	Montgomery County Government Department of Health and Human Service	No.	ACCP-1
	Allowable Contract Costs Policy	Effective Date	02/19/2013
		Sunset	Indefinitely
		Revision Letter	**[Ltr]**
		Uma Ahluwalia, Director of Health and Human Services	

1.0 Purpose

To establish a Department of Health and Human Services (DHHS) policy on allowable and unallowable contract costs for salary, fringe, indirect and direct operating costs for contractors.

2.0 Definitions

2.1 **Compliance Team (CT)** - provides a central point for coordination and responsibility for activities that promote accountability, integrity, and efficient use of public resources with DHHS; ensures adherence to county, state and federal laws: provides technical support to staff and vendors on contract compliance and other technical issues on internal controls; and coordinates external audits and audit responses.

2.2 **Contract Management Team - (CMT)** – responsible for the majority of DHHS's procurement actions: support and trains contract monitors; works with program staff and Office of Procurement and oversees all aspects of the contract process from solicitation to recommending contract award as well as overseeing the term of the contract.

2.3 **Chief Operating Officer - (COO)** - of the Department of Health and Human Services

2.4 **5+ Contractor Group Contractors** - Contractors identified, by the DHHS Director, as having five or more cost reimbursement contracts that are subjected to monthly random, support documentation submission to their Contract Monitors.

2.5 **Contract Monitor - (CM)** – responsible for overseeing that Contractors are in complying with the terms and conditions of their contract.

2.6 **Cost Reimbursement Contract** – a contract under which a contractor is reimbursed for costs which are allowable under the provisions of the contract. and a fee, if any per Montgomery County Procurement Regulation. 2.4.29.

2.7 **Department of Health and Human Services (DHHS)**

2.8 **Direct Operating Costs** – costs that are directly applicable a project or activity. Note: Actual indirect costs are allocated to program objectives in the year incurred, no prior year indirect costs are carried into a future year.

2.9 **Fair Labor Standards Act – (FLSA)** - The Fair Labor Standards Act 1938[1] (also referred to as the Wages and Hours Bill[2]) is a federal statute of the United States. The FLSA introduced a maximum 44-hour seven-day workweek,[3] established a national minimum wage,[4] guaranteed 'time-and-a-half' for overtime in certain jobs,[5] and prohibited most employment of minors in "oppressive child labor," a term that is defined in the statute.[6] It applies to employees engaged in interstate commerce or employed by an enterprise engaged in commerce or in the production of goods for commerce,[7] unless the employer can claim an exemption from coverage. In 1938, a revised version of Black's proposal was passed that adopted an eight hour day and a forty hour workweek and allowed workers to earn wage for an extra four hours of overtime as well.[8] According to the Act, workers must be paid minimum wage and overtime pay must be one-and-a-half times regular pay. Children under eighteen cannot do certain dangerous jobs, and children under the age of sixteen cannot work.

2.10 **Federal Insurance Contribution Act – (FICA)** - An employer and employee pay a percent of combined of earned income up to annual limit into the Social Security Fund and additional percentage must be paid into the Medicare Fund. An employer pays 50% of the FICA and Medicare Taxes

2.11 **Federal Unemployment Tax Act - (FUTA)** – together with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a Federal and a state unemployment tax.

2.12 **Fiscal Team (FT)** – responsible for overseeing the financial transactions of the DHHS and ensuring strong financial management and accountability. Duties include processing all contract payments, client benefits and receipts for a number of DHHS programs, recording revenues, fee collections and medical billing, managing federal claiming for Medicaid and Social Services programs, overseeing P-cards and performing fiscal year end closing activities.

2.13 **Fiscal Year (FY)** – period settling of accounts of a company or organization which is normally a twelve (12) month period in order to provide the company's or organization's financial position or for tax purposes. Fiscal year is a departure from a calendar year which extends through a January to December time period. For Montgomery County, the fiscal year period is July 1 19xx to June 30, 19X1.

2.14 **Fixed Price Contract** – A contract that provides for a firm price under which a contractor bears the full responsibility for profit or loss. This does not include a cost reimbursement contract per Montgomery County Procurement Regulations 2.4.45.

2.15 **Fringe Costs** – A collection various Employer renumerations provided to employees such as health insurance, employer's share of FICA, Medicare tax, disability insurance, etc.

2.16 **Indirect Costs** – costs that are directly applicable to more than one project or activity. The precise cost cannot be easily traced to a project or activity.

