

	Montgomery County Government Department of Health and Human Service	No.	ACCP-1 A
	Allowable Contract Cost Reimbursement Policy	Effective Date	REVISED July 1, 2019
		Sunset	Indefinitely
		Revision Letter	A
		Raymond L. Crowel, Psy.D., Director	

TABLE of Contents

1.0	Purpose.....	3
2.0	Definitions.....	3
3.0	Scope.....	6
4.0	Policy	6
5.0	Procedures for Contractor’s Submission of Indirect and Fringe Rates.....	13
6.0	List of Allowable Costs for DHHS Contractors	13
7.0	List of Unallowable Costs for DHHS Contractors	25
8.0	Suggested Support Documentation for Indirect and Fringe Costs.....	27
9.0	Responsibilities.....	28
10.0	Document Approvals	29
11.0	TABLE OF SUPPORTING DOCUMENTATION REQUIREMENTS FOR ALLOWABLE DIRECT COSTS.....	30
12.0	TABLE OF SUPPORTING DOCUMENTATION REQUIREMENTS FOR ALLOWABLE FRINGE COSTS.....	35
13.0	Reference Documents	37
14.0	Montgomery County Department of Health and Human Services Indirect Cost and Fringe Rate Approval.....	38

1.0 Purpose

To establish a Department of Health and Human Services (DHHS) cost reimbursement policy regarding contractor costs, including those for salaries, fringe benefits, indirect costs, and direct costs, for which reimbursement by the County to a contractor is allowable or unallowable.

2.0 Definitions

The following definitions are listed for ease of reference in designating the term noted below, but do not replace definitions otherwise set forth by applicable Federal, State or local law.

- 2.1 **Based Budget Contract** – contracts proposed by HHS as sole source where there is only one vendor able to provide the service. Justification must be approved by Office of Management and Budget and the authority to enter into a based budget contract is given by the County Council. There is no dollar value limit.
- 2.2 **Compliance Team (CT)** - DHHS unit that provides a central point for coordination and responsibility for activities that promote accountability, integrity, and efficient use of public resources; ensures adherence to County, state and federal laws; provides technical support to staff and contractors on contract compliance and other technical issues on the adequacy of internal controls; and coordinates external audits and audit responses.
- 2.3 **Contract Management Team (CMT)** – DHHS staff responsible for the majority of DHHS' procurement actions: trains and supports 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.
- 2.4 **Chief Operating Officer (COO)** - DHHS employee responsible for overseeing financial and business activities of DHHS.
- 2.5 **5+ Contractor Group** - A Contractor identified, by the DHHS Director, as having five or more cost reimbursement contracts that are subject to monthly random monitoring to submit their support documentation to their Contract Monitor.
- 2.6 **Contract Monitor (CM)** – DHHS employee responsible for overseeing that a contractor is complying with the terms and conditions of its contract with the County.

-
- 2.7 **Cost Reimbursement Contract** – A County contract under which a contractor is reimbursed for costs that are allowable, and a fee, if any. See Montgomery County Procurement Regulation 2.4.29. This includes DHHS Non-Department Contracts.
- 2.8 **Department of Health and Human Services (DHHS)** – The Montgomery County Department, MD of that name, as currently defined in the Montgomery County Code § 2-42A.
- 2.9 **Direct Operating Costs** – Contractor’s salary, fringe and other costs that are directly applicable to a DHHS project or activity described in the scope of a contract in a given fiscal year.
- 2.10 **Fair Labor Standards Act (FLSA)** - The Fair Labor Standards Act of 1938 (also referred to as the Wages and Hours Bill) is a federal statute of the United States. The FLSA introduced a maximum 44-hour, seven-day workweek, established a national minimum wage, guaranteed 'time-and-a-half' for overtime in certain jobs and prohibited most employment of minors in "oppressive child labor," a term that is defined in the statute. It applies to employees engaged in interstate commerce or employed by an enterprise engaged in commerce or in the production of goods for commerce, 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. According to the Act, workers must be paid a minimum wage and overtime pay equal to at least one-and-a-half times regular pay. Children under eighteen cannot do certain dangerous jobs, and children under the age of sixteen cannot work.
- 2.11 **Federal Insurance Contribution Act (FICA)** - An employer and an employee pay a percent of total earned income up to annual limit into the Social Security Fund and an additional percentage must be paid into the Medicare Fund. An employer pays 50% of the FICA and Medicare Taxes.
- 2.12 **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.
- 2.13 **Fiscal Team (FT)** – DHHS unit responsible for overseeing the financial transactions of 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 revenue, fee collections and medical billing, managing claims for federal Medicaid and Social Services programs, overseeing P-cards, and performing fiscal year-end closing activities.
- 2.14 **Fiscal Year (FY)** – Period for which an organization settles its accounts to provide its financial or tax position, which is normally twelve (12) months. 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 through June 30.

