

Arkansas Department of Human Services
Financial Guidelines for Purchased Services

I. Chapter One: Introduction to the Financial Guidelines for Purchased Services

(a) Purpose:

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

(b) Legal Basis:

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

(1) Applicable Federal Laws

- (A) Omnibus Budget Reconciliation Act of 1981;
- (B) The Civil Rights Act of 1964 (42 U.S.C §§ 2000d - 2000d-7): prohibits discrimination on the basis of race, color, or national origin in all federally funded programs;
- (C) Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. § 794): prohibits discrimination on the basis of handicap in federally funded programs;
- (D) Age Discrimination Act of 1975 (42 U.S.C. §6102): prohibits discrimination on the basis of age in federally funded programs;
- (E) Anti-Lobbying Act (U.S.C. §1352): prohibits recipients of federal contracts, grants, and loans from using appropriated funds for lobbying the executive or legislative branches of the federal government in connection with a specific contract, grant or loan;
- (F) Americans with Disabilities Act of 1990 (42 U.S.C. § 12101 et seq.): prohibits discrimination on the basis of disability and provides equal opportunities in employment, state and local governmental

entities, public accommodations, transportation, and telecommunications for persons with disabilities;

- (G) Cash Management Improvement Act of 1990 (U.S.C. § 3335): requires the timely transfer of funds between a federal agency and a state to encourage development of efficient cash management systems;
- (H) Drug-Free Workplace Act of 1988 (41 U.S.C. §8101 et seq.); requires contractors and grantees of federal agencies to certify that they will provide drug-free workplaces; and
- (I) Pro-Children Act of 1994 (20 U.S.C. § 6083): prohibits smoking in certain facilities in which education, library, day care, health care, and early childhood development (including Women, Infant, and Children's and Head Start) services are provided to children.

(2) Applicable Federal Regulations

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

- (A) 78 FR 78590-01: regulates implementation of uniform administrative requirements for awards and agreements with institutions of higher education, hospitals, and other non-profit organizations;
- (B) 2 C.F.R. Part 376: Non-Procurement Debarment and Suspension: regulates implementation of the common rule; restricts sub-awards and contracts with certain parties that are debarred and suspended or otherwise excluded from participation in Federal assistance programs;
- (C) 28 C.F.R. Part 35: regulates implementation of Subtitle A of Title II of the Americans with Disabilities Act of 1990;
- (D) 31 C.F.R. Part 205: regulates implementation of the Cash Management Improvement Act to provide effectiveness and equity in the exchange of funds between the states and the federal government for federal assistance programs;
- (E) 45 C.F.R. Part 74: regulates implementation of uniform administrative requirements for awards and sub-awards to institutions of higher education, hospitals, other nonprofit organizations, and commercial organizations;

- (F) 45 C.F.R. Part 80: effectuates the provisions of title VI of the Civil Rights Act of 1964;
- (G) 45 C.F.R. Part 84: “effectuates section 504 of the Rehabilitation Act of 1973, which is designed to eliminate discrimination on the basis of handicap in any program or activity receiving Federal financial assistance;”;
- (H) 45 C.F.R. Part 86: “is designed to eliminate (with certain exceptions) discrimination on the basis of sex in any education program or activity receiving Federal financial assistance;”
- (I) 45 C.F.R. Part 87: establishes equal treatment for faith-based organizations;
- (J) 45 C.F.R. Part 90: regulates implementation of the Age Discrimination Act of 1975;
- (K) 45 C.F.R. Part 91: regulates implementation of nondiscrimination on the basis of age in Health and Human Services programs or activities receiving federal financial assistance;
- (L) 45 C.F.R. Part 92: regulates implementation of uniform administrative requirements for grants and cooperative agreements to state, local, and tribal governments;
- (M) 45 C.F.R. Part 93: regulates implementation of new restrictions on lobbying so that federal grant funds may not be used by grantee or sub-grantee to support lobbying or influence legislation;
- (N) 48 C.F.R. Part 31: Contract Cost Principles and Procedures: addresses the cost principles to which organizations, vendors, and subcontractors are subject;
- (O) 2 C.F.R. Part 220 “Cost Principles for Educational Institutions”;
- (P) 2 C.F.R. Part 225, “Cost Principles for State, Local, and Indian Tribal Governments”;
- (Q) OMB, Circular A-102, “Grants and Cooperative Agreements with State and Local Governments”;

- (R) 2 C.F.R. Part 215 “Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations”;
- (S) 2 C.F.R. Part 230, “Cost Principles for Non-Profit Organizations”;
- (T) OMB, Circular A-133, “Audits of States, Local Governments and Non-Profit Organizations”;
- (U) GAO, GAO-12-331G, Government Auditing Standards –Reissued 2012, <http://www.gao.gov/products/GAO-12-331G>
- (V) 41 C.F.R. Part 105-71: “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments”;
- (W) Debarment and Suspension (2 C.F.R. Part 180): prohibits doing business with persons suspended or barred from doing business with any agency of the Executive Branch;
- (X) Note: C.F.R. regulations may be found at: www.gpoaccess.gov/cfr/index.html
Federal regulations and OMB circulars may be found at: www.whitehouse.gov/omb/circulars.

(3) Applicable State Laws and Regulations

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

- (A) Arkansas Code Title 19, Chapter 4: details the “State Accounting and Budgetary Procedures” for the State of Arkansas”;
- (B) State of Arkansas, Department of Finance and Administration, Office of Accounting, Financial Management Guide: provides regulations for the “General Accounting and Budgetary Procedures Law of Arkansas” which can be found at: <http://www.dfa.arkansas.gov/offices/accounting/financialManagement Guide/Pages/default.aspx>
- (C) Arkansas Department of Finance and Administration, Office of State Procurement, Rule 006.27, Implementing Governor’s Executive Order 98-04: regulates disclosure for contracts, sub-grants, leases, purchase agreements, and employment;