2.17 **Quality and Selection Committee (QSC)** – A committee established by a Using Department for the purpose of evaluating responses submitted by offerors in connection with an Request For Proposal or an Request for Expressions of Interest per Montgomery County Procurement Regulations 2.4.79. A qualification and selection committee must review and evaluate the proposals and recommend a list of bidders or offerors who will be eligible to receive a subsequent solicitation.

2.18 **State Unemployment Tax Authority (SUTA)** – States require employers to pay a tax on payroll based on past unemployment rates. SUTA is paid by an employer and is added to a fund that can be used by a qualifying employee in the event that he or she is unemployed.

2.19 **Program reports** – written reports prepared by Contractor on the status of their contractual services such as statistical information, client served, activities held related to the scope of work, etc. These may be required under the contract.

2.20 **Requirements Contract** – A contract for goods, services, or construction covering long term requirements (usually twelve months or more), used when the total quantity required cannot be definitely fixed, but may be stated as an estimate or within maximum and minimum limits. Delivery of goods, services or construction are made upon issuance of a delivery order. A requirements contract may be exclusive, in which case all orders of goods, services, or construction covered by the contract, must be made pursuant to it. In the alternative, a requirements contract may be non-exclusive, in which case the contract is not the only source of goods, services, or construction covered by it. Unless a requirements contract, and the solicitation for it, states that it is an exclusive contract, it is a non-exclusive contract. A requirements contract may not be used to unduly restrict competition and may not normally be used for large construction contracts.

2.21 **Referenced Documents**

Montgomery County Procurement Regulations and Montgomery County, MD Code Chapter 11B

Federal OMB Circular A-122 for applicable State and Federal Grants.

Federal Acquisition Regulations Cost Principles Guide for applicable State and Federal Grants.

3.0 Policy

3.1 General policies

3.1.1 All expenses billed to the contract must be reasonable and in alignment, with the scope of work defined in the contract and must be included in the contract budget or required under the scope of work.

3.1.2 Every contract is expected to be a fair and equitable agreement between DHHS and a vendor regardless of the number or type of other contracts that may exist between DHHS and that vendor.

3.1.3 Required program reports must be received by the Contract Monitor (CM) before the department can issue a payment to the contractor.

3.1.4 DHHS adopts the Federal OMB Circulars A-87 (State, Local and Indian Tribal Governments) and A-122 (non-profit organizations) as guidelines in its treatment of contracts where applicable for Federal and/or State grants except as noted in this policy for allowable and unallowable costs

3.2 Indirect and Fringe Costs

3.2.1 The Contractor will identify one of the three following options in establishing the the Contractor's indirect and fringe costs. With any of the three methods, the indirect rate will be capped at 15% and the fringe rate will not be capped but the costs will be limited :

3.2.1.1 Invoice DHHS for its actual indirect and fringe costs where supporting documentation for its indirect and fringe costs must be submitted monthly. Contractor must provide justification on the method of allocating the indirect or fringe costs to the DHHS contract(s) if applicable.

3.2.1.2 Submit the Contractor's Federally approved annual indirect and fringe rates. However, DHHS will cap the most recent Federally approved indirect rate at 15% and only compensate for the identified allowable costs in this policy, and which will be described in the Contract.

3.2.1.3 Submit supporting documentation as described in this document to establish an annual indirect and fringe rate as allowed by this policy. See Section 9.1.4 Allowable Fringe Costs and Supporting Documentation and Section 9.1.5 Allowable Indirect Costs and Supporting Documentation. Each organization may have a different methodology for computing their indirect or fringe rate so arriving at a template is not a feasible option.

3.2.2 There are some Federal/State/Other grants that restrict the amount of indirect costs to be reimbursed to an organization. The department (DHHS) will follow these restrictions in reimbursing the amount of indirect costs when using these grant funds.

3.3 Calculating indirect costs and fringe costs

3.3.1 DHHS calculates indirect costs as the rate times the total of direct costs that include salary, fringe, and direct operating.

3.3.2 DHHS requires the fringe and indirect rates to be calculated on an aggregate (organizational) basis.

3.3.3 Contractors must include in their contract budget form a description of each budget category and general budget line items which includes the indirect and fringe rates.

3.3.4 DHHS will disallow any indirect costs which are included in the direct operating expenses in their contract budget.

3.3.5 Expenses already included in the calculation of the indirect cost rate cannot be included again as direct expenses in the budget. Contractors who have been identified as part of the Cost Reimbursement 5+ Contractor Group Contractors (Contractors identified, by the DHHS Director, as having five or more cost reimbursement contracts that are subjected to monthly random, support documentation submission to their CM). must apply the fringe and indirect cost rates uniformly and consistently to all of its DHHS contracts except for contracts with capped rates by their Funder (e.g.Funder's -Federal, State or other grantors). Funder's conditions of award may restrict the percent of indirect or fringe rates or other costs which the Funder will reimburse.