-
- 2.15 **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. See Montgomery County Procurement Regulations 2.4.45.
- 2.16 **Fringe Benefit Costs or Fringe Costs** – A fringe benefit is a form of pay by an employer to its employee (including property, services, cash, or cash equivalent), in addition to stated salary or wages, for the performance of services. Some forms of additional compensation are specifically designated as “fringe benefits” in the Internal Revenue Code; other fringe benefits such as moving expenses or awards are addressed by statutory provisions. IRS considers some fringe benefits as taxable and others as non-taxable income. A. See Section 8.0 of this Policy for a list of reference documents. For purposes of this Policy, while fringe benefit costs may be either direct costs or indirect costs, they are noted in a contract as a separate item for which a rate is determined based on a percentage of direct costs.
- 2.17 **Non-Department Account Letter Contract (NDA)** – are contracts funded by general funds and approved by County Council or County Executive through an application process for specific scopes of work defined in the Fiscal Year Council Resolution. NDA Letter Contracts are \$30,000 or less and their format has been pre-approved by the Offices of Procurement and County Attorney.
- 2.18 **Indirect Costs** – Contractor costs that are directly applicable to more than one project or activity. The precise cost cannot be easily traced to a project or activity. For purposes of this Policy, indirect costs related to a contract are reflected as a rate that is determined based on a percentage of total direct costs.
- 2.19 **Qualification and Selection Committee (QSC)** – A committee established by a Using Department for the purpose of evaluating responses submitted by offerors in connection with a Request for Proposal (RFP) or a Request for Expression of Interest (REOI). Each member of the QSC must be an employee of a public entity, unless specific authorization is obtained from the CAO for another to serve on the QSC. Unless otherwise provided in the procurement regulations, the committee must be composed of an odd number of members and must have at least three members. See Montgomery County Procurement Regulation 2.4.79 and 4.1.2.4.
- 2.20 **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.
- 2.21 **Program reports** – Written documents prepared by a Contractor to summarize the status of its performance in providing contractual services, including statistical information, client served, activities held related to the scope of work, etc. Program reports may be required under the contract.
- 2.22 **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. See Procurement Regulation 2.4.82.

3.0 Scope

This Policy applies to all DHHS contractors or potential vendors with cost reimbursement contracts. Vendors are required to submit indirect and fringe cost information during the DHHS contract negotiation process, at the time of contract execution, and at the time of future contract modifications (i.e., annual contract renewal) that affect the contractor's budget for any contract for which it seeks cost reimbursement. Also, this Policy applies to the type of supporting documentation required for contractors to submit to their contract monitors on a monthly basis.

4.0 Policy

4.1 General policies

- 4.1.1 All expenses billed to the contract must be reasonable and aligned with the scope of work defined in the contract and must be included in the contract budget or required under the scope of work.
- 4.1.2 Each contract is expected to be a fair, arms-length, and equitable agreement between DHHS and a contractor regardless of the number or type of other contracts that may exist between DHHS and that contractor.
- 4.1.3 Contractor must deliver required program reports to the Contract Monitor (CM) before DHHS may issue a payment to the contractor.
- 4.1.4 Contractor must include in its contract budget form a description of each budget category and general budget line item and include the indirect cost and fringe cost rates.
- 4.1.5 Contractor must submit monthly supporting documentation for its invoice and proof of payment to the CM unless contract states otherwise.
- 4.1.6 Contractor's proposed indirect and fringe rates must be substantiated through historical data (two years of financial records) and projections

must be reasonable, justifiable, verifiable, and consistent (i.e., methodologies applied from one period to the next).