- (D) Arkansas Code §21-1-401, et seq.: regulates state employment of constitutional officers and their spouses; establishes procedures regarding their entering into sub-grants, contracts, or leases with the state;
 - (E) Arkansas Code §19-11-105: requires contractors to certify that they do not contract with or employ any illegal immigrants;
 - (F) Arkansas Code §§20-76-212 and 20-77-110: regulates rate increases to the Arkansas Department of Human Services contractors; and
 - (G) State of Arkansas Procurement Law and Rules.
- (4) Applicable Arkansas Department of Human Services Administrative Policies and Publications
- (A) Arkansas Department of Human Services Policy Manual;
 - (B) Arkansas Department of Human Services Administrative Procedures Manual;
 - (C) Arkansas Department of Human Services Audit Guidelines;
 - (D) Arkansas Department of Human Services Contract Manual; and
 - (E) Social Services Block Grant Program Manual.
- (5) Interpretation of Issuances
- (A) Arkansas Department of Human Services, Office of Finance and Administration Contract Support Section is responsible for issuing and interpreting rules, regulations, and procedures governed by this manual. Individuals having questions on financial guidelines that cannot be resolved by this manual shall refer those questions to Office of Finance and Administration Contract Support Section for interpretation and explanation and, if necessary, for development and incorporation into revised issuances of the Financial Guidelines.
 - (B) Contractors should refer questions in writing to their assigned Grant Analyst within Arkansas Department of Human Services Office of Finance and Administration Contract Support Section. Arkansas Department of Human Services divisions or offices (hereinafter referred to as divisions) should refer questions in writing to their assigned liaison within Office of Finance and

Administration Contract Support Section. Grant Analyst or liaison will refer to the Office of Finance and Administration Contract Support Section Assistant Director any questions he or she cannot answer. Grant Analyst or liaison will refer to Arkansas Department of Human Services Office of Policy and Legal Services Chief Counsel any question regarding legal issues. Office of Finance and Administration Contract Support Section will reply to the inquirer in writing within ten working days.

II. Chapter Two: Agreement Types

(a) Purchase of Services Contracts

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

(b) Major Types of Purchase of Services Agreements

The following are the major types of purchase of services agreements entered into by the Arkansas Department of Human Services and addressed in this Financial Guidelines document:

(1) Professional and Consultant Services Contracts

- (A) Purchase of Services is professional in nature and generally requires that the contractor have some type of specialized training or license/certification (e.g., medical services, social work, therapy, counseling, etc.).
- (B) Consultant Services contracts are utilized when the service to be rendered is primarily the giving of advice by the contractor on particular problem(s) facing the agency.
- (C) Professional and Consultant Services contracts that do not exceed \$50,000 in compensation, exclusive of reimbursable expenses, (per contractor, per service, per cost center) may be executed by a purchase order in lieu of the standard form prescribed by the Office of State Procurement, provided that subsequent contracts and amendments with the same contractor during the same fiscal year are reported to Office of State Procurement. These are referred to as “stand alone purchase orders.”

(2) Technical Services Contracts

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

services include janitorial services, pest control, copier maintenance, and trash collection.

(3) Interlocal Agreements

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

(4) Construction Contracts

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

III. Chapter Three: Financial Requirements

(a) Allowable Reimbursement Methods for Purchase of Services

(1) Fixed Rate

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

- (A) Fixed rates based on federal approved rates such as Medicaid may be effective on the date of approval by the federal agency.
- (B) The division is responsible for maintaining sufficient supporting documentation pertaining to the cost study and for making it available to authorized individuals upon official request.
- (C) Only allowable costs, as outlined in the applicable OMB circulars, shall be used to determine fixed rates. Rates will (may) be adjusted if unallowable costs are used to determine fixed rates.

(2) Final Negotiated Rates

- (A) With the Final Negotiated Rate method, contractors are reimbursed at an agreed-upon rate per unit of service (ex., per hour, per day, per contact, etc.)
- (B) There are a variety of approved methods used to determine an estimate of reasonable and necessary expenditures for services being purchased. These include, but are not limited to, the following:
 - (i) An operational budget allocated to service component;
 - (ii) The published rates of the contractor for non- contract clients;
 - (iii) The established community rate for a similar service;
 - (iv) The contractor's previous year's audit;
 - (v) The contractor's cost study;

- (vi) The Medicaid rate for the same service;
 - (vii) The contractor's response to a competitive procurement request; or
 - (viii) A combination of the above.
- (C) The division is responsible for maintaining budgets or other supporting documentation pertaining to the establishment of Final Negotiated Rates and for making it available to authorized individuals upon official request.
 - (D) Published or community rates are rates that have been advertised in a newspaper, pamphlet, price list, etc. or posted by the contractor and accepted by the community for all clients for services. Contractor must provide evidence of such publication, advertisement, or posting.
 - (E) The contract shall include a rate schedule identifying the rate(s), the basis for the rate(s), and the payment terms.
 - (F) A formal Rate Increase Request and approval by the Governor is required to increase a Final Negotiated Rate within a contract period (see III. (a) (7) (A) below).
- (3) Actual Cost
 - (A) With the Actual Cost method, contractors are reimbursed for allowable expenses incurred.
 - (B) Actual cost reimbursement is based on a complete itemized listing of allowable program expenses to be purchased (i.e., a budget). The total itemized listing should equal the total Arkansas Department of Human Services funding in the contract.
 - (C) The itemized listing of expenses shall be on file with the division (or may be included in the contract upon the division's request).
 - (D) If the itemized listing of expenses is not included in the contract, the contract shall include a statement that reimbursement is based on an itemized listing of expenses that is on file with the division. Contract shall also indicate the total compensation amount and the total reimbursable amount.
 - (4) Scheduled Reimbursement – Actual Cost Basis

- (A) With the Scheduled Reimbursement – Actual Cost Basis method, contractors are reimbursed on a payment schedule that is included in the contract.
 - (B) The payment schedule is based on an itemized listing of allowable program expenses (i.e., a budget) that is on file with the division.
 - (C) Total payment shall not exceed expenses incurred by the contractor. Division shall reconcile payments to the contractor’s reported expenditures and make payment adjustments as necessary.
 - (D) The Reimbursement Schedule, which is to be included in the contract, shall include the following:
 - (i) A statement indicating that the schedule is based on a budget that is on file with the division;
 - (ii) The total compensation amount and the total reimbursable amount;
 - (iii) A statement indicating that payments are based on actual expenditures incurred and no advance payments are allowed;
 - (iv) The anticipated date and amount of each payment;
 - (v) Requirements regarding expenditure reporting and payment adjustments; and
 - (vi) The service name(s) and service unit definition(s), if the contract identifies services to Arkansas Department of Human Services clients.
- (5) Scheduled Reimbursement – Fee Basis
- (A) With the Scheduled Reimbursement – Fee Basis method, contractors are reimbursed on an agreed-upon schedule of payments.
 - (B) The schedule of payments shall be justified by documentation on file with the division.
 - (C) The schedule of payments, which is to be included in the contract, shall include the following:

- (i) A statement identifying the basis for reimbursement;
 - (ii) The anticipated date of payment, amount of each payment, and total applicable funding
- (6) Procedures for Budget Preparation
 - (A) Budget Development
 - (i) Full disclosure budget

In developing a full disclosure budget, contractor shall enter all expenses (including those considered unallowable for reimbursement under specific funding sources) for the entire agency related to all service program areas. Contractor shall categorize these projected expenses into line items conforming to the contractor's own chart of accounts.
 - (ii) Contractor shall also enter all projected revenue by source and amount, for the entire agency related to all service programs
 - (B) Program Specific Budget
 - (i) In developing a program specific budget, contractor shall enter only allowable expenses allocated to a program component or service(s) directly funded by Arkansas Department of Human Services through the contract. Contractor shall categorize these projected expenses into line items conforming to the contractor's own chart of accounts or as requested by Arkansas Department of Human Services.
 - (ii) Contractor shall also enter the projected revenue, by source and amount, for the program component or service(s) directly funded by Arkansas Department of Human Services through the contract.
 - (C) Budget Adjustment
 - (i) If applicable, contractor shall adjust the budget for costs unallowable under applicable regulations and for costs not allocated or charged to a specific cost center.

- (ii) Unallocated costs may include one-time expenses funded from outside sources such as private foundations.
 - (iii) Contractor shall provide written explanations for any adjustments within the budget.
 - (iv) After these adjustments, the result is either a single service budget or the net costs for allocation if two or more service program areas are involved.
- (D) Budget Included in Contract
- (i) If the division requests that the budget be included in the contract, the following information shall be included with the budget;
 - (ii) Justification or explanation to support each line item compensation or reimbursable expense;
 - (iii) Notation for each line item identifying it as compensation or reimbursable expense;
 - (a) Compensation typically includes salaries; fringe benefits, fixed rate services, and subcontract expenses.
 - (b) Reimbursable expenses include mileage, travel, training costs, rent, etc.
 - (c) For contracts governed by Arkansas Building Authority, reimbursable expenses may include such items as printing, reproduction, blueprints, advertising, topographical site surveys, geotechnical soil borings, materials, laboratory testing, State of Arkansas Health Department approvals, inspections etc.
 - (d) Indirect Cost is typically split between compensation and reimbursable at the same percentage rate by which the Direct Costs are split between compensation and reimbursable.
 - (e) If subcontractor costs are included in the contractor's budget and if those subcontractors are

reimbursed on an Actual Cost basis, the subcontractor costs should be split between compensation and reimbursable expenses as well, based on the subcontractor's budget that must be included in the contract.

(iv) If the contract identifies purchased services to Arkansas Department of Human Services clients, the following should also be included:

(a) Service name

(b) Service unit definition (e.g., ¼ hour, one-way trip, (etc.)

(E) Unit Rate Calculation from Budget

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

(F) Cost Allocation

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

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

- (iii) If the division requires a specific method of cost method of cost allocation, the contractor should adhere to that method.
 - (iv) After allocating costs to the appropriate cost centers, contractor shall calculate the dollar amount for each line each line item by cost center.
- (7) Increases in Reimbursement Rates
 - (A) In many situations, it is prohibited to increase the contractor's reimbursement rate per unit of service without first obtaining the approval of the Governor of Arkansas and the Chief Fiscal Officer, Arkansas Department of Finance and Administration .
 - (B) New contracts procured through a competitive process (Competitive Bid, Request for Proposal, or Request for Qualifications) are not subject to this requirement.
 - (C) Some fixed rates that function as ceiling rates can allow for increases in payments that do not constitute a rate increase above the ceiling rate.
 - (D) Administrative contracts or other professional service contracts entered into by the Medicaid program with individuals or corporations not as providers of medical service do not come within the scope of this regulation.
 - (i) When a Medicaid rate increase is approved for a service that is in a Professional and Consultant Services contract, Arkansas Department of Human Services can pay the increased rate without having to request a rate increase through the Governor if and only if the contract contains language that allows Arkansas Department of Human Services to use the current Medicaid rate. Sample wording to add to contract to allow this capability is as follows.
 - (ii) "Listing of services" is Medicaid reimbursable services. Due to the rates/unit/service definitions for Medicaid reimbursable services being subject to change, (division or office) will use the current Medicaid rates for any Medicaid reimbursable service. The (division or office) rates will be changed after official notice is received from the Division of Medical Services."

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

(8) Financial Amendments

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

(9) Line Item Adjustments

(A) Line item adjustments pertain to Actual Cost reimbursement contracts only.

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

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

(D) Line item adjustments should have prior approval from the Arkansas Department of Human Services, Office of Finance and Administration, Contract Support Section before adjustments are implemented.

(10) Matching Funds

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

(B) With the qualifications and exceptions listed herein in Chapter Three (a) (13), a matching or cost sharing requirement may be satisfied by either or both of the following:

- (i) Allowable costs incurred by the contractor under the contract. This includes allowable costs borne by non-federal grants or by other cash donations from non-federal third parties.
- (ii) The value of third party in-kind contributions applicable to the period to which the matching requirements apply. (45 C.F.R. §73.23)

(C) Types of Match

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

(i) Cash Match

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

(ii) Donation of Property

- (a) Definition: A non-federal party may donate property or the use of property to a contractor to be considered as match, if permitted by the funding source. If the title to property is donated, match value is the fair market value of the property. If the use of the property or equipment is donated, match value is the fair rental value.

- (b) Requirements: See Rental Costs, Chapter 7, (dd), for acceptable methods of establishing fair rental or fair market value. One independent appraisal of current fair market rental value is required for property donated to and considered as match by the contractor.