3.3.6 DHHS calculates the Contractor's fringe rate times the contract salary to arrive at the contract fringe costs.

3.3.7 The Contractor's proposed rates must be substantiated through historical data (two years of records) and projections must be reasonable, justifiable, verifiable, and consistent (i.e., methodologies applied from one period to the next).

3.3.8 For renewed contracts, the Contractor on an annual basis must submit to DHHS CM the documentation of the fringe and indirect rates even, if the rates remain unchanged.. If the Contractor has an annual financial statement audit prepared, the Contractor may request its auditors to provide a justification and/or an explanation on its annual indirect and fringe rates. Also, the Contractor must provide the elements or expenses that consist of its fringe and indirect costs in the financial statements to determine if only the allowable costs as described in this policy are included in the calculation.

3.3.9 Contractors that do not have audited financial statements are required to submit documentation to support its indirect and fringe rates (e.g., payroll register, general ledger, financial statements, spreadsheets, fringe benefits, etc.) before the contract is executed or renewed by Montgomery County.

3.3.10 The Contractor's financial documents will be maintained in a restricted access file available to the DHHS CMT, CM and CT. In addition, the Cost and Price Section in the Department of General Services (DGS), Office of Procurement may, also, request similar information from the vendor as outlined in this policy. DHHS and DGS will coordinate the request for and the maintenance of the data.

3.4 Restrictions and Limitations

3.4.1 The Contractor must submit acceptable documentation for its indirect and fringe rates by September 1 of each fiscal year to its CM. Acceptable documentation is defined in this policy in Appendix A. If Contractor has not submitted any documentation for its indirect or fringe rate by September 1, the CM must not reimburse the Contractor until documentation is submitted.

3.4.2 CM may submit the information to the Compliance Team for review and evaluation. However, the information must be available in the CM file in case

of an internal review or external audit. The DHHS Chief Operating Officer (COO) is the final approver for all indirect and fringe rates.

3.4.3 Once rates have been approved by DHHS's COO for a contract term, Contractors may not change their fringe and indirect rates during that contract term. The usual contract term is a twelve months period; however, there may be some deviations for this period of time in some contracts. Contractor must wait until the next term of the contract to submit new rates to DHHS for COO approval.

3.4.4 If an external audit (audit conducted by State, Federal, Montgomery County Inspector General or Montgomery County Government Office of Internal Audit) or a compliance review by DHHS identifies an overpayment of indirect or fringe costs, any overpayments of indirect or fringe costs will require repayment by the Contractor to DHHS immediately where DHHS has NOT previously reviewed and approved the indirect and fringe rates. In cases where the department has specifically approved the indirect and fringe rates through a separate review by the Compliance Team and approved by the DHHS COO, the Contractor will NOT be required by the department (DHHS) to repay any overpayments. If repayment is not received by DHHS within 30 calendar days, then, DHHS will withhold the amount from the next invoice from the contractor.

3.5 **Costs must meet the following general criteria**:

3.5.1 Be necessary and reasonable for proper and efficient performance and administration of contracts.

3.5.2 Be applicable to contracts.

3.5.3 Be authorized and/or not prohibited under State or local laws or regulations.

3.5.4 Conform to any limitations or exclusions set forth in this policy statement, Federal laws, terms and conditions of the contract , or other governing regulations as to types or amounts of cost items.

3.5.5 Be treated consistently. A cost may not be assigned to a contract as a direct cost if any other cost incurred for the same purpose in like circumstances has been applied to the contract as an indirect cost.

3.5.6 Except as otherwise provided for in this policy, be determined in accordance with generally accepted accounting principles.

3.5.7 Not be included as a cost or used to meet cost sharing or matching requirements of any other contract in either the current or a prior period, except as specifically provided by Federal law or regulation.

3.5.8 Be the net of all applicable credits.

3.5.9 Be adequately documented.

3.5.10 Be reasonable.

3.5.10.1.1 A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to:

3.5.10.1.2 Whether the cost is of a type generally recognized as ordinary and necessary.

3.5.10.1.3 The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; Federal, State, County and other laws and regulations; and, terms and conditions of the contract.

3.5.10.1.4 Market prices for comparable goods or services.

3.5.11 Applicable costs

3.5.11.1.1 A cost is applicable to a particular cost objective (contract) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefit received.

3.5.11.1.2 Any cost applicable to a particular contract or cost objective may not be charged to other contracts to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the contracts, or for other reasons.