- 4.1.7 CT performs an annual review of the Contractor's audited financial statements to assess the organization's financial health and to review their current indirect and fringe rates for changes from the prior fiscal year.
- 4.1.8 If the current, audited financial statement's indirect or fringe rates changes by 1% from the current indirect or fringe rate on their contract budgets, CT may request the Contractor to submit a contract budget modification to reflect the current, indirect or fringe rates. The 1% change can be less or more of the current indirect or fringe rate.
- 4.1.9 A Contractor that does not have audited financial statements is required to submit documentation to support its indirect costs (e.g., general ledger, financial statements, spreadsheets, etc.) before the contract is executed or renewed by Montgomery County.
- 4.1.10 Contractor's financial documents will be maintained in a restricted file with limited access. The information will be available to the DHHS CMT, CM and CT.
- 4.1.11 Contractors must apply the indirect cost rate uniformly to all their DHHS contracts unless the contract is funded by State or Federal grant funds. Then, the Federal or State provisions apply for the indirect cost rate.
- 4.1.12 Grant writing costs directly related to performing the contract's scope of services which it specifically requires the contractor to seek and obtain grants to support the scope of work in the contract are allowable costs for salary, fringe and direct operating expenses.
- 4.1.13 Legal costs directly related to performing the contract's scope of services which it specifically requires the contractor to provide legal services to clients are allowable costs to the contract. However, the legal services cannot be used to sue the County in any way.
- 4.1.14 Funder's conditions of award or notice of grant award may restrict the percent of indirect or fringe costs that a contractor can bill and be reimbursed by the County.

4.2 Indirect Costs

- 4.2.1 Contractor must identify one of the four following options in establishing the contractor's indirect costs. With any of the four methods described in this section, the indirect costs rate will be capped at 15% for **County funded contracts**.

- 4.2.1.1 **Contractor, without a federally or DHHS approved indirect rate,** must invoice and submit supporting documentation monthly to DHHS for its

- actual indirect costs. Contractor must provide justification on the method of allocating or prorating the indirect costs.
- 4.2.1.2 **Contractor, with federally-approved rates for a County funded contract,** may submit the contractor's federally-approved annual indirect cost rate to DHHS for its contracts. However, DHHS will cap the most recent federally-approved indirect cost rate at **15% for County funded contracts** and compensate contractors for only the identified allowable costs in this Policy, which must also be described in the contract.
- 4.2.1.3 **Contractor, with federally funded contracts and an approved federal indirect rate,** must submit to DHHS the contractor's Federally approved rate letter. DHHS will accept the federally approved rate **without reduction** for contracts with Federal funding in accordance with Federal OMB Uniform Guidance, 2 CFR 200. Additionally, Federal guidelines require DHHS to allow for first time contractors which never had a Federally approved indirect rate to have a **10% indirect rate** of modified total direct costs as defined in the Federal OMB Uniform Guidance.
- 4.2.1.4 **Contractor, with a State grant funded contract, is allowed a 10% de minis indirect rate for total modified direct costs in accordance with Maryland State Senate Bill 1045 effective October 1, 2018.** Total modified direct costs are defined in the Federal OMB Uniform Guidance.
- 4.2.1.5 **Contractor that wants to establish an indirect rate with DHHS** must submit supporting documentation to establish an annual indirect cost rate as allowed by this policy. Each Contractor must calculate its indirect cost rate based on total allowable indirect costs divided by total allowable direct costs.
- 4.2.2 There are some federal/State/Other grants that restrict the amount of indirect costs to be reimbursed to a contractor. DHHS must follow these restrictions in reimbursing the contractor the indirect costs when using these grant funds.
- 4.2.3 When contractor bills the County, the indirect costs are calculated on the direct salary, direct fringe and direct operating costs. DHHS calculates indirect costs as the rate times the total of contractor's

direct costs, which include salary, fringe benefits, and other direct operating costs. See Table below.

Contractor's Total Annual Allowable Indirect Costs per the budget	\$30,000
Contractor's Total Annual Allowable Program Costs or Direct Costs per the budget	\$200,000
Annual Indirect Rate Calculation by DHHS	\$30,000 Divide by \$200,000
Indirect Rate	15%

- 4.2.4 Expenses included in the calculation of the indirect cost rate must **not** be included as **direct costs** in the contract budget.
- 4.2.5 Conditions of award or Notice of Grant Award (NGA) imposed by a non-County provider of funds for the contract may restrict the percent of fringe cost rates that a contractor may bill the County.
- 4.2.6 DHHS Compliance Team will review the contractor's indirect cost rate information to determine its sufficiency and completeness.
- 4.2.7 Contractor may be reimbursed by the County for its administrative costs through charging an indirect rate. Indirect costs are considered administrative 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.) and the costs to support the administrative personnel including organizational wide training such as workplace harassment, FMLA, etc.