(11) Third Party In-Kind Contributions

- (A) Definition: A public or private agency or individual may donate property or services which benefit a grant-supported project or program and which are contributed by non-federal third parties without charge to the contractor. 45 C.F.R. §92.24, and 45 C.F.R. §73.23 (Cost Sharing or Matching), provides the basis of valuation used with this method of matching.
- (B) Requirements: The following special standards apply for third party in-kind contributions:
 - (i) They may count towards satisfying a matching requirement only when, if the contractor receiving the contributions were to pay for them, the payments would be an allowable cost;
 - (ii) Some third party in-kind contributions are goods and services such that, if the contractor receiving the contributions had to pay for them, the payment would be an indirect cost. Matching credit for such contributions shall be given only if the contractor has established, along with its own regular cost rate, a special rate allocating the value of the contributions to individual programs; and
 - (iii) A third party in-kind contribution to a fixed-rate agreement may count towards satisfying a matching requirement only if it results in:
 - (a) An increase in the services or property provided under the agreement (without additional cost to the contractor); and
 - (b) A cost savings to the contractor
- (C) The values placed on third party in-kind services or equipment used for matching purposes shall conform to the following rules:

- (i) Volunteer services: Unpaid services rendered to a contractor by individuals will be valued at rates consistent with those ordinarily paid for similar work in the contractor's organization. If the contractor does not have employees performing similar work, the rates will be consistent with those ordinarily paid by other employers for similar work in the same labor market. In either case a reasonable amount for fringe benefits may be included in the valuation.
- (ii) Employees of other organizations: When an employer other than the contractor furnishes free of charge the services of an employee in the employee's normal line of work, the services will be valued at the employee's regular rate of pay exclusive of the employee's fringe benefits and indirect costs. If the services are in a different line of work, paragraph 1 above applies (volunteer services). Prior approval by the Arkansas Department of Human Services Office of Finance and Administration Chief Fiscal Officer or designee is required whenever this method of matching is used. (See Chapter Six for prior approval process.)

(12) Funds Transfer

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

(13) Funds and Expenditures Not Allowable for Matching

- (A) Federal funds, except when the federal legislation appropriating funds specifically allows them to be used as the local matching share for other federal programs;
- (B) Costs or values of third party-in-kind contributions if they have been or will be used towards satisfying a matching requirement of another grant or award of federal funds;
- (C) Structured voluntary contributions from clients, unless prior written approval for their use as match has been obtained from the Arkansas

Department of Human Services Office of Finance and Administration Chief Fiscal Officer or designee;

- (D) Program-related income (income generated by sale of services or products produced by clients), unless other provisions of the agreement permit using this kind of income to meet matching requirements;
 - (E) Funds of other state programs when the state program does not permit the funds to be used as match; and
 - (F) The same funds used to match other state and federal programs.
- (14) Accounting for Matching Funds
- (A) The contractor must maintain sufficient records to enable Arkansas Department of Human Services to verify the source of any funds or property used as match for five years from the expiration date of the agreement matched or until there is a final resolution if an audit is involved. Contractor must make these records available to the Arkansas Department of Human Services Office of Finance and Administration upon request.
 - (B) If the contractor's match consists of funds received directly by the contractor or goods or property donated by a public agency, the contractor must maintain sufficient records to verify the expenditure of funds for allowable costs or the use of the goods or property in the contractor's service delivery program.

IV. Chapter Four: Records and Billing Requirements

(a) Financial Records

(1) Purpose

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

(2) Required Financial Records - The following records must be maintained as a minimum requirement:

- (A) A detailed record of all income to the contractor;
- (B) A detailed record of all expenses with references to line items of the budget;
- (C) Sufficient documentation to prove that the units of service for which reimbursement was received were actually delivered to eligible clients;
- (D) Documentation correlating the amount billed per client to the funding source(s).

(b) Retention of Records

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

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

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

(c) Access to Records

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

(d) Proper and Sufficient Documentation for Client Service Delivery

(1) Purpose

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

(2) Average and Fixed Daily Attendance Programs

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

(3) Acceptable methods to document attendance are:

(A) A roster or list of persons in attendance dated and signed by the client, for daily attendance or fixed enrollment programs;

(B) A roll book containing the names of those in attendance, the date, and a check or other mark indicating that a specific individual was present on the indicated day for fixed enrollment programs; or

(C) A card file or other similar file, containing the clients' names, dates of attendance, and signature of service delivery personnel.

(4) If the facility offers more than one service component, documentation must show the type of service received by the clients.

(5) Residential Programs

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

(6) Other Service Programs

- (A) Several programs exist which deliver services to the same clients on a continuing but not a daily basis or which serve an individual only once or at very long intervals. Such programs include non-residential mental health services, chore services, adoption services, and non-residential protective services.
- (B) To sufficiently document such service delivery, one or both of the following methods must be used:
 - (i) A case record must be maintained for each client served, containing a notation of the date of service, a description of the service rendered, time period or number of units, and the signature of the worker delivering the service.
 - (ii) A charge ticket or similar document must be made and retained for each instance of service to a client. Such documents must contain the date, the client's name, each service delivered, indication of the number of units of the specific service(s) rendered, the client's signature, and the signature of the worker delivering the service.

V. Chapter Five: Audits, Reviews, Recoupment, Administrative Appeal Procedures

(a) Purpose of Audits and Requirement for Independent Audits

To ensure that the state meets its obligations under the Omnibus Budget Reconciliation Act, all Professional and Consultant Services contractors are required to comply with the “DHS Audit Guidelines”

(b) Verification of Audit Status

(1) For every new Professional and Consultant Services contract that is not with an Arkansas State agency or an Arkansas Public School, and annually thereafter for the life of the contract, the contract developer shall determine from Arkansas Department of Human Services Office of Quality Assurance, Audit Section if the contractor’s status regarding the audit requirement is current or not current.

(2) If the Office of Quality Assurance Audit Section indicates the contract is not in compliance with the audit requirement, Arkansas Department of Human Services will determine the steps necessary for corrective action and notify the contractor accordingly.

(c) Contractor’s Responsibility

(1) Contractors shall submit their audit reports as required by the “DHS Audit Guidelines” in such form and at such time as the “DHS Audit Guidelines” specify.

(2) Contractors having questions regarding audit requirements should direct those questions in writing to the Director of Audits at the address indicated in the “DHS Audit Guidelines”.

(d) Review of Independent Audits by Arkansas Department of Human Services

(1) Arkansas Department of Human Services divisions may review the independent audits for compliance with program requirements. Divisions must submit a request to the Arkansas Department of Human Services Office of Quality Assurance, Audit Section to receive copies of any audit reports of contractors funded by the particular division.

(2) For additional information, including desk reviews of audit reports by the Arkansas Department of Human Services Office of Quality Assurance, Audit Section, see the “DHS Audit Guidelines”.

- (e) On-Site Reviews Performed by Arkansas Department of Human Services
- (1) The state agency administering the purchase of service agreement must maintain the authority and responsibility for overall supervision, control, and oversight of purchase of services activities. Therefore, in the best interest of the contractors and the state, circumstances may indicate a need for various other types of review activities.
 - (2) Such reviews include, but are not limited to, service to billing reviews, limited financial management audits, management reviews, eligibility verification reviews, programmatic compliance reviews, and special investigations.
 - (3) Arkansas Department of Human Services Office of Quality Assurance Audit Section shall forward the findings and recommendations, the corrective action plan, and any Office of Quality Assurance Audit Section comments to the division and to OFA Contract Support Section.
- (f) Units other than Arkansas Department of Human Services Office of Quality Assurance Audit Section
- (1) The state agency administering the purchase of service agreement must maintain the authority and responsibility for overall supervision, control, and oversight of purchase of services activities. Therefore, in the best interest of the contractors and the state, circumstances may indicate a need for various other types of review activities.
 - (2) Such reviews include, but are not limited to, service to billing reviews, limited financial management audits, management reviews, eligibility verification reviews, programmatic compliance reviews, and special investigations.
- (g) Settlement Process and Recoupment
- If the division determines that recoupment from the contractor, or additional payment to the contractor, is indicated the following action shall be taken.
- (1) If the contract is no longer in effect, the program division forwards its determination to Arkansas Department of Human Services Office of Finance and Administration Accounts Receivable for recoupment or to Arkansas Department of Human Services Office of Finance and Administration, Accounts Payable for payment, with copies forwarded to Arkansas Department of Human Services Office of Finance and Administration

Contract Support Section and Arkansas Department of Human Services Office of Quality Assurance, Audit Section.

- (2) If the contract is still in effect, the program division forwards its determination to Arkansas Department of Human Services Contract Support Section for payment adjustment, with copies forwarded to Arkansas Department of Human Services Office of Quality Assurance, Audit Section.
- (3) If the program division determines that no recoupment or additional payment is required, the division forwards that information to Arkansas Department of Human Services Office of Finance and Administration Contract Support Section with a copy of Arkansas Department of Human Services Office of Quality Assurance, Audit Section.

(h) Administrative Hearings

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

VI. Chapter Six: Waivers and Prior Approval

(a) Procedure for Requesting Waivers

A written request for a waiver of any guideline published in this manual must be submitted to Arkansas Department of Human Services Office of Finance and Administration Chief Fiscal Officer or designee for approval. A copy of the signed waiver should be attached to the contract when it is submitted for review.

(b) The following should be included in the request:

- (1) Approval by the federal grantor agency, if applicable
- (2) Complete justification for the waiver
- (3) Place for the Arkansas Department of Human Services Office of Finance and Administration Chief Fiscal Officer's or designee's signature and date of signature
- (4) Place to indicate the Arkansas Department of Human Services, Office of Finance and Administration Chief Fiscal Officer's or designee's approval or disapproval
- (5) The waiver cannot be considered granted until written approval is received from the Arkansas Department of Human Services, Office of Finance and Administration Chief Fiscal Officer or designee.

(c) Procedure for Requesting Prior Approval

When prior approval is referenced as a requirement in this manual, such approval must be submitted to the Arkansas Department of Human Services Office of Finance and Administration Chief Fiscal Officer or designee. A copy of the signed approval should be attached to the contract when it is submitted for review.

(d) The following should be included in the request:

- (1) Explanation of the situation which requires prior approval;
- (2) Place for the Arkansas Department of Human Services Office of Finance and Administration Chief Fiscal Officer's or designee's signature and date of signature; and
- (3) Place to indicate the OFA Office of Finance and Administration Chief Fiscal Officer's or designee's approval or disapproval.

- (e) If the request is for a cost to be allowable, it should also include:
 - (1) The amount and complete justification for the cost, including percentage of cost based on agreement amount or total funding ratio; and
 - (2) An explanation of how the cost relates to the service being provided.

VII. Chapter Seven: Allowable and Unallowable Costs

(a) General Provisions

The primary bases for the following cost principles include:

- (1) 2 C.F.R. Part 230, “Cost Principles for 2 C.F.R. Part 230, “Cost Principles for Non-Profit Organizations”;
 - (2) 2 C.F.R. Part 220OMB Circular A-21, “Cost Principles for Educational Institutions”;
 - (3) 2 C.F.R. Part 225OMB Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments”;
 - (4) Social Services Block Grant Program Manual; and
 - (5) State Financial Management Guide;
- (b) Although the C.F.R. references pertain to federal funds (and to state and other funds that are being used as cost sharing with federal funds), Arkansas Department of Human Services expands their requirements to cover all contracts, regardless of the funding source, in an effort to further prudence, consistency, and standardization.
- (c) Note: Certain funding sources may have requirements more stringent than those outlined below, in which case the specific funding source requirements take precedence (i.e., Social Services Block Grant funding). In addition, the contracting Department of Human Services division may, at their discretion, impose more stringent requirements for a particular service or program.
- (d) Waivers to this policy may be considered, on a case by case basis, and only when the implementation of the waiver would not be prohibited by state or federal legislation.
- (e) To be allowable under an agreement, costs must meet the following general criteria:
- (1) Be reasonable and necessary for the performance of the agreement and be allocable thereto under the provisions of the applicable cost principles;
 - (2) Conform to any limitations or exclusions set forth in these principles or in the agreement as to types or amount of cost items;
 - (3) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;

- (4) Be accorded consistent treatment;
 - (5) Be determined in accordance with generally accepted accounting principles;
 - (6) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period; and
 - (7) Be supported by required documentation.
- (f) If a cost does not meet the above criteria, it is not allowable.
- (g) Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other federal awards to overcome funding deficiencies, to avoid restrictions imposed by law or terms of the award, or for other reasons.
- (h) This section contains specific expenses and costs commonly associated with the provision of human services and covers:
- (1) Costs which are generally allowable and
 - (2) Costs which are generally unallowable.
 - (3) Failure to mention a particular item or cost does not imply that it is either allowable or unallowable. Each budget item requested will be considered on the merit of its contribution to the program. This section provides general guidelines which are applicable to every funding source. When a line item states that prior approval must be obtained from Arkansas Department of Human Services, requests for approval shall be initiated by the contract developer. (See Chapter 6(c) herein for procedures to obtain such approval.)
 - (4) Note: Refer to the applicable references listed in Section (VII. (a)) for a more detailed explanation of allowable and unallowable costs.
- (i) Allowable Costs
- The following are applicable to all funding sources unless different terms are specifically required by individual funding sources or unless a waiver is approved by Department of Human Services. Other items may be allowable in accordance with generally accepted accounting principles
- (1) Advertising and Public Relations;