For more information on cost principles and appropriate circulars for certain organizations, please go to: http://rates.psc.gov/fms/dca and/or www.whitehouse.gov/omb/circulars.
Circular A-87 (State, Local and Indian Tribal Governments)
Circular A-122 (non-profit organizations) are most helpful and will be used by the DHHS as well as a guide in reviewing contractor's budget and cost determination. However, there are costs that the department will not allow. Also, refer to the
Montgomery County Procurement Regulations for further information Code (Chapter 11B) and Regulations (COMCOR) is on our website at http://www6.montgomerycountymd.gov/mcgtmpl.asp?url=/content/DGS/pro/forms.asp

4.0 Responsibilities

4.1 The **Director** shall ensure compliance to this policy/procedure document.

4.2 The **Director** or designee approves or disapproves the indirect and/or fringe rate and return to CT for dissemination to CM and QSC.

4.3 **Contractor** provides the documentation for the indirect and fringe costs to the CM or the DHHS negotiating team.

4.4 **Contract Monitor** (CM) provides the documentation for review and evaluation to the Compliance Team for an indirect and fringe rate recommendation to the Director or their designee.

4.5 **CM or DHHS Negotiations Team** sends the indirect and fringe form approved by the DHHS COO to the Contractor. See Exhibit I.

4.6 **Compliance Team** analyzes the financial data and prepares a recommendation for approval of the indirect and fringe rates to the Director or designee on a form. See Exhibit I for form. Disseminates the approval rates to the CMT, the DHHS Negotiation Team and CM.

5.0 Procedures

5.1 All DHHS Contractors with cost reimbursement contracts are to submit documentation for their indirect and fringe rates at the time of contract renewal through **September 1** of the contract year. Vendors who bid on cost reimbursement, fixed cost or requirement contracts are required to submit to the DHHS Negotiations Team and may need to submit to the Price and Cost Section in DGS, Office of Procurement at the time of contract negotiations. DHHS and DGS will coordinate the review of the data.

5.2 CM or DHHS Negotiations Team is to provide the documentation for review and evaluation to the Compliance Team for their recommendation to the DHHS COO, CT reviews and evaluates the documentation. Also, recommends approval of an indirect and fringe rate to the DHHS COO by preparing form. See Exhibit I.

5.3 DHHS COO approves or disapproves the indirect and/or fringe rate and returns to CT for dissemination to CM.

5.4 CT disseminates the approval form to CMT and CM.

5.5 CM sends approval form to Contractor.

5.6 Contractor is to provide the documentation for the indirect and fringes costs to the CM or the DHHS Negotiations Team.

6.0 Scope

Document applies to all DHHSContractors or potential vendors with Cost Reimbursement Contracts. Vendors are required to submit indirect and fringe cost information during the DHHS contract negotiations process and at future contract modifications (i.e., annual contract renewal) that affect the contractor's budget for fixed costs and for requirement contracts.

7.0 Document Approvals

Role	Position	Name of Approver	Approval Signature	Date Approved
Author	Compliance Team Manager	Susan Cymek		2/15/2013
Office of Chief Operating Officer	Service Area Administrator	Stuart Venzke		2/15/2013
Policies and Procedures Department	Policy and Operational Risk Manager	Joy Royes		2/15/2013
Final Approver	Director of Dept. of Health and Human Services	Uma Ahluwalia		2/19/13

APPENDIX A

8.0 List of Allowable and Unallowable Costs

8.1 **Allowable Salary, Direct Operating Costs** and **Support Documentation** Requirements

8.2 **Allowable Salary Costs** and Supporting Documentation Requirements

8.2.1 **Salary Cost** must be supported by payroll documents for the period for which the invoice is submitted. These payroll documents must include rate of pay and contract cost center for each employee assigned to the contract as well as payroll deductions, net pay and time period. Contractor must inform the CM of payroll period such as monthly, biweekly, bimonthly, etc., so CM has sufficient information to calculate salary costs. Bonuses are not an unallowable cost. Overtime compensation must have prior approval of your CM and their supervisor and only approved in extenuating circumstances.

8.2.2 **Timesheet reports** for each employee on the contract must accompany the payroll documents. These hours reported on the time sheet must delineate the activities related to the specific contract, hours devoted each day to the contract. If an employee time devoted to the contract becomes questionable, a brief summary of the activity performed each day may be requested by the CM. Only positions identified in the contract budget can be billed to the department. Both employee and supervisor should sign the time sheet.