4.3 Fringe Costs

- 4.3.1 The types of fringe costs DHHS may reimburse are the contractor's share of retirement, social security tax, Medicare tax, disability, health, vision and dental insurance, workers' compensation and unemployment insurance.
- 4.3.2 A contractor may include employee's leave or paid time off as part of the cost of fringe benefits which may include holiday, sick, annual leave or employee's paid time off. The amount may be included as a fringe cost only if it has not been included in the salary cost.

- 4.3.3 DHHS will reimburse the contractor for the allowed fringe costs proportion to the time spent on the contract (FTE – Full Time Equivalent).
- 4.3.4 A contractor’s fringe costs must be calculated on an annual basis based on its year to date information from the contractor’s accounting records for the total allowable fringe costs and the contractor’s total annual total salaries for all employees.
- 4.3.5 The contractor divides the total allowable fringe costs by the total salaries for all employees to arrive at an organizational-wide fringe rate.
- 4.3.6 Contractor’s Fringe Rate Calculation:

Contractor’s Total Annual Allowable Fringe Costs for all Employees per the budget	\$50,000
Contractor’s Total Annual Salaries for all Employees performing under the contract	\$200,000
Annual Fringe Rate Calculation	\$50,000 Divide by \$200,000
Fringe Rate	25%

- 4.3.7 On the contract budget, the fringe costs are calculated by multiplying the annual salary times the FTE times the established fringe rate.
- 4.3.8 On the contract invoice, the fringe costs are calculated by multiplying the monthly, actual contract salary expenses times the established fringe rate.
- 4.3.9 Conditions of award imposed by a non-County provider of funds for the contract may restrict the percent of fringe cost rates that a contractor may bill the County.
- 4.3.10 DHHS Compliance Team is responsible for the review of the contractor’s fringe rate information to determine its sufficiency and completeness.

4.4 Restrictions and Limitations

- 4.4.1 The contractor must submit acceptable documentation for its indirect and fringe rates by September 30 of each fiscal year to

the DHHS Compliance Team if there is a change in the indirect or fringe rates. Acceptable documentation is defined in this Policy. If contractor has not submitted any documentation for its indirect rate or fringe rate by September 30, the indirect and fringe rate will remain the same for the upcoming fiscal year.

4.4.2 DHHS Compliance Team will review the documentation for the indirect and fringe rates for its completeness and sufficiency. After CT's evaluation of the rates' documentation, it will recommend to the DHHS COO for approval or disapproval of the rates. The DHHS COO's approval or disapproval will be forwarded to CM and CMT for their records. The information must be available in the CM file in case of an internal review or external audit.

4.4.3 After the 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 period as identified in the contract section except in extenuating circumstances. The contract term is defined usually as a twelve (12) month period in most cases. There are exceptions when the contract commences during the middle of the fiscal year. The indirect and fringe rates would remain the same during the contract term.

4.4.4 If an external audit (audit conducted by an authorized governmental unit, including the State, federal government, 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. In cases where DHHS has specifically approved the indirect rates and fringe rates through a separate review by its Compliance Team, and through approval by the DHHS COO, the County may choose not to require the contractor to repay any amounts that may appear to be an overpayment.

4.4.5 If a Contractor failed to repay DHHS the overpayment amount within 30 calendar days, DHHS and contractor must develop a repayment plan that may include withholding a portion or all of the payments from a future Contractor's invoices up to the overpayment amount.

