
- inadequate or inappropriate resolution of program or financial monitoring findings; or
- other items of noncompliance.

DSHS will formally notify contractors in writing of any imposed sanction that will require a temporary or permanent withholding of payment.

Section 10.03 Advances

Contractors with cost reimbursement contracts that allow working capital advances may be granted a single one-time advance per term of the Program Attachment at the discretion of DSHS. Contractors must submit an original request to the Claims Processing Unit and a copy to the contract manager assigned to the Program Attachment within 30 calendar days of the start date of the Program Attachment that includes -

- A detailed written justification specifying the need for a working capital advance.
- A detail of estimated expenditures that support the the amount of advance being requested.
- An advance request that does not exceed an amount equivalent to one month of the total budget of the Program Attachment. For example – Total approved budget = \$300,000; contract term = 12 months; maximum advance = \$25,000 ($\$300,000 \div 12 = \$25,000$).

The request must be in compliance with applicable Program Policy and Procedures. DSHS will evaluate the information submitted and determine eligibility for the advance. Furthermore, DSHS will also determine if the amount requested is acceptable.

Substance abuse contracts reaching their third year renewal will not be considered for a working capital advance.

Section 10.03.01 Interest Earned on Advances

Program Attachments Funded with State Funds

Interest earned in excess of \$250 per year on Program Attachments funded by state funds must be accounted for and reported to DSHS as program income. Interest earnings of \$250 or less can be retained for administrative expenses. Refer to Chapter 8 – Program Income, for guidance on accounting for and reporting program income.

Program Attachments Funded with Federal Funds

Federal regulations pertaining to interest earned on advances applicable to governmental entities differ from those applicable to nonprofit organizations and institutes of higher education.

- Governmental entities: (45 CFR Part 92)

Interest earned in excess of \$100 per year on Program Attachments funded by federal funds must be remitted quarterly to DSHS. Interest earnings of \$100 or less may be retained for administrative expenses.

- Nonprofit Organizations and Institutes of Higher Education: (45 CFR Part 74)

Interest earned in excess of \$250 per year on Program Attachments funded by federal funds must be remitted annually to DSHS. Interest earnings of \$250 or less may be retained for administrative expenses.

Interest earned on Program Attachments that are funded by a combination of state and federal funds must be prorated between the sources. Contractors should contact the DSHS Contract Manager assigned to the Program Attachment for instructions on remitting interest to DSHS.

Section 10.04 Repayment of Advances

Contractors may repay all or part of advance funds at any time during the Program Attachment's term. However, if the advance has not been repaid prior to the last three months of the Program Attachment term, the contractor must deduct at least one-third of the remaining advance from each of the last three months' reimbursement requests. If the advance is not repaid prior to the last three months of the Program Attachment term, DSHS will reduce the reimbursement request by one-third of the remaining balance of the advance.

Section 10.05 Financial Status Report (FSR)

Generally speaking, contractors with categorical budgets must submit FSRs by the last business day of the month following the end of each reporting period as specified in the contract. Some DSHS Program Attachments may require submission of FSRs on a different cycle as stipulated in their contract. Regardless, the final FSR must be submitted no later than 45 calendar days following the end of the applicable term. The form and instructions are located at the following link:

<http://www.dshs.state.tx.us/grants/forms.shtm>. A complete FSR reflects the following elements:

- approved categorical budget for the Program Attachment;
- allowable actual costs incurred during the current quarter by budget category (e.g., personnel, equipment, supplies, etc.);
- cumulative expenses for the Program Attachment;
- DSHS's share of program income;
- non-DSHS funding.

The following guidelines apply to FSRs:

- Allowable costs incurred for the performance of activities pertaining to the Program Attachment Statement of Work are to be reported on an FSR. Allowable costs are discussed in the Chapter 6.0 - Cost Principles and Allowable Costs of this manual, UGMS, the applicable OMB Circular and the contract General Provisions.
- Costs reflected on the FSR must be reconciled to costs recorded in the contractor's general ledger accounts applicable to the DSHS Program

Attachment. Contractor's that use the cash basis of accounting should also refer to Section 4.01 Accounting System and Basis of Accounting.

- Total reimbursement requests submitted to DSHS under the Program Attachment cannot exceed the costs reflected on the FSR.
- The FSR must be submitted by an authorized, fiscally responsible employee of the contractor, who is thereby attesting to the validity and accuracy of the report submitted to DSHS. Substance abuse and mental health Program Attachments must submit the FSR electronically via CHBHS. For all other Program Attachments, the designated contractor employee must submit an original FSR to DSHS Claims Processing Unit, Accounts Payable. Facsimile copies of the FSR with authorized signatures will be accepted.

FSRs may be prepared on a cash, accrual or modified accrual basis, depending upon the contractor's established accounting system and the basis used in development of the project budget. Section 4.01 Accounting System and Basis of Accounting discusses accounting basis in more detail and adjustments that are required if the cash basis of accounting is used. FSRs are required to be submitted regardless of whether or not expenses have been incurred. Failure to submit timely reports may delay issuance of reimbursement.

Section 10.05.01 Submission of FSR

FSR submission requirements can vary with each contract. Specific instructions are outlined in the contract's Program Attachment(s).

All FSR's that are required to be submitted to the DSHS Claims Processing Unit must bear the signature of the "certifying official." FSR's can be submitted by fax, e-mail attachment, or mail. Select only one method of submission for each FSR. The fax number is (512) 458-7442 and the e-mail address is invoices@dshs.state.tx.us. Contractors selecting the mail option must submit the FSR to the following address:

Department of State Health Services
Claims Processing Unit, MC 1940
P.O. Box 149347
Austin, TX 78714-9347

Chapter 11 - Reserved

Chapter 12 - Disallowances and Overpayments

Section 12.00 Introduction

Contractors are entitled to payment for allowable costs incurred pursuant to the terms of the contract. Funds must be expended and accounted for in accordance with contract terms, Federal and state laws, rules, regulations and the guidelines in this manual. DSHS contractors' financial records and systems are subject to financial review and audit by DSHS or any of its duly authorized representatives. The results of a financial review or audit may disclose payment of costs that are later determined to be unallowable or improperly charged to DSHS. Also, errors made in processing payment requests may result in overpayment of contract costs. These types of situations may result in disallowances and/or overpayments that must be refunded to DSHS.

Section 12.01 Disallowances

Unallowable costs may be identified through desk review, on-site monitoring, audit or other financial reviews performed by DSHS staff, State Auditor's Office (SAO), or Health and Human Services Commission (HHSC) staff resulting in a disallowance. Disallowed costs will require an adjustment to the cumulative program costs previously reported to DSHS and may require a repayment of the disallowed amount and revisions to the Financial Status Report (FSR). The quarterly FSR is due by the last business day of the month following the end of each quarter of the Program Attachment term. The final FSR must be submitted within sixty days after the close of the contract term or as specified in the contract. A final FSR must be submitted regardless of whether there were any variances from the last quarter FSR.

During the term of the contract, unallowable costs previously billed to and reimbursed by DSHS may be resolved by an offsetting adjustment on a subsequent billing. DSHS will make such adjustments to the payment amount on a subsequent billing for the Program Attachment and notify the contractor of any adjustment. In the event the final voucher/billing has been submitted to DSHS and paid, the disallowed amount must be refunded to DSHS. Repayments by check must refer to the complete DSHS document number, purchase order number, and program name and must be made within the time period established by DSHS.

Disallowances identified after the term of the contract, but within the closeout period prior to the submission of the final FSR, will need to be reflected in the final FSR by correcting the cumulative cost total for the disallowed amount. If the contractor has received payments in excess of the adjusted cumulative cost total, then a refund to DSHS will be required.

Disallowances identified after submission of the final FSR, but before contract closeout procedures are completed, can be resolved by submission of a revised FSR. The revised FSR must be clearly marked in the upper right hand corner as the "revised"

version. If the contractor has received payments in excess of the adjusted cumulative cost total, then a refund to DSHS will be required.

Disallowances not identified prior to the completion of the contract closeout procedure do not affect the authority of the DSHS, SAO, or HHSC to recover funds on the basis of a later audit or review; nor do they affect the contractor's obligation to return these funds to DSHS.

Repayments by check must include reference to the complete DSHS document number, purchase order number and program name and must be made within the time period established by DSHS.

Section 12.02 Special Requirements

Funding sources or programs, such as Title X, may require compensation for disallowances regardless of the length of time that has passed since the annual or final closeout of the contract. For Title X, a refund check for the amount of the disallowance should be submitted with a revised Form B13X and the complete DSHS document number, purchase order number and program name. An amended final FSR 269a must be submitted to report the final accounting of actual costs incurred under the contract.

Section 12.03 Overpayments

Contractors are required to reconcile general ledger account balances with financial reports (i.e., FSR) submitted to DSHS and maintain supporting documentation on site. The contractor should reconcile the total cumulative Program Attachment costs and program income reported on the FSR to the amount of reimbursements received. Reconciliations of cumulative costs and program income to amounts reimbursed may disclose incidences of payment(s) in excess of cumulative costs. Such overpayments may be handled by reducing the amount of a subsequent billing or repayment by check. Repayments by check must include a reference to the complete DSHS document number, purchase order number and program name.

Section 12.04 Double Billing

Double billing occurs when a contractor bills DSHS for the same cost or service more than once or bills DSHS and another funding source for the same cost or service. Only costs incurred for providing authorized DSHS program activities may be charged to DSHS, and the same costs must not be allocated or included as a cost of any other program or funding source. Allowable costs of a DSHS-funded activity described in the Program Attachment that are also funded by two or more funding sources must be properly apportioned in the contractor's financial accounting system. Contractors must ensure that costs billed to each funding source are properly recorded in the general ledger in order to prevent duplicate billing for the same expenditures. Section 7.01.05 Shared Costs discusses accounting for costs funded by more than one funding source.

Double billing can also occur when the cost of a program reimbursed under a unit rate or fee-for-service Program Attachment is also included in the operating costs reported for a categorical budget cost reimbursement Program Attachment. A separate cost center must be maintained within the general ledger for each DSHS Program Attachment in order to identify costs applicable to each Program Attachment.

Reconciliations of total operating expenditures and program income recorded in the general ledger to costs and program income reported for each Program Attachment must be made available upon request for examination by DSHS, Health and Human Services Commission (HHSC) or the State Auditor's Office (SAO).

Chapter 13 - Reserved

Chapter 14 - Property Management

Section 14.00 Reportable Property

Property acquired in whole or in part with DSHS funds that must be reported on Form GC-11 includes the following:

- Equipment is classified into one of the two following categories:

Major equipment - includes tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit; and

Controlled assets - includes an article of nonexpendable, tangible personal property having a useful lifetime of more than one year and an acquisition cost of \$500 or more, but less than \$5,000. Controlled assets include firearms regardless of the acquisition cost, and the following assets with an acquisition cost of \$500 or more:

- desktop and laptop computers (including notebooks, tablets and similar devices),
 - non-portable printers and copiers,
 - emergency management equipment,
 - communication devices and systems such as but not limited to FAX machines, cellular/mobile telephones, hand-held radios, Blackberry devices, pagers, telecopiers,
 - medical and laboratory equipment, and
 - media equipment, such as but not limited to video recorders, cameras, CD players, TVs, VCRs, camcorders, DVD players.
- Real property includes land, land improvements, structures, and appurtenances thereto (i.e., permanent fixtures), alterations and renovations to real property costing \$5,000 or more. Alterations and renovations is defined as work that changes the interior arrangements or other physical characteristics of an existing facility or installed equipment so that it can be used more effectively for its currently designated purpose or adapted to an alternative use to meet a programmatic requirement. Alteration and renovation may include work referred to as improvements, conversion, rehabilitation, remodeling, or modernization, but is distinguished from construction and large-scale permanent improvements.
 - Intangible property includes non-copyrightable intangible property that was developed, produced or obtained by a contractor as a specific requirement under

the contract, such as domain names, URLs, software licenses, etc. with an acquisition cost of \$5,000 or more.

Acquisition cost is the net invoice unit price of an item of equipment, including the cost of any necessary modifications, attachments, set-up fees, shipping and handling costs, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. The acquisition cost of renovations to real property and real property includes all costs incurred in renovating and/or acquiring the real property.

Section 14.01 Property, Use of

Property purchased with DSHS funds must be necessary and essential to the successful operation of the project and reasonable in cost. The property must be used by the program for which it was acquired, and it cannot be used for any other purpose that will hinder the program in reaching its goals. Property acquired with DSHS funds may be made available for use on other projects or programs currently or previously supported by DSHS, provided such use will not interfere with the work on the projects or program for which it was originally acquired. The contractor should consult with the contract manager assigned to the Program Attachment before using the property for other DSHS supported projects or programs. If the property is used on other projects or programs supported by DSHS, it still must be reported on the annual property inventory (Form GC-11) under the Program Attachment(s) which the property was originally acquired.

Section 14.02 Prior Approval

Major Equipment -

Major equipment is budgeted under the "Equipment" budget category and must be itemized in the equipment budget for each Program Attachment. Changes to the approved equipment budget category must be approved by DSHS prior to the purchase of equipment. If a contractor would like to deviate from the approved equipment budget, a written request to amend the budget is required. The written request must contain a description of the equipment along with justification of need for the unapproved item. If approved, DSHS will notify the contractor of approval through a written amendment or by written acceptance of contractor's revision request as appropriate.

Once the equipment budget is approved in writing, the contractor is required to initiate the purchase of that equipment in the first quarter of the Contract term. Failure to initiate the purchase of equipment in the first quarter may result in loss of availability of funds for the purchase of equipment. Requests to purchase previously approved equipment after the first quarter of the Program Attachment must be submitted to the contract manager assigned to the Program Attachment.

Contractors that purchase all major equipment listed in the approved budget and end up with an unexpended balance in the "Equipment" category will be able to use the

unexpended funds in another direct budget category within certain limitations. In order to use the unexpended balance in another direct budget category without prior approval, all of the following conditions must be met:

- Contractor notifies the contract manager assigned to the Program Attachment by e-mail of how they intend to use the unexpended balance
- The “Equipment” category unexpended balance must be 10% or less of the total approved equipment budget (Note: The allowance is for 10% of the approved “Equipment” category budget; not 10% of the total contract amount.)
- All equipment listed in the budget must have been purchased

NOTE: The unexpended balance cannot be used in the “Indirect” cost budget category. Additional equipment cannot be purchased with the unexpended balance without obtaining prior approval from DSHS.

In addition, contractors do not need to obtain prior approval from DSHS if the cost for an approved equipment budget line item does not exceed 10% of the original amount budgeted for the specific equipment line item. For example, if the approved budget amount of an individual equipment line item is \$5,000 and the actual cost of the equipment is \$5,500, then prior approval is not required for the additional \$500.

Controlled Assets –

Controlled assets are itemized under the Supplies budget category and approved as part of the overall budget. Contractors are not required to initiate the purchase of controlled asset item in the first quarter of the Contract term.

Real Property and Renovations –

Real property and renovations to real property are itemized under the Equipment budget category and are subject to the same approval requirements as major equipment items.

Intangible Property –

Intangible property is itemized under the Equipment budget category and is subject to the same approval requirements as major equipment items.

Section 14.03 Inventory Management Requirements

Procedures for managing property identified in Section 14.00 of this chapter whether acquired in whole or in part with DSHS funds, until disposition takes place, must meet the following requirements:

- Property records must be maintained for all property acquired with DSHS funds. Records must include a description of the property; the serial number of the item if it has one, otherwise other identification such as tag number; the DSHS program funding the property; acquisition date; total acquisition cost; percentage of DSHS participation in the cost of the property; the estimated useful life according to the *American Hospital Association's (AHA) Estimated Useful Lives of Depreciable Assets Guidelines* and the location where the property is housed.
- Disposition records, refer to Section 14.03.01 – Disposition Requirements
- A physical inventory of property acquired in whole or in part with DSHS funds must be taken each year as of August 31st and be reconciled with the contractors property records. An annual cumulative property inventory report (*Form GC-11*) must be submitted to DSHS Contract Oversight and Support, COSequip@dshs.state.tx.us no later than October 15th of each year. Form GC-11 should include all property acquired under each DSHS Program Attachment. Do not include property acquired with non-DSHS funds.
- Property that meets or exceeds the useful life stipulated in the AHA guidelines and continues to be used must be reported on Form GC-11 until it is disposed of.
- Prior to submitting Form GC-11 the total amount of current year major equipment acquisitions listed on Form GC-11 for each Program Attachment should be reconciled to the total cumulative project costs reported on the Financial Status Report (FSR) on the Equipment budget category line. These two totals must agree; variances may result in a refund due to DSHS. Contact the contract manager assigned to the Program Attachment to resolve any discrepancies prior to submitting Form GC-11.
- A control system must be developed to ensure adequate safeguards against loss, damage or theft of the property. Any loss, damage, or theft of property must be investigated, fully documented, and promptly reported to the contract manager assigned to the Program Attachment.
- The contractor is responsible for any loss and must maintain insurance or other means of replacing property purchased with DSHS funds.
- The contractor bears responsibility for ensuring that equipment is kept in good working condition through repair and maintenance.

Section 14.03.01 Disposition Requirements

Contractor must use the estimated useful life of equipment as published in the American Hospital Association's (AHA's) "Estimated Useful Lives of Depreciable Hospital Assets" as a guide in disposing, at any time during or after the Contract term, of equipment purchased with the DSHS funds, except when -

- federal or state statutory requirements supersedes;
- the equipment requires licensure or registration by the state;
- the acquisition price of the equipment or property is equal to or greater than \$5,000.

The requirements in Uniform Grant Management Standards (UGMS) apply to all other equipment not listed in the AHA guidelines (other than equipment that requires licensure or registration or that has an acquisition cost equal to or greater than \$5,000).

Major Equipment, Real Property/Renovations, Intangible Property –

If any item of major equipment, real property, or intangible property is no longer needed to perform services under the contract, or becomes inoperable, the contractor must request disposition approval and instructions in writing from the DSHS Contract Manager assigned to the Program Attachment. The request should include all information required by Form GC-11 for each item of equipment/property and the reason for the disposition.

Controlled Assets –

If, prior to the end of the useful life (as listed in the AHA guidelines), any controlled asset item is no longer needed to perform services under the contract, or becomes inoperable, the contractor must request disposition approval and instructions in writing from the DSHS Contract Manager assigned to the Program Attachment.

If a controlled asset item has met the end of its useful life listed in the AHA guidelines but is still in use, it must be listed (inventoried) on Form GC-11 until it is actually disposed of. When a controlled asset item is no longer needed to perform services under the contract, the contractor does not have to request disposition instructions from DSHS. However, the contractor must indicate on Form GC-11 that the controlled asset item was disposed of.

The following requirements apply to all property identified in Section 14.00 of this chapter:

The contractor must ensure that disposition of any property is in accordance with Generally Accepted Accounting Principles, and any applicable State and Federal guidance. Disposition records must be maintained on file that include:

- DSHS disposition authorization when required,
 - the reason for disposing of the property,
 - the condition of the property,
 - manner and date of disposal, and
 - the sale price if the property was sold.
- The contract manager assigned to the Program Attachment must be notified of the amount of proceeds received from the sale of any property that does not exceed the AHA useful life and note the sales price on Form GC-11.
 - The sales price of property that exceeds the AHA useful life should be noted on Form GC-11.

- Proceeds from the sale of property should be credited to the DSHS program under which the property was acquired; and reported on the Financial Status Report under line k. Program Income Collected.

Title to the property is held by the contractor during the term of the contract; however, DSHS retains the right to the property and proceeds at disposition. At the conclusion of the contractual relationship between the DSHS and the contractor, for any reason, title to any remaining property purchased with DSHS funds reverts to DSHS. Property includes any tangible and/or intangible item acquired with DSHS funds. At the discretion of DSHS, title to the property may be transferred to a third party or it may be retained by the contractor provided compensation is made to DSHS.

If authorization is given by DSHS to sell equipment or if the equipment has exceeded its useful life in accordance with AHA guidelines and is being disposed of and has salvage value, then sales procedures must be established to ensure the highest possible return that represents the current fair market value of the equipment. Proceeds from the sale should be treated as a credit against expenses under the current DSHS Program Attachment and reported on the voucher and Financial Status Report as program income.

Note that federal and state regulations applicable to grants prohibit donating property acquired with federal and state grant funds, regardless of the recipient.

Section 14.03.02 Property Management After Contract Close-out/Termination

In accordance with Section 12.25 of the DSHS Contract Subrecipient General Provisions, at the conclusion of a contractual relationship, DSHS at its option and to the extent allowed by law may allow a contractor to retain title to property acquired under the contract. If the contractor is allowed to retain title to the property, the contractor must continue to comply with the requirements in Chapter 14 – Property Management of this manual and the property management requirements and responsibilities contained in Uniform Grant Management Standards and the Federal Common Rule, as applicable.

Appendix A.01: Instructions - Cost Allocation Plan

INSTRUCTIONS		
DEPARTMENT OF STATE HEALTH SERVICES SUBRECIPIENT CONTRACTOR'S COST ALLOCATION PLAN (CAP)		
Effective Date:	Enter the date on which the allocation methodology was implemented.	Until Revised

I. GENERAL INFORMATION

A. Organization Information

Enter the information requested.

B. Organization Chart

(Insert or include as an attachment an organization chart)

C. Types of Services Provided

(Provide a brief description of types of services provided by your organization)

II. ALLOCATION OF COSTS AMONG MULTIPLE FUNDING SOURCES

When a program/activity funded by a DSHS Program Attachment is also funded by other federal or state grants, costs that charged to the DSHS Program Attachment must be further allocated to each funding source. These costs should be billed to each funding source in proportion to the amount of funding provided by each of the funding source, unless an alternative methodology has been approved by DSHS. The other funding sources and the amount of funding from each source should have been disclosed in the DSHS application or response to a solicitation document (e.g., RFP). Section 7.01.05 – Shared Costs, of the Contractor's Financial Procedures Manual discusses allocation of shared costs among multiple funding sources. Payments received from Medicaid, Medicare, or third-party payers for services provided under a DSHS Program Attachment are typically not considered an "other funding source" and should be treated as program income.

Check the box next to the statement that applies to your organization:

- Check the first box if DSHS is the sole funding source for all DSHS Program Attachments.
- Check the second box if your organization has any DSHS Program Attachments that are also funded by other federal or state grants **and** you are billing each funding source in proportion to the amount of funding awarded/provided by each of the funding sources. For each DSHS Program Attachment that is also funded using other federal or state grant funds, in the space provided, list the following information:
 - **Program Attachment Document Number**
 - **Program ID**
 - **Other Funding Source(s)**
- Check the third box if your organization has any activities specified in DSHS Program Attachments that are also funded by other funding sources **and** you are not billing in proportion to the funding awarded/provided by each funding source. For each DSHS Program Attachment that is also funded using other federal or state grant funds and you are not billing in proportion to funding from each source, in the space provided, list the following information:
 - **Program Attachment Document Number**
 - **Program ID**
 - **Other Funding Source(s)**
 - **Comments** (Describe the alternative methodology used to bill the various funding sources.)

III. METHOD FOR CHARGING SALARIES AND WAGES

The cost of all salaries and wages, whether treated as direct costs or indirect costs, charged to a DSHS Program Attachment must be supported by personnel activity reports (time sheets) that reflect an after-the-fact record of the actual activity of each employee and account for the total activity for which an employee is compensated. Section 6.05.01 - Personnel of the Contractor's Financial Procedures Manual discusses in more detail support documentation requirements and substitute systems for charging salaries and wages.

Contractors may use substitute systems for charging salary/wages to a DSHS Program Attachment, if approved in advance by DSHS. Substitute systems are typically used in the case where employees perform activities directly related to carrying out activities specified in the Program Attachment Statement of Work and the nature of the activities performed make it impractical to maintain an after-the-fact record of time worked on a DSHS Program Attachment.

Facilities and general and administrative support personnel typically charge their time to a specific cost center (i.e., Administration, Accounting, Human Resources, IT, Maintenance, etc.). The various cost centers can be grouped into cost pools on the basis of the benefits provided to each of the organization's major functions/programs and allocated on a basis that best measures the relative benefits provided to each function/program. The allocation of salaries/wages of facility and general administrative personnel should be addressed under Part IV – Direct Cost Allocation or Part V – Indirect Costs.

Fringe benefit costs of each employee should be charged to an activity/cost objective in the same proportion as salary/wages.

Check the box next to the statement that applies to your organization:

- Check the first box if all employees charging salary and wage costs to a DSHS Program Attachment maintain personnel activity reports (time sheets) that reflect an after-the-fact record of the actual activity of each employee and account for the total activity for which each employee is compensated by your organization. No alternative or substitute timekeeping systems are used by my organization.
- Check the second box if most employees charging salary and wage costs to a DSHS Program Attachment maintain personnel activity reports (time sheets) that reflect an after-the-fact record of the actual activity of each employee and others use a substitute timekeeping methodology. Provide the following information in the space provided on the CAP form for each group of employees using a substitute timekeeping:
 - DSHS Program Attachments using the substitute timekeeping methodology
 - Explain why it is not feasible to maintain a time sheet that reflects after-the-fact, actual time worked
 - Functional title of employees (i.e., clinical nurse, case worker) using the substitute system
 - Describe in detail the methodology used to capture and distribute the time and effort of employees using the substitute system:

IV. DIRECT COST ALLOCATION PLANS

Although “direct allocation methods” are referred to only in OMB Circular A-122 (2 CFR Part 230), DSHS will accept direct cost allocation plans submitted by governmental entities if the circumstances warrant the need for a direct cost allocation plan. Section 7.01.01 Direct Cost Allocation of the Contractors Financial Procedures Manual discusses direct cost allocation in more detail.

Typical costs that can be allocated by direct cost allocation methods are facility and joint program costs. A common allocation base for facility-related costs is the building square footage occupied by the program or cost objective, with common areas being allocated based on the number of full-time-equivalents (FTEs) assignable to each program/cost objective or another base that best measures the relative degree of benefit. The cost allocation can be reflected on each invoice/billing (i.e., utility bill, rent) as it is paid or be charged to a cost pool with similar costs that are allocated using a base most appropriate for those particular costs.

Joint program costs that cannot be easily identified with a specific cost objective (i.e., DSHS Program Attachment) such as general clinic supplies may be allocated using a base most appropriate to the particular cost being prorated.

Personnel costs of staff that oversee multiple programs or activities (i.e., program director) may be captured in a unique cost center and allocated as a direct cost using a base that results in an equitable distribution to all benefited programs/activities. Likewise other costs associated with the office of the individual overseeing multiple programs/activities may be allocated using the same base. These costs should be reported under the respective budget category on the Financial Status Report.

When direct cost allocation methods are used, indirect costs consist exclusively of general administration and general expenses.

Check the box next to the statement that applies to your organization:

- Check the first box if all direct costs are charged in whole directly to the DSHS-funded activity and no costs classified as direct costs in a DSHS Program Attachment budget are allocated.
- Check the second box if some direct costs are charged in whole directly to the DSHS funded activity and some direct costs are allocated. Provide the following information in the space provided on the CAP form:
 - “List Cost(s) Being Allocated” - Identify each cost or group of costs using the same allocation methodology on one row.
 - “Allocation Methodology” - Describe in detail the allocation methodology and the base used in allocating the type of cost(s).

V. INDIRECT COST ALLOCATION

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Indirect costs can be charged by means of: 1) an approved rate agreement; 2) in the case of governmental entities, a certification of an indirect or central service cost rate developed under a rate proposal; or 3) an indirect cost allocation plan. Governmental entities that have an approved or certified central service cost rate must also address how indirect costs of the governmental department (e.g., Health Department) that DSHS is contracting with are allocating indirect costs. The indirect cost allocation plan should identify the types

of costs classified as indirect and the methodology used to distribute these costs to final cost objectives. Section 6.05.08 – Indirect Costs and Section 7.01.04 Indirect Cost Allocation Plan of the Contractor’s Financial Procedures Manual discuss indirect costs and central service costs in more detail.

Check the box next to the statement that applies to your organization:

- Check the first box if your organization has an indirect cost rate agreement approved by a Federal cognizant agency or a state single audit coordinating agency. (Note: A copy of the current approved rate agreement must be on file with DSHS.)
- Check the second box if you are a governmental entity and your organization has prepared an indirect cost rate proposal that is available for review by DSHS or its authorized representatives and the indirect cost rate developed in the proposal is the basis for charging all indirect costs. [Note: A current indirect cost rate certification that complies with OMB Circular A-87 (2 CFR Part 225), along with the rate and allocation basis must be on file with DSHS. The certification form can be found in Appendix C of the DSHS Contractor’s Financial Procedures Manual.]
- Check the third box if you are a governmental entity and your organization has prepared a central service cost allocation plan that is available for review by DSHS or its authorized representatives and the central service cost allocation plan and/or rate developed in the proposal is the basis for charging central service costs to benefiting cost objectives. (Note: A current central service cost rate certification that complies with OMB Circular A-87 (2 CFR Part 225), along with the rate and allocation basis must be on file with DSHS. The certification form can be found in Appendix B of the DSHS Contractor’s Financial Procedures Manual. In addition, check the box below and describe how indirect costs of the governmental department (e.g., Health Department) that DSHS is contracting with are being allocated.)
- Check the fourth box if your organization does not have an approved or certified indirect cost rate. Provide the following information in the space provided on the CAP form:
 - “List Cost(s) Being Allocated” - Identify each cost or group of costs using the same allocation methodology on one row.
 - “Allocation Methodology” - Describe in detail the allocation methodology and the base used in allocating the type of cost(s).

Note: List the types of costs (i.e., accounting, executive office, insurance) being allocated and the allocation methodology (i.e., how the costs are captured and the base used to allocate costs to benefited cost objectives/DSHS Program Attachments).

Some indirect costs may benefit cost objectives in varying degrees; in which case the indirect costs must be accumulated into separate cost pools and allocated individually to benefited cost objectives by means of a base that best measures the relative degree of benefit. The base selected should result in each cost objective bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

VI. COST ALLOCATION PLAN CERTIFICATION

Complete the Cost Allocation Plan Certification provided in the end of the CAP form.

*When the cost allocation plan and certification are submitted as an e-mail attachment, the e-mail must be from one of the above Officers, with the other Officer being copied on the same e-mail. **By sending the e-mail, both the CEO and CFO attest that the foregoing is true and correct and thereby certify the plan.** For organizations that do not have a CFO or CEO, the CFO equivalent is the individual responsible for maintaining the organization's general ledger and attesting to the accuracy of the accounting records (e.g., County Auditor, Finance Director, or designee). The CEO equivalent is the individual responsible for the overall administration of the organization or the individual responsible for the overall administration of the DSHS Program Attachment. (e.g., the executive director of a health department, principle investigator). As stipulated in Article XII of the contract General Provisions, with the execution of each contract your organization is certifying that your cost allocation is current. In the event that the Cost Allocation Plan changes during the Contract term, your organization must submit a new Cost Allocation Plan to the Contract Oversight and Support Section within 30 calendar days after the effective date of the change.*

The preferred method of submitting a cost allocation plan and certification is by an e-mail Word attachment to: coscap@dshs.state.tx.us

Cost allocation plan and certification may also be mailed to -

Department of State Health Services
Contract Oversight & Support Section
P. O. Box 149347 Mail Code 1326
Austin, TX 78714-9347

Appendix A.02: Cost Allocation Plan Template

DEPARTMENT OF STATE HEALTH SERVICES SUBRECIPIENT CONTRACTOR'S COST ALLOCATION PLAN	
Effective Date:	Until Revised

I. GENERAL INFORMATION

A. Organization Information

Organization Name
Vendor ID #
Address
Address
Address
Type (Non-Profit, For Profit, Governmental)
Phone Number
E-mail address

B. Organization Chart

(Insert or include as an attachment an organization chart)

C. Types of Services Provided (Provide a brief description in the box below of the types of services provided by your organization)

--

II. ALLOCATION OF COSTS AMONG MULTIPLE FUNDING SOURCES

Check the box next to the statement that applies to your organization:

The costs incurred for carrying out activities specified in all DSHS Program Attachments are funded solely by DSHS. There are no other federal or state grant funds used in carrying out the DSHS program(s).

The costs incurred for carrying out some activities specified in DSHS Program Attachments are also funded by other federal or state grant funding sources. These costs are billed to each funding source in proportion to the funding awarded/provided by each source.

Program ID	Other Funding Source(s)

The costs incurred for carrying out some activities specified in DSHS Program Attachments are also funded by other federal or state grant funding sources. These costs are billed to each funding source in proportion to the funding awarded/provided by each source **with the exception of the DSHS Program Attachment(s) identified below.**

Program ID	Other Funding Source(s)

Comments:

III. METHOD FOR CHARGING SALARIES AND WAGES

Check the box next to the statement that applies to your organization:

All employees charging salary and wage costs to a DSHS Program Attachment maintain personnel activity reports (time sheets) that reflect an after-the-fact record of the actual activity of each employee and account for the total activity for which each employee is compensated by your organization. No alternative or substitute timekeeping systems are used by my organization.

All employees charging salary and wage costs to a DSHS Program Attachment maintain personnel activity reports (time sheets) that reflect an after-the-fact record of the actual activity of each employee and account for the total activity for which each employee is compensated **with the exception(s) noted below.**

Substitute System #1

DSHS Program Attachment(s):

Explain why it is not feasible to maintain a time sheet that reflects after-the-fact, actual time worked:

Functional title of employees (i.e., clinical nurse, case worker) using the substitute system:

Describe in detail the methodology used to capture and distribute the time and effort of employees using the substitute system:

Substitute System #2

DSHS Program Attachment(s):

Explain why it is not feasible to maintain a time sheet that reflects after-the-fact, actual time worked:

Functional title of employees (i.e., clinical nurse, case worker) using the substitute system:

Describe in detail the methodology used to capture and distribute the time and effort of employees using the substitute system:

Substitute System #3

DSHS Program Attachment(s):

Explain why it is not feasible to maintain a time sheet that reflects after-the-fact, actual time worked:

Comments:

V. INDIRECT COST ALLOCATION

Check the box next to the statement that applies to your organization:

An indirect cost rate agreement approved by a Federal cognizant agency or a state single audit coordinating agency is the basis for charging all indirect costs to benefiting cost objectives. (Note: A copy of the current approved rate agreement must be on file with DSHS.)

(*Applicable only to governmental entities*) A current indirect cost rate proposal has been prepared and is available for review by DSHS or its authorized representatives. The indirect cost rate developed in the proposal is the basis for charging all indirect costs to benefiting cost objectives. (Note: A current indirect cost rate certification that complies with OMB Circular A-87 (2 CFR Part 225), along with the rate and allocation basis must be on file with DSHS. The certification form can be found in Appendix C of the DSHS Contractor's Financial Procedures Manual.)

(*Applicable only to governmental entities*) A current central service cost plan and rate have been prepared and are available for review by DSHS or its authorized representatives. The central service cost rate developed in the proposal is the basis for charging central service costs to benefiting cost objectives. (Note: A current central service cost rate certification that complies with OMB Circular A-87 (2 CFR Part 225), along with the rate and allocation basis must be on file with DSHS. The certification form can be found in Appendix B of the DSHS Contractor's Financial Procedures Manual. In addition, check the box below and describe how indirect costs of the governmental department (e.g., Health Department) that DSHS is contracting with are being allocated.)

Indirect costs are allocated to benefiting cost objectives based on the cost allocation plan(s) described below.

List (group) costs using like allocation methodologies on one row. Use a separate row for each type(s) of cost and respective methodology (if applicable).

List Cost(s) Being Allocated	Allocation Methodology

Comments:

VI. COST ALLOCATION PLAN CERTIFICATION

This is to certify that we have reviewed the Cost Allocation Plan and to the best of our knowledge we certify that:

- All costs charged to a DSHS Program Attachment are necessary and reasonable for the performance and administration of the Program Attachment.
- All costs included in this plan are allowable and allocable in accordance with Uniform Grant Management Standards, applicable OMB Cost Principles, and the terms of the DSHS contract.
- Unallowable costs are not included in any allocations charged to DSHS.
- Costs are accorded consistent treatment. A cost assigned as an indirect cost is not also treated as a direct costs when incurred for the same purpose in like circumstances.
- Similar types of costs have been accounted for consistently and we will notify DSHS of any changes that would affect the allocation of these costs.
- The basis and methodology submitted for review include all necessary details and are the basis and methodology to be used for allocating costs for this period and future periods. We will notify DSHS in writing if the plan is revised.
- Adequate documentation exists on-site for review by DSHS staff or other representatives authorized under the contract that may have an interest in such documentation regarding the allocation of costs.
- All costs included in this proposal are properly allocable based on a beneficial and causal relationship between the expenses incurred and the agreements (activities) to which they are allocated.

We declare that the foregoing is true and correct.

Chief Executive		Phone	
------------------------	--	--------------	--

Officer Printed Name:		Number	
Signature:		Date:	
Chief Financial Officer Printed Name:		Phone Number	
Signature:		Date:	

*When the cost allocation plan and certification are submitted as an e-mail attachment, the e-mail must be from one of the above Officers, with the other Officer being copied on the same e-mail. **By sending the e-mail, both the CEO and CFO attest that the foregoing is true and correct and thereby certify the plan.***

The preferred method of submitting a cost allocation plan and certification is by an e-mail Word attachment to: coscap@dshs.state.tx.us

Cost allocation plan and certification may also be mailed to:

Department of State Health Services
 Contract Oversight & Support Section
 P. O. Box 149347 Mail Code 1326
 Austin, TX 78714-9347

Appendix B

Certificate of Central Service Cost Allocation Plan

(for use by governments only)

Organization Name
Address
Address
Address
Phone Number

This is to certify that I have reviewed the central service cost allocation plan and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish cost allocations or billings are allowable in accordance with the requirements of OMB Circular A-87 (2 CFR Part 225), "Cost Principles for State and Local Governments," and the Federal **and state** award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal **or state** awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in accordance with applicable requirements.

Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently. The central service cost allocation plan and supporting documentation are on file and available for audit by DSHS or any of its duly authorized representatives.

Effective Period - From: _____ **To:** _____

Rate (%):

Base:

Check this box if central service costs are billed or allocated and attach plan. For each billed or allocated service the plan must include the following: a brief description of the service, an identification of the unit rendering the service, the items of expense included in the cost of the service, the method used to bill or allocate the cost of the service to benefitted cost objectives.

I declare that the foregoing is true and correct.

Chief Executive Officer Printed Name: _____

Chief Executive Officer Signature: _____ Date: _____

Chief Financial Officer Printed Name: _____

Chief Financial Officer Signature: _____ Date: _____

Appendix C

Certificate of Indirect Costs (for use by local governments only)

Organization Name:	
Address:	
Address:	
Address:	
Phone Number:	

This is to certify that I have reviewed the indirect cost rate proposal and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for the [name of city/county department, e.g., Health Department] are allowable in accordance with the requirements of the Federal **or state** award(s) to which they apply and OMB Circular A-87 (2 CFR Part 225), "Cost Principles for State and Local Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal **or state** awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements.

Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently. The Department of State Health Services (DSHS) will be notified of any accounting changes that would affect the indirect cost rate. The indirect cost rate proposal and supporting documentation are on file and available for audit by DSHS or any of its duly authorized representatives.

Effective Period - From: _____ **To:** _____
Rate (%): _____ **Rate Type: (i.e. Provisional)**

Effective Period - From: _____ **To:** _____
Rate (%): _____ **Rate Type: (i.e. Final or Fixed)**

Base:

I declare that the foregoing is true and correct.

Chief Executive Officer Printed Name: _____

Chief Executive Officer Signature: _____ Date: _____

Chief Financial Officer Printed Name: _____

Chief Financial Officer Signature: _____ Date: _____