8.3 **Allowable Direct Operating Costs** and Supporting Documentation Requirements

8.3.1 **All Direct Operating Costs** must be noted in the contract budget including its justification for the cost as it relates to the scope of services as defined in the contract. The following represents some of the costs that could be contained in a contract budget as allowable direct operating costs and applicable supporting documents required. This is not a comprehensive list but is a general guideline.

8.3.1.1 **Consultants or subcontractors** – Each consultant must be separately identified. The consultant contract budget must identify scope of work to be performed, budgeted hours, rate of pay and contract period. The Contractor must submit to the CM the executed contract between the prime and sub-contractor before the CM is able to reimburse the contractor (prime). The subcontractor contract must be signed by the Board or other appropriate personnel of the organization who has the authority

to enter into contracts. Subcontractor must maintain a time report delineating the date, number of hours and brief description of the activity performed for the contract each day. The documentation requirements for the prime and the subcontractor are the same where invoices, payroll records, fringe, indirect costs and proof of payment must be supported.

8.3.1.2 **Subcontractor's budget –** if a subcontractor costs include more than the hours and rate of pay, the subcontractor must submit a detailed budget outlining all costs as discussed in this document - personnel, fringe, indirect and direct operating costs as a separate contract budget document denoting that the prime contractor for which the subcontractor is performing work.

8.3.1.3 **Staff Development or Training –** Contractor is to provide the agenda, document indicating completion of the course such as a continuing education certificate as well as evidence that the invoice was paid. The training must be related to the contract's scope of services. Proof of payment must also be provided to the CM.

8.3.1.4 **Travel –** employee mileage logs which include point of origination and destination, odometer readings, total miles proved by the printed map and business purpose of the mileage. These elements are required by IRS Publication 403. Additionally, Contractors must follow County Administrative Procedures 1-5 Local Travel Guidelines and Administrative Procedure 1-2, Non-Local Travel. The department will only reimburse mileage related to the contract's scope of services and Not lobbying activities or non-contract related activities Other type of travel including airfare and lodging to attend conferences or other type of specialized training related to the contract's scope of services and specifically required by the contract must be supported with the airfare ticket (coach rates will be reimbursed: no business or 1st class or any other class of airline ticket will be reimbursed), conference agenda, and certification of attendance such as continuing education certificates, hotel receipts and proof of payment. The department will only pay for lodging costs as stipulate in Montgomery County Administrative Procedure 1-2, Non-Local Travel. Any entertainment costs are not reimbursable by DHHS. Conferences must be included in the annual contract budget and be related to the contract scope of work.

8.3.1.5 **Rent** – rent costs and associated costs such as parking related directly to the contract's scope of services. A copy of the lease and proof of payment as well as justification for any allocation of the rent based on square footage related to the contract usage versus the administrative portion of the rent and associated costs. Administrative portion of the rent and associated costs must be included in the indirect cost.

8.3.1.6 **Utilities –** utility costs related directly to the contract's scope of services. A copy of the detailed bill and proof of payment must be submitted by the Contractor to CM. If it is allocated, a reasonable explanation for the method of allocation among the organization's cost centers. In other words, for example, what is the justification for your organization charging 18% for this expense to this contract? Administrative portion of the utilities must be included in the indirect costs.

8.3.1.7 **Communications –** directly related to the contract scope of work such as telephones, cell phones, pagers, etc. Contractor is to supply justification for the cell phone use related to the contract's scope of services and describe the location of the telephones (land lines). Allocation justification and proof of payment are required for submission by the Contractor.

8.3.1.8 **Food –** (Supplies) – Food must be limited to the clients or participants served by the contract's scope of services. It should kept to a minimum. For example, food for staff meetings is not an allowable cost to the contract. Receipts, invoices and other documentation must be kept and it must include the participants or clients receiving the food.

8.3.1.9 **Maintenance –** repairs or other costs related to keep building, machinery, copiers, etc. related directly to the contract in working order. The maintenance invoice must contain description of services performed and proof of payment. These costs must be directly related to the scope of services in the contract.

8.3.1.10 **Legal costs** - directly related to performing services related to the contract such as attorneys assisting client with help in abuse cases or other specifically related contractual services.

8.3.1.11 **Grant writing –** directly related to performing the contract's scope of services and the contract specifically states it is the contractor's responsibility to obtain grant or funder support as a contractor's responsibility. This could, also, include a subcontractor's costs or salary cost.

8.3.1.12 **Equipment under $5,000 –** for assets that have a useful life of greater than one year such as laptops, computers, fax machine, scanners, office furniture etc. Please identify in the Contract Budget the type of equipment or furniture or other type of asset and its justification for the equipment's use for the contract. If the County purchases the equipment, it owns the equipment at the end of the contract so an inventory of County purchased equipment must be maintained and updated annually.