4.5 In order to be eligible for cost reimbursement by the County, a contractor's direct costs must be adequately documented and meet the following general criteria:

4.5.1 Be ordinary, necessary, and reasonable for proper and efficient performance and administration of contracts.

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.
- 4.5.2 In determining reasonableness of a given cost, consideration shall be given to:
- 4.5.2.1 Whether the cost is of a type generally recognized as ordinary and necessary.
 - 4.5.2.2 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.
 - 4.5.2.3 Market prices for comparable goods or services.
- 4.5.3 Be applicable to contracts.
- 4.5.3.1 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.
 - 4.5.3.2 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.
- 4.5.4 Be authorized and/or not prohibited under Federal, State or local laws or regulations.
- 4.5.5 Conform to any limitations or exclusions set forth in this policy statement, Federal laws, terms and conditions of the contract, or other governing laws or regulations as to types or amounts of cost items.
- 4.5.6 Be treated consistently. A cost may not be assigned to a contract as a direct (including fringe) cost if any other cost incurred for the same purpose in like circumstances has been applied to the contract as an indirect cost or vice versa.
- 4.5.7 Except as otherwise provided for in this policy, be determined in accordance with generally accepted accounting principles.
- 4.5.8 Reflect only actual expenses.

5.0 Procedures for Contractor's Submission of Indirect and Fringe Rates

- 5.1 All DHHS contractors with cost reimbursement contracts are to submit documentation for their indirect and fringe rates at the time of contract execution or at contract renewal if the fringe and indirect rates have changed. Vendors who bid on cost reimbursement, fixed cost, or requirement contracts are required to submit this documentation to support the indirect cost to the DHHS Negotiations Team and may need to submit supporting documentation to confirm the indirect cost to the Cost for review, at the time of contract negotiations.
- 5.2 CT reviews and evaluates the information submitted for the fringe and indirect rates for sufficiency, compliance with this Policy and the adequacy of documentation to support the proposed indirect and fringe rates. After CT's evaluation of the supporting documentation, CT will recommend approval or disapproval of the indirect and fringe rates to the DHHS COO by preparing a form for the COO approval. See Exhibit A.
- 5.3 DHHS COO approves or disapproves the indirect and/or fringe rate and returns to CT for dissemination to CM and contractor.
- 5.4 CT disseminates the approval form to contractor, CMT and CM.
- 5.5 Contractor must provide the documentation for the indirect and fringe costs to the CM or CT or the DHHS Negotiations Team.

6.0 List of Allowable Costs for DHHS Contractors

6.1 Salary Costs and Required Supporting Documentation Requirements

- 6.1.1 **Salary** 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

Timesheet reports are required that time sheets to be submitted to the CM for each employee on the contract accompanied by a corresponding payroll documents. These hours reported on the time sheet should delineate the activities related to the specific contract and hours devoted each day to the contract where possible. For Federal or State grant funded contracts, this is mandatory. If an employee's

time is devoted to the contract becomes questionable, a brief summary of the activity performed each day may be requested by the CM. Both employee and supervisor must approve the time sheet. The approvals can be done **electronically**, and CM can inspect the electronic approval process during their site visit. The timesheet and payroll information must correspond for the same time period.

Contractors must **notify the CM prior to billing for a new employee who is now occupying an approved budgeted contract position.** The CM may request the employee's resume to determine if the new employee meets contract requirements.

- 6.1.2 **Overtime** may be included in the contract line item budget in extenuating situations when overtime is needed to provide the services in accordance with the contract's terms and conditions, for example, operating a 24/7 residential facility. Overtime incurred above and beyond budgeted amounts must be justified by the contractor and approved by the contract monitor. It is expected that overtime use above and beyond budgeted amounts will occur only under **exceptional circumstances.**
- 6.1.3 **Leave Pay Out** can only be approved by the contract monitor up to eighty (80) hours times the employee's FTE if there is sufficient funds available in the contract budget to pay the leave. The funding source for the contract must be **County general funds.** Grant funded contracts are not allowed to bill for leave pay outs or for severance pay. Also, the fringe rate must not include paid leave as a reimbursement to the contractor if a contractor is requesting a leave pay out.
- 6.1.4 **Bonus Pay** to an employee may be approved by the contract monitor if there are sufficient funds available in the contract budget and it is based on a defined employee performance policy that describes the situations when a bonus would be earned by the contractor's employee. The contractor's policy must be submitted to the contract monitor prior to the bonus payment approval. The contractor is prohibited from using excess funds from the contract to pay for employee bonuses without having a defined employee performance policy. Bonus pay must only be paid based on the employee's FTE on the contract budget. If an employee is charged 50% of their time to the contract, then, only 50% of the bonus can be paid from the contract. The contract must be funded by County general funds. The NGA or conditions of award may prohibit paying a bonus to the contractor's employee.