- (A) Costs for advertisements in newspapers, magazines, direct mail or trade papers, by radio and television, electronic or computer transmittals are allowable for:
 - (i) Recruitment of personnel required for the program;
 - (ii) Procurement of goods and services for the performance;
 - (iii) Disposal of scrap or surplus material acquired performing the agreement, except when reimbursed for disposal costs at a predetermined amount; and
 - (iv) Other specific purposes necessary to meet the terms of the agreement

- (B) Costs for public relations are allowable when:
 - (i) Specifically required by the agreement, for outreach or other purposes, and then only as a direct cost;
 - (ii) Essential to the performance of the agreement and incurred to communicate with the public and press pertaining to specific activities or accomplishments that result from performance of the agreement and then only as a direct cost;
 - (iii) Essential to the performance of the agreement and necessary to conduct general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of federal contract/grant awards, financial matters, etc. and only then as a direct cost; and
 - (iv) Note: Advertising and public relations costs incurred for fund raising or solely to promote the organization are unallowable.

(2) Audit

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

(3) Bonding

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

(4) Building Space and Related Facilities

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

(5) Communications

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

(6) Compensation for Personnel Services

Compensation for personnel services includes but is not limited to salaries, wages, incentive compensation, fringe benefits, pension plan costs, and the like. These costs are allowable to the extent that they are:

- (A) reasonable for services rendered (i.e., consistent with that paid for similar work in the organization's other activities or in the labor market in which the contractor or grantee competes);
- (B) conform to the established written policy of the organization;
- (C) supported by appropriate documentation;
- (D) equitably cost allocated;
- (E) related to the performance of the agreement; and

- (F) made available to all employees.
- (7) The cost of housing and food for employees is allowable only if it is part of an employee's compensation because of required attendance at the facility.
- (8) Premiums for overtime, extra-pay shifts, and multi- shift work are allowable only with the prior approval of Department of Human Services, except:
 - (A) When necessary to cope with emergencies;
 - (B) When employees are performing indirect functions such as administration, maintenance, or accounting;
 - (C) In the performance of operations which are continuous in nature and cannot reasonably be interrupted (ex. tests, laboratory procedures); and
 - (D) When lower overall cost to the federal government will result.
- (9) When being cost allocated to more than one program, compensation costs shall be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages shall be supported by personnel activity reports. These activity reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates determined before the services are performed do not qualify as support for cost allocation, except in first year of operation.
- (10) Regular compensation paid to employees during periods of authorized absences from the job as annual leave, sick leave, court leave, military leave, and payment for accrued leave upon an employee's termination are allowable if they meet the allow ability criteria in A., above.
- (11) Compensation for work beyond the normal hours established for an employee at the time of hiring is allowable when the work was performed and compensated in conformity with the Fair Labor Standards Act and justification for such work is documented.
- (12) Payrolls must be supported by time and attendance or similar records for individual employees. Either a payroll journal or an individual earnings record must be kept, as well as a cumulative leave record in which annual, sick, or other leave earned and used is recorded for each employee. These records must be maintained by the contractor or grantee on a consistent basis and made available to authorized Department of Human Services personnel upon request.

- (13) Budgeted positions which are vacant should be filled (or a commitment made to fill the position) within sixty days of the effective date of the agreement or these costs must be removed from the budget.
- (14) Severance pay is allowable only to the extent that it is required by law, by employer-employee agreement, by the organization's established policy, or by circumstances of the particular employment.

(j) Depreciation and Use Allowances

Compensation for the use of buildings, other capital improvements, and equipment necessary to the performance of the agreement may be made through depreciation or use allowances. In general, a combination of the two methods (depreciation and use allowances) may not be used in connection with a single class of fixed assets (ex., buildings, office equipment computer equipment, etc.)

- (1) The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. The acquisition cost of an asset donated to the organization by a third party shall be its fair market value at the time of the donation. (see, Donations)
- (2) The computation of use allowances or depreciation shall exclude:
 - (A) The cost of land;
 - (B) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and
 - (C) Any portion of the cost of buildings and equipment contributed by or for the organization in satisfaction of a statutory matching requirement.
- (3) Where depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, technological developments in the particular program area, and the renewal and replacement policies followed for the individual items or classes of assets involved. The method of depreciation used to assign the cost of an asset or group of assets to accounting periods shall reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life than in the later portions, the straight-line method shall be used. Depreciation

methods once used shall not be changed unless approved in advance by Department of Human Services. When the depreciation method is introduced for application to assets previously subject to a use allowance, the combination of use allowances and depreciation applicable to such asset must not exceed the total acquisition cost of the assets. When the depreciation method is used for buildings, a building's shell may be segregated from each building component and each item depreciated over its estimated useful life, or the entire building may be treated as a single asset and depreciated over a single useful life.

- (4) Where the use allowance method is followed, the use allowance for buildings and improvement will be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes. Such equipment will be considered as not being permanently fixed to the building if it can be removed without the need for costly or extensive alterations or repairs to the building or the equipment. Equipment that meets these criteria will be subject to the six and two-thirds percent equipment use allowance limitation.
- (5) Charges for depreciation or use allowances must be supported by adequate property records and physical inventories must be taken at least once every two years (a statistical sampling basis is acceptable) to ensure that assets exist and are usable and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period must also be maintained.

(k) Donations

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

(l) Employee Morale, Health, and Welfare Costs

The costs of employee information publications, health or first-aid clinics or infirmaries, recreational activities, employees' counseling services, and other

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

(m) Equipment

- (1) Equipment is defined as an article of nonexpendable, tangible personal (non-real estate) property having a useful life of more than one year. Expenditures for equipment with an acquisition cost of less than \$2,500 are allowable.
- (2) Purchase of computer equipment through a Professional and Consultant Services contract requires review by and an approval memo from the Department of Human Services Office of Systems and Technology prior to the development of the contract.
- (3) Equipment expenditures of \$2,500 or greater are considered capital expenditures and are allowable unless prior approval is obtained from the Department of Human Services.

(n) Indirect Costs

- (1) Indirect costs are costs incurred by an organization that are not readily identifiable with a particular project or program but are necessary to the operation of the organization and the performance of its programs. The costs of operating and maintaining facilities, depreciation and administrative salaries are examples of the types of costs that are usually treated as indirect costs.
- (2) Indirect costs should be allocated to the programs or services in a manner which will equitably distribute the indirect costs in proportion to the benefits derived. Unallowable costs should be adjusted out before allocating the costs. A cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been allocated as a direct cost.
- (3) Certain funding sources limit the amount of indirect costs that may be allowed. When the amount allowable under this funding source is less than the amount shown in the budget as indirect costs, the amount not

recoverable may not be shifted to another federal or state funding source without prior written approval.

- (o) **Insurance and Indemnification**
In general, costs of insurance and indemnification required or approved and maintained pursuant to the agreement are allowable to the extent that the types and amount of coverage are in keeping with sound business practice and the rates and premiums are reasonable for the circumstances.
- (p) Costs incurred in maintaining satisfactory relations between the organization and its employees, including costs of labor management committees, employee publications, and other related activities, to the extent they relate to the performance of the agreement, are allowable.
- (q) Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment (including federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable. Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life shall be treated as capital expenditures.
- (r) **Materials and Supplies**
 - (1) The cost of materials and supplies necessary to carry out the objectives of the program is allowable. Purchases must be charged at the actual cost after deducting cash discounts, refunds, rebates, allowances and material returned to vendor.
 - (2) Where federally-donated or furnished materials are used in performing the agreement, such materials will be used without charge.
- (s) **Meetings and Conferences**
 - (1) Costs associated with meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes the cost of renting facilities, meals, speakers' fees, and other items incidental to such meetings and conferences, provided that they meet the general test of allow ability (see, General Provisions). Refer to Participant Support Costs and Entertainment Costs for additional information.
 - (2) To the extent that these costs are identifiable with a particular program, they should be charged to that program.

(t) Memberships, Subscriptions, and Professional Activity Costs

- (1) Costs of the organization's memberships (as opposed to individuals' memberships) in business, technical, and professional organizations are allowable. Costs of membership in any civic or community organization are allowable only with prior approval by Arkansas Department of Human Services.
- (2) Costs of the organization's subscriptions (as opposed to individuals' subscriptions) to business, professional, and technical periodicals are allowable.

(u) Participant Support Costs

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

(v) Plant and Homeland Security Costs

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

(w) Pre-award Costs

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

(x) Professional Service Costs

- (1) Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the organization, are allowable, (subject to (2)

and (3) below) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the federal government.

- (2) In determining the allow ability of costs in a particular case, several factors are relevant, including but not limited to:
 - (A) The nature and scope of the service rendered in relation to the service required;
 - (B) The necessity of contracting for the service, considering the organization's capability in the particular area;
 - (C) Whether the service can be performed more economically by direct employment rather than contracting; and
 - (D) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).
- (3) Retainer fees, to be allowable, must be supported by evidence of bona fide services available or rendered and must be specified in the contract or grant as necessary to the program.

(y) Proposal Costs

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

(z) Publication and Printing Costs

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

(3) Publication costs are unallowable as direct costs except with the prior approval of the Department of Human Services.

(aa) Rearrangement and Alteration Costs

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

(bb) Reconversion

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

(cc) Recruiting Costs

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

(dd) Rental Costs

(1) Rental costs are allowable to the extent that the rental rates are reasonable, considering:

(A) Rental costs of comparable property;

(B) Market conditions in the area;

(C) Alternatives available;

(D) Type, life expectancy, condition, and value of the property rented;
and

(E) The rental costs relate to the performance of the agreement.

(2) Rental costs under a lease-to-purchase plan which creates a material equity in the leased property are allowable only to the extent that would be allowed had the organization purchased the property on the date the lease agreement was executed.

- (3) Rental costs under “sale and lease back” arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes and insurance.
- (4) Rental costs for leases between related parties (where one party to the lease agreement is able to control or substantially influence the actions of the other) are allowable only up to the amount that would be allowed had title to the property been vested in the organization.
- (5) Rental costs under leases which are required to be treated as capital leases under generally accepted accounting principles are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed. The provisions of Financial Standards Board Statement 13, Accounting for leases, shall be used to determine whether a lease is a capital lease.

(ee) Taxes

In general, taxes which the organization is required to pay and which are paid or accrued in accordance with generally accepted accounting principles are allowable. Refer to the applicable Office of Management and Budget circular for exceptions.

(ff) Training

Costs of preparation and maintenance of a program of instruction including but not limited to on-the-job, classroom, and apprenticeship training, designed to increase the vocational effectiveness of employees, are allowable to the extent they relate to the performance of the agreement. These costs include:

- (1) training materials,
- (2) textbooks,
- (3) salaries, or
- (4) wages of trainees (excluding overtime compensation which might arise there from), and
 - (A) salaries of the director of training and staff when the training program is conducted by the organization, or
 - (B) tuition and fees when the training is in an institution not operated by the organization,

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

(gg) Travel

- (1) Travel costs are the expenses for:
 - (A) transportation,
 - (B) lodging,
 - (C) subsistence, and
 - (D) related items incurred while traveling on official business.
- (2) The maximum allowable must not exceed the allowable limits for state employees on official business except with prior written approval from the Arkansas Department of Human Services.

(hh) Unallowable Costs

The costs defined below are generally unallowable unless specifically stated as allowable by the specific funding source or unless a waiver is approved by the Arkansas Department of Human Services. Refer to the applicable law.

(1) Advertising and Public Relations

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

(2) Alcoholic Beverages

The cost of alcoholic beverages is unallowable.

(3) Bad Debts

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

(ii) Capital Expenditures

- (1) Capital equipment is defined as an article of nonexpendable, tangible personal (non-real estate) property having a useful life of more than one year and an acquisition cost of \$2,500.00 or more. Expenditures for capital

equipment or property are unallowable unless allowed by the funding source and approved in advance by the Arkansas Department of Human Services.

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

(jj) Contingency Provisions

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

(kk) Contributions and Donations

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

(ll) Deposits

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

(mm) Entertainment

Costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs, such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities are unallowable. Reimbursing the cost to employees who are on duty and providing supervision of a client in the course of socialization services, congregate meal services, field trips, mentor services, and diversion or social activities is only permissible with prior approval of the division director and the Department of Human Services Chief Fiscal Officer.

(nn) Fines and Penalties

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

(oo) Gains and Losses on Depreciable Assets

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

(pp) Goods or Services for Personal Use, Housing, and Personal Living Expenses

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

(qq) Gratuities and Tips

Gratuities, tips, and similar costs are unallowable.

(rr) Interest, Investment Management, and Fund Raising Interest

Investment management, and fund raising costs are generally unallowable except in highly specific circumstances as outlined in the applicable law.

(ss) Idle Facilities Costs

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

(tt) Legal Services

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

(uu) Lobbying

Lobbying costs are generally unallowable except in highly specific circumstances as detailed in the applicable law.

(vv) Losses on Other Sponsored Agreements or Contracts

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

(ww) Organization Costs

Expenditures in connection with establishment or reorganization of an organization are unallowable except with prior written approval of Arkansas Department of Human Services.

(xx) Patent Costs

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

(yy) Unallowable Costs under Social Services Block Grant Funding

In addition to the unallowable costs listed in (hh) Unallowable Costs, the following costs are unallowable for Social Services Block Grant funding:

- (1) The provision of cash payments for costs of subsistence or provision of room and board (other than cost of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social service, or temporary shelter provided as a protective service);
- (2) The payment of wages to any individual as a social (other than payment of wages to welfare recipients employed in the provision of child day care services);
- (3) The provision of medical care (other than family planning services, rehabilitation services, or initial detoxification of an alcoholic or drug dependent individual), unless it is an integral but subordinate part of a social service for which funds may be used;
- (4) Social services (except services to an alcoholic or drug dependent individual or rehabilitation services) provided in and by employees of any hospital, skilled nursing facility, intermediate care facility, or prison, to any individual living in such institution;
- (5) The provision of any education service which the state makes generally available to its residents without cost and regard to income;
- (6) Any child day care services unless such service meets applicable standards of state and local law (including licensing requirements);

- (7) The provision of cash payments as a service;
- (8) The purchase or improvement of land, or the purchase, construction, or permanent improvement of any building or other facility;
- (9) The use of Social Services Block Grant funds to match other state or federal funds;
- (10) Payment for any item or service, other than an emergency item or service, furnished by an individual or entity during the period when such individual or entity is excluded pursuant to 42 U.S.C. §§1320a-7 or 1320a-7a, (the Social Security Act), from participation in this program; or at the medical direction or on the prescription of a physician during the period when the physician is excluded based on 42 U.S.C. §§1320a-7 or 1320a-7a, 1128 or 1128(A) from participation in the program and when the person furnishing such item or service knew or had reason to know of the exclusion (after a reasonable time period after reasonable notice has been furnished to the person); or
- (11) The use of Social Services Block Grant funds in a manner inconsistent with the Assisted Suicide Funding Restriction Act of 1997 (42 U.S.C. §14401 et seq.).

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Appendix A

I. Chart of Allowable Methods for Cost Allocation

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

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

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Appendix B

I. Examples of unit rate calculations are presented below.

(a) Case Number 1 - Average Daily Attendance

(1) Enter the average number of clients served per day under the program.

Example: 40 Clients

(2) Enter the number of operational days during the agreement period.

Example: 250 days

(3) Calculate total client units.

Example: 40 clients x 250 days = 10,000 client units

(4) Enter the total service budget figure less adjustments.

Example: \$24,630.00

(5) Calculate the rate per client unit

Example: $\$24,630.00 \div 10,000 = \2.46 unit rate

(b) Case Number 2 – Average Units Per Client

(1) Enter the estimated number of clients to be served.

Example: 200 clients

(2) Enter the estimated number of units per client.

Example: 50 units

(3) Calculate the total client units

Example: 200 clients x 50 units = 10,000 client units

(4) Enter the total service budget figure less adjustments

Example: \$24,295.00

(5) Calculate the rate per client unit

Example: $\$24,295.00 \div 10,000 = \2.43 unit rate

(c) Case Number 3 – Transportation Based on Trips Provided

(1) Enter the average number of one-way trips per day from historical data:

Example: 146 one-way trips

(2) Enter the number of days transportation is provided:

Example: 250 days

(3) Enter the total cost of transportation

Example: \$23,780.00

(4) Calculate the total number of transportation units

Example: $146 \text{ one-way trips per day} \times 250 \text{ days} = 36,500$ units of transportation

(5) Calculate the cost of one unit of transportation (on one-way trip per client).

Example: $\$23,780.00 \text{ total transportation cost} \div 36,500 \text{ units of transportation} =$
 $\$.65 \text{ cost per one-way trip}$

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

(1) Enter the total number of clients served per day under the program

Example: 30 clients

(2) Enter the number of operational days during the agreement period

Example: 250 days

(3) Calculate total client units

Example: $30 \text{ clients} \times 250 \text{ days} = 7,500$ client units

(4) Enter the total service budget figure less adjustments

Example: \$41,250.00

(5) Calculate the rate per client unit

Example: $\$41,250.00 \div 7,500 = \5.50 unit rate

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Appendix C

I. Methods for Determining Fixed Rates

(a) Following are the two allowable methods for determining a fixed rate:

(1) Operational Budget Basis

- (A) Division staff shall establish a unit rate based on full disclosure budget(s) for the service agencies in the geographic area defined and on historical client data.
- (B) Complete copies of all budgets used to establish the unit rate shall be submitted to the designated executive staff within the division for review and approval along with the general cost study information as shown below.

(2) Audit (Actual Cost) Basis

- (A) Division staff shall establish a unit rate based on recent service agency audits for the geographic area defined.
- (B) Upon establishment of a rate, division staff should submit complete copies of all audits used to establish the unit rate to the designated executive staff within the division for review and approval along with the general cost study information as shown below.
- (C) Note: Room and board costs must be separately identified.

II. General Cost Study Information

- (a) The division shall define the service unit for which the study will establish a rate (service unit = billing unit).
- (b) Upon establishment of a rate, and 90 days prior to the requested date of implementation, division staff should submit the cost study, including the rationale and procedure by which the rate was established, in writing to the designated executive staff for the division with the necessary documentation as outlined in Methods for Determining Fixed Rates above.

- (c) The responsible staff must re-submit the cost study to the division executive staff for approval at least every three years following the original implementation date.
- (d) Note: Only allowable costs, as outlined in the applicable law, can be used to determine fixed rates.