8.3.1.13 **Gift Cards –** are a highly negotiable instrument. Recommend sparingly using gift cards for program needs. The Contractor must submit with their invoices the purchases, distribution and remaining balance of gift cards before CM can authorize reimbursement of

these expenses. Records of those receiving gift cards and the reasons for the distribution must be kept by the Contractor and submitted to the CM at the time of invoicing DHHS. Gift Card logs must contain the following information:

- Recipient's name
- Date recipient receiving the gift card
- Amount of the gift card
- Gift card serial number
- Reason for receiving gift card

Also, Contractor must submit the initial invoice purchasing the gift cards which must include the gift card serial numbers and denominations purchased. Contractors must only maintain minimal gift card inventory to avoid any mishandling of this asset. The contract budget must include the dollar limit on the gift card value and the total dollar limit for the gift cards.

DHHS Financial Operations can assist Contractors in recommending a gift card system to track purchases, inventory and distribution.

8.3.1.14 **Insurance -** if directly related to the contract's scope of services – provide a copy of the insurance document and proof of payment. Other types of insurance must be included in the indirect cost calculation. The insurance costs must only be included in one category of expense – indirect or direct operating costs.

8.3.1.15 **Office Supplies –** copy of the invoice and proof of payment. The supplies must be only for the employees directly related to the scope of services in this contract and not related to administrative purposes. Office supplies include pen, paper, toner, etc. for the direct contract staff performing the contract's scope of work.

8.3.1.16 **Stipends –** Name of person receiving stipends, amount of stipend and validation that the individual eligible for the stipend has met the contract or program requirements and proof of payment.

8.3.1.17 **Other Expenses –** other expenses that directly relate to the contract's scope of services that DHHS at their option may approve, such as background checks, fingerprinting services and direct operating staff parking. Please provide justification for the expense as it relates to the contract's scope of services, invoices, and proof of payment.

8.3.1.18 Also, funding agencies may have specific requirements that may limit allowable costs under the contract such as a ceiling of indirect rate. Please refer to the conditions of award from Federal, State, County or other funding source for any unallowable costs and indirect and fringe rates caps.

8.4 **Allowable Capital Equipment Over $5,000**

8.4.1 **Any capital equipment** is usually an asset that has a useful life greater than one year. At the conclusion of the contract, an inventory of County purchased equipment must be any capital asset greater than $5,000 must be included in the contract line item budget and be specifically identified in the contract budget. The contract budget must include a justification of such a large capital asset purchase. If the County purchases the equipment, the County owns the equipment. at the conclusion of the contract.

8.4.2 **Examples of capital equipment over $5,000 are as follows:**

- Data Processing Equipment
- Vehicles
- Other Machinery or Equipment

8.4.3 Contractor must maintain a listing of inventory items purchased by the Contractor to perform the scope of services. The inventory must include the cost of the equipment, date purchased and invoice number and update this list annually.

8.5 **Allowable Fringe Costs and Supporting Documentation Requirements which will support the fringe rate percentage.**

8.5.1 **Employer's share of retirement.** Support documentation must include Employee Handbook, Fringe Report and Payments to Retirement Trustee for each employee.

8.5.2 **Employer's share of healthcare coverage.** Support documentation must include a copy of invoice from Health Care Insurer and Fringe Report for each employee.

8.5.3 **Employer's share of employment taxes (FICA, Medicare, SUTA, FUTA).** Support documentation must include copies of Federal or State reports of Employer's liability for these costs or letters of unemployment experience rate and proof of payment.

8.5.4 **Employer's share of long-term and short-term disability insurance (LTD/STD).** Support documentation must include invoice from provider and payment documents for each employee.

8.5.5 **Employer's share of other insurance coverage (Accidental Death & Dismemberment, Long-term care, etc.)** Support documentation must include invoice from provider and payment documents for each covered employee.

8.5.6 **Employer's share of life insurance coverage (basic coverage) Worker's Compensation -** Support documentation must include invoice from provider and payment documents for each employee.

8.5.7 **Holiday, Vacation and Sick leave or Paid Time Off –** Contractors may treat employee leave in two ways shown below.

8.5.7.1 The Contractor may include vacation, sick or holiday leave hours to their fringe rate calculation if Contractor bills employee's salary costs for their time devoted to the department's contract (productive time) and not for the employee's time on leave. When this option is selected and the contractor has a policy to pay out accrued leave upon an employee's termination, any leave pay out is taken from the fringe pool through its payment of the Contractor's fringe rate and not billed to the County.