- 6.1.5 **Montgomery County Safe and Sick Leave Policy** must be followed by all contractors. Contractors must have a written policy which adheres to the current County law (Montgomery County Code Chapter 27 – Human Rights and Civil Liberties, Section 27-7 and 27-8).
- 6.1.6 **Montgomery County Minimum Wage** must be paid by all providers who are not exempt for the current fiscal year. For FY 19, the County Minimum Wage amount is \$12.00 per hour for employers with 50 or less employees and \$12.25 for employers with 51 or more employees.
- 6.2 **Allowable Fringe Costs and Supporting Documentation Requirements**
- 6.2.1 **Employer’s share of retirement.** Contractor’s supporting documentation must include Employee Handbook, Fringe Report and Payments to Retirement Trustee for each employee.
- 6.2.2 **Employer’s share of healthcare coverage including dental and vision insurance.** Contractor’s supporting documentation must include a copy of the relevant invoice from the Health Care Insurer and the Fringe Report for each employee.
- 6.2.3 **Employer’s share of employment taxes (FICA, Medicare, SUTA, and FUTA).** Contractor’s supporting 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.
- 6.2.4 **Employer’s share of long-term and short-term disability insurance (LTD/STD).** Contractor’s supporting documentation must include an invoice from the provider and payment documents for each employee.
- 6.2.5 **Employer’s share of other insurance coverage (Life, Accidental Death & Dismemberment, Long-term care, etc.)** Contractor’s supporting documentation must include an invoice from the provider and payment documents for each covered employee.
- 6.2.6 **Employer’s share of Worker’s Compensation –** Contractor’s supporting documentation must include an invoice from the provider and payment documents for each employee.

6.3 **Holiday, Vacation and Sick leave or Paid Time Off Reimbursement:**

6.3.1 There are two methodologies where contractor may recoup contract expenses for their employees' paid time off.

6.3.1.1 **Employee Leave Reimbursement Through Fringe Cost Invoicing** - The contractor may include vacation, sick or holiday leave hours in the fringe rate calculation if contractor bills the County salary costs for an employee's time devoted to DHHS' 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 departure from employment with contractor, any leave pay out is taken from the contractor's own fringe expenses and not billed to the County. The contractor would have previously received reimbursement for the leave payout through its monthly billing to the County each month as part of the fringe costs.

6.3.1.2 **Employee's Leave (Paid Time Off) Reimbursement through the Salary Invoicing.** Contractor must bill the County a prorated portion of an employee's leave based on the employee's FTE on the contract. If the contractor has a policy to pay out accrued leave upon an employee's departure or separation from employment with contractor and the leave pay out is accrued in the contractor's own fringe expenses, leave pay out must not be billed to the County.

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

6.4.1 **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. In this section, it refers to the contractor's employees or staff which includes consultants, volunteers and interns, where volunteers and interns are allowed under the Contract scope of work.

6.4.2 **Direct Operating Costs for employees** – such costs as computer, background check, staff development, parking, commuter costs, travel costs, etc. will only be reimbursed by the County up to the employee's FTE on the contract budget.

the County up to the employee's FTE on the contract budget. However, if an employee is newly hired and is working full time on the contract but their FTE may be less depending on the hiring date, then, the full cost of the employee's expense may be reimbursed by the County. There may be other exceptions approved by CM and OCOO on a case by case basis.

For example, John is hired as a full-time employee on January 1 of the fiscal year and the contract ends June 30 of the same fiscal year. The FTE on the contract budget would be 50%. In this example, the employee's equipment cost could be charged 100% to the contract because John is a full time employee to this contract but in the first year of the contract, his annual salary will only be charged 50% to the contract because of his hiring date.

6.4.2.1 Consultants or subcontractors – Each consultant must be separately identified on the contract budget. 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 may reimburse the contractor (prime). The subcontractor contract must be approved by the Board or other appropriate personnel of the organization who has the authority to enter into contracts by their signature on the agreement. A 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 prime and subcontractor must both provide the supporting documentation for their invoices. The subcontractor must be in compliance with the prime Contractor's Terms and Conditions with the County which is a requirement in the County's General Terms and Conditions.

Alternately, a consultant or subcontractor agreement could be based on a task order where certain deliverables for a certain price must be submitted to the County and accepted by the CM before payment could be authorized by CM. A consultant does not receive fringe benefits from the prime contractor.

As a reminder to the contractor, it is the responsibility of the contractor to properly classify their employees and independent contractors. If

the consultant is misclassified and is later deemed an employee by an IRS determination, the County is not responsible for any IRS imposed penalties or interest related to the misclassification of the Contractor's staff.

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

6.4.2.2 **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 it paid the invoice in the amount for which it seeks reimbursement. The training must be related to the contract's scope of services. Proof of payment must also be provided to the CM.

6.4.2.3 **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 (within 75 miles of Montgomery County) or Non-Local Travel (outside a 75-mile radius of Montgomery County) must be included in the contract budget. Supporting documentation must include business purpose of the travel, invoices, mileage logs, hotel and restaurant receipts, and payment information. Contractor 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. Per diem costs are based on the Federal General Services Administration (GSA) rates. These rates reduce the meals served at conferences and have a reduced first day and last day per diem. Travel expenses must be itemized and must be directly related to the contract's scope of work. Entertainment costs during travel are **not** reimbursable. If the contract is Federally grant funded, it must follow the **GSA rates**.

Travel costs will only be reimbursed by the County at the coach or economy rate in accordance with the GSA regulations.

6.4.2.4 **Rent** – Rent costs associated with the contract’s scope of services. A copy of the lease and proof of payment, as well as justification for any allocation or proration of the rent based on square footage related to the contract usage. Proration methodology must be established by the contractor at the beginning of the contract fiscal year. Any administrative portion of the rent and associated costs for which contractor seeks reimbursement must be included in its indirect costs.

6.4.2.5 **Facility Costs** – the costs to operate a facility to perform a contractor’s scope of services. This may include the cost of a mortgage payment in lieu of rent, real estate taxes, utilities, maintenance, landscaping, etc. may be allowable costs when the cost is to have a location to conduct the contract scope of services. The contractor must show that the property is needed to perform the work as stipulated in the contract.

The facility cost must be separately identified in the justification column of the contract budget and should be supported by invoices, receipts, or other documentation such as square footage of the location to perform the services and the total square footage of the facility. If the costs are allocated to the contract, the allocation methodology must be documented and submitted to the contract monitor annually.

6.4.2.6 **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 must be provided. The method of allocation must explain the justification for the organization’s charge for utilities and how it serves the contract’s scope of services. Any administrative portion of the utilities cost for which contractor seeks reimbursement must be included in its indirect costs.

6.4.2.7 **Communications** – Only communication costs directly related to the contract scope of work such as telephones, cell phones, pagers, internet, etc. are

allowable costs to the contract. 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 and cell phones). Allocation justification and proof of payment are required for submission by the contractor. Contractor's cell phone policy should be submitted to the CM at the commencement of contract.

DHHS will only reimburse the cell phone costs up to the employee's FTE on the contract.

- 6.4.2.8 **Food (Supplies)** – Food must be limited to the clients or program participants served by the contract's scope of services. It should be kept to a minimum. For example, food for staff meetings is **not** an allowable cost to the contract. Receipts, invoices, sign in sheets and other documentation must be kept, and must include the identity of participants or clients receiving the food. Proof of payment must accompany request for reimbursement.
- 6.4.2.9 **Maintenance** – Repairs or other costs of keeping building, machinery, copiers, etc. related directly to the contract scope of work in working order. The maintenance invoice must contain description of services performed, the location of the services performed and proof of payment by the contractor. These costs must be directly related to the scope of services in the contract.
- 6.4.2.10 **Equipment under \$5,000** – Contractor costs 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 by the contractor, updated annually and submitted to the CM. DHHS will only reimburse the cost of the equipment up to the FTE on the contract budget in most cases. There could be a business reason to justify the County to pay for the full cost of a lap top or computer, etc. but must be decided on a case by case basis.
- 6.4.2.11 **Gift Cards** – are highly negotiable instruments. A contractor must have the contract monitor's approval before purchasing a gift card. Recommend sparingly using gift cards for program needs and maintaining the cards in a secure location with restricted access. Programmatic needs may consist of emergency client services for food, clothing, medicine, etc., and for

client incentives for reaching milestones in meeting programmatic requirