

DHS COST PRINCIPLES

1. COST PRINCIPLES - HOW THEY APPLY TO ORGANIZATION TYPE

- a. The cost principles identified in this section of the contract manual include specific guidelines required by the STATE. These cost principles do not replace the Federal cost principles, but supplement the various Federal Office of Management and Budget (OMB) circulars. The Department of Human Services (DHS) requires compliance with the applicable OMB circular, as well as the DHS cost principles listed in this section.
- b. Contractors are required to understand and accurately apply the Federal cost principles pertaining to their type of organization. Examples of the Federal circulars and the applicable organizations include: A-87, "Cost Principles for State and Local Governments;" A-122, "Cost Principles for Non-Profit Organizations;" A-21, "Cost Principles for Educational Institutions;" A-102, "Grants and Cooperative Agreements with State and Local Governments;" and A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations." For-profit Contractors will follow the same cost principles as the non-profit Contractors in Circular A-122.

2. COST PRINCIPLES - HOW THEY APPLY TO CONTRACT TYPE

- a. The cost principles outlined (including the federal cost principles) apply to all Contractors and subcontractors of the DHS regardless of the amount of Federal or State funds received. DHS pays for services in a variety of ways, and the DHS cost principles listed below are grouped to reflect that distinction. The two categories are: General Cost Principles (applicable to all types of DHS contracts, including cost data submitted for rate setting) and Cost Reimbursement Contract Cost Principles (applicable to cost reimbursement contracts and Contractors that have specific requirements to submit budgets and report costs that are used to set rates).
- b. There are specific cost restrictions applicable to each block grant with which the Contractor needs to be familiar with and adhere to. The three major DHS block grants include the Social Services Block Grant, Mental Health Services Block Grant, and Substance Abuse Prevention/Treatment Block Grant. Social Services Block Grant restrictions are found in 42 U.S.C. 1397d. Mental Health Services Block Grant restrictions are found in 42 U.S.C. 300w-3. Substance Abuse Prevention/Treatment Block Grant restrictions are found in 45 C.F.R. 96.135, 42 U.S.C. 300ee-5, and 42 U.S.C. 300x-24. Contractors also receive funding from other block grants, which also have restrictions.

3. **GENERAL COST PRINCIPLES-** This is applicable to all types of contracts, including information submitted for rate setting.
- a. **Related Party Costs:** The Contractor shall not make payments to related parties in any category of "Expenditure" (Administration, Capital, or Program) without the prior written consent of the STATE. Payments to related parties may include, but are not limited to: salaries, wages, compensation under employment or service agreements, or payments under purchase, lease or rental agreements. Payments made by the Contractor to related parties without such prior written consent may be disallowed and may result in an overpayment assessment. For the purpose of defining payments to related parties under a contract, persons and/or organizations shall be considered related parties when any of the following conditions exist:
- 1) A person and/or organization with directors, officers, owners, partners, or others with authority to establish policies and make decisions for the organization, related to the Contractor through blood or marriage, defined by UCA 52-3-1(d) as father, mother, husband, wife, son, daughter, sister, brother, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, uncle, aunt, nephew, niece, or first cousin.
 - 2) An organization has in common with the Contractor either: 1) owners or partners who directly or indirectly own 10% or more of the voting interest of the organization; and/or 2) directors, officers, owners, partners, or others with authority to establish policies and make decisions for the organization.
- b. **Personal Expenses:** DHS will not reimburse Contractors for personal expenses. Some examples of expenses that will not be reimbursed include spouse travel when the travel costs of the spouse is unrelated to the business activity, telecommunications and cell phones for personal uses, undocumented car allowances, payments for both actual costs of meals and payments for per diem on the same day, and business lunches (not connected with training).
4. **COST REIMBURSEMENT CONTRACT COST PRINCIPLES -** Applicable to cost reimbursement contracts and Contractors that have specific requirements to submit budgets and report costs that are used to set rates.
- a. **Administrative Costs:** Administrative costs of each contract shall not exceed 25% of program costs of that contract, unless prior written approval is obtained from the Executive Director of DHS.

- 1) Administrative costs are defined as costs for personnel, payroll, purchasing, management information systems, budget and planning, risk management, legal counsel, accounts payable, auditing, and other administrative duties which do not relate solely to any direct program activity. For example, a direct program activity includes patient care, client related activities, research and development, residential services, educational activities, etc. Administrative costs also include its allocable share of office supplies, telephone expenses, facility costs, including depreciation and interest, transportation costs, and fringe benefits.
- 2) Sometimes program expenses are difficult to breakout from administrative expenses (for example, vehicle insurance or liability insurance). When breaking these expenses out, the Contractor must support the allocation with appropriate documentation. Examples of appropriate documentation are time sheets, detailed logs, detailed data that specifically identifies program expenses, etc.

b. Compensation For Personal Services:

1. In addition to the cost principles in the Federal circulars concerning *compensation for personal services*, the following cost principles also apply:
 - (a) The portion of time a person devotes to a program should be disclosed in the budget as a percent of 40 hours per week.
 - (b) Employees who are compensated from one or more contracts, or from programmatic functions must maintain time reports, which reflect the distribution of their activities.
 - (c) For persons occupying any managerial position (administration or program management), total work time from all work, including outside employment and participation in other entities, must be disclosed. If total work time exceeds 40 hours and the Contractor wants reimbursement for the time devoted to DHS programs over 40 hours, the following two conditions must be met:
 - (i) A perpetual time record must be maintained, and
 - (ii) Prior written approval must be obtained from the contracting Division/Office.