8.5.7.2 If Contractor is including holiday, vacation or sick leave in its salary costs on its invoice, then, the Contractor must not include the holiday, vacation sick leave or paid time off costs in its fringe rate calculation. Leave pay outs will be allowed by the department up to eighty (80) hours for employees in good standing when they terminate and pro-rated for the percentage of their time the employee's salary was budgeted in the contract.

8.5.7.3 Contractor must provide support documentation of the leave pay out. Supporting documentation for leave pay out must include payroll reports, Employee Handbook, Board Minutes, pay check stubs and other relevant documents. If grant awards or funding source prohibit the leave pay outs, then, the department will not reimburse any leave pay out costs.

8.6 **Allowable Indirect** and Supporting Documentation Requirements

8.6.1 **Personnel support services (Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Finance/Accounting staff, Human Resources staff, IT staff, Office Manager, Administrative Assistants, Receptionist, Custodian, etc.)**

8.6.1.1 Charges to contracts for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to contracts must be supported by personnel activity reports. Employee and Supervisor must both approve the timesheets.

8.6.1.2 **Reports** (Employee time reports) reflecting the distribution of activity of each employee must be maintained for all staff members (FLSA exempt and FLSA non-exempt) whose compensation is charged, in whole or in part, directly to contracts. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost

rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function).

8.6.1.3 The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to contracts. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

8.6.1.4 The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, that the distribution of activity represents the actual work performed by the employee during the periods covered by the reports.

8.6.1.5 The reports must be prepared at least monthly and must coincide with one or more pay periods.

8.6.2 **Depreciation** is allowed by OMB Circular 122 for indirect costs only. Supporting documentation must include current year depreciation schedule that must be submitted with indirect cost documentation.

8.6.3 **Rent/Facility Lease (may include utilities, parking fees, grounds repairs and maintenance) for central/administrative offices only, and not facilities directly associated to the program/contract.** Supporting documentation must include lease and lease payment documents.

8.6.4 **Rental costs** are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased. Rental arrangements must be reviewed periodically to determine if circumstances have changed and other options are available. Supporting documentation must include rental agreement, justification for renting a vehicle and payment information.

8.6.5 **Utilities (gas, electric, water, sewer, trash removal)** for the central/administrative offices only. Supporting documentation must include invoices and payment information.

8.6.6 **Business insurance** (general liability, property/rental, commercial automobile, Directors and Officers life insurance, umbrella policy, investment, etc.) only in cases where the County is not the beneficiary. Supporting documentation must include invoices and payment information.

8.6.7 **Communications (Internet, telephones, copier/fax service agreements, shredding service agreement, etc.)** for the central/administrative offices only. Supporting documentation must include invoices and payment information.

8.6.8 **Computer maintenance (software/hardware maintenance agreement, licenses, repairs and maintenance, etc.)** for the

central/administrative offices only. Supporting documentation must include lease agreements, invoices and payment information.

8.6.9 **Meetings and conferences (for which the primary purpose is dissemination of technical information).** Supporting documentation must include participant's name, business purpose, agendas, etc, and payment information.

8.6.10 **Materials and supplies costs for central/administrative offices.** Supporting documentation must include the invoices, receiving reports and payment information.

8.6.11 **Memberships, subscriptions, and professional activity costs for central/administrative offices.** Supporting documentation must include participant's name, invoices, business purpose and payment information.

8.6.12 **Professional service costs for central/administrative offices.** Supporting documentation must include agreements, invoices and payment information.

8.6.13 **Taxes legally required to be paid. Supporting documentation must include invoices and payment information.**

8.6.14 **Travel -**Travel costs are the expenses for transportation (mileage, airfare, train, bus, etc.), lodging, meals, and related items incurred by employees who are in travel status on official business of their overall organization. Local Travel (75 miles radius of the County) or Non-Local Travel (greater than 75 miles radius of the County) must be included in the contract budget. Supporting documentation must include invoices, mileage logs, hotel and restaurant receipts, and payment information. Contractors must follow County Administrative Procedure 1-5, Local Travel Guidelines and Administrative Procedure 1-2, Non-Local Travel Guidelines for per diem and other information related to travel. SeeAppendix A. These type of expenses must be itemized and included in the contract budget and be related to the contract's scope of work. Entertainment costs are **not** reimbursable by DHHS.

8.6.15 **Supporting documentation mentioned above may not include all items to verify the costs to the organization.**

8.7 Unallowable Costs

8.7.1 **Unallowable Costs - Direct or Indirect Costs The following is a sample list of unallowable direct and indirect costs. This list is not comprehensive or all-inclusive. Contractors may use this list only as a guide in its classification of costs.**

8.7.1.1 **Alcoholic beverages**

8.7.1.2 **Bonuses**

8.7.1.3 **Bad Debts**

8.7.1.4 **Interest expense** related to a line of credits. Mortgage interest is allowable for mortgage payments when the cost of the mortgage payment is similar to the fair market value of renting a facility of similar size. Other interest related to the financing of a purchase of equipment necessary to perform the contract may be considered by the department on a case by case basis.

8.7.1.5 **Charitable** or **Political Donations** and Contributions.

8.7.1.6 **Entertainment costs,**

8.7.1.7 **Fines and Penalties** (tax penalties, traffic violations, etc.).

8.7.1.8 **Goods and services for personal use,**

8.7.1.9 **Legal costs for litigation, for contract negotiations and for any type of disputes** (employee, contract, IRS, etc.) will not be considered an allowable cost by the department. The department will consider legal costs on a case by case basis for indirect costs. Some legal costs may be allowed as a direct operating expense when specifically related to the contract's scope of services.

8.7.1.10 Costs related to **fund raising activities.**

8.7.1.11 Costs related to **political activities or lobbying costs**.

8.7.1.12 Costs of **insurance on the lives of trustees, officers, or similar positions** when the organization is named as beneficiary,

8.7.1.13 Costs incurred in connection with **any criminal, civil or administrative proceeding with an unfavorable outcome.**

8.7.1.14 **Selling and marketing. (Outreach activities specific to the scope of services are allowable costs).**

8.7.1.15 **Losses from other contracts.**

8.7.1.16 **Investment expenses.**

8.7.1.17 **Overtime compensation without prior approval of Contract Monitor.**

8.8 Unallowable Fringe Benefits

8.8.1 **Staff training and development** (seminars, workshops, training, conferences, etc.) This must be a direct operating expense to the contract.

8.8.2 **Staff employment verification checks** (criminal and financial background checks, fingerprinting, clearance, etc.) This must be a direct operating expense to the contract.

8.8.3 **Volunteer or employee screening checks** (criminal and financial background checks, fingerprinting, clearance, etc.) This must be a direct operating expense to the contract.

8.8.4 **Staff travel** - This must be a direct operating expense to the contract.

8.8.5 **Bonuses.**

8.8.6 **Holiday Incentives** (gift cards, baskets, contracts, prizes, etc.)

8.8.7 **Memberships to gyms or health clubs.**

8.8.8 **Transportation Benefits.**

Montgomery County Procurement Regulations or Montgomery County, MD Code Chapter 11B

Montgomery County Administrative Procedures - Non-Local and Travel Guidelines

For specific treatment of the selected items of costs, refer to the Federal OMB Circular A-122.

8.9 Suggested Support Documentation for Indirect and Fringe Costs

8.9.1 Every organization may have a different methodology for preparing their indirect and fringe rates. Below is a summary list of suggested documentation to be provided to your CM who will submit to CT for review and evaluation.

8.9.1.1 Latest Audited Financial Statements

8.9.1.2 Trial Balance for the latest Audited Financial Statements.

8.9.1.3 Unaudited financial statements for the period from the last audited financial statement to the submission of the indirect or fringe rate.

8.9.1.4 List of expenditures included in the fringe and indirect rates.

8.9.1.5 Indirect Cost Methodology and spreadsheets to support the indirect cost calculation.

8.9.1.6 Invoices for health, dental and life insurance and payment information.

8.9.1.7 SUTA and FUTA tax returns and/or letter for the experience rate and payment information.

8.9.1.8 Retirement contributions by the employer.

8.9.1.9 Employee Handbook describing the Employer's benefits for insurance, retirement and employee's leave, paid holidays and other benefit information or other similar documentation. The

Handbook or other document should note the percentage of the employer's and employee's share of the fringe benefits.

8.9.1.10 Any other documentation to support indirect or fringe costs.

EXHIBIT I

DEPARTMENT OF HEALTH and HUMAN SERVICES
Indirect Cost and Fringe Rate Approval

Contractor:		Prepared by:	
Contract Number:		Date:	
Contract Period:		Contract Amt.:	
Contract Monitor:		Service Area:	

SUBMITTED BY CONTRACTOR			**RECOMMENDED FOR APPROVAL BY CT**	
INDIRECT RATE	**FRINGE RATE**		**INDIRECT RATE**	**FRINGE RATE**

Recommend the above rates for approval:

Compliance Team Manager Date

_____ Approval

_____ Disapproval

DHHS Chief Operating Officer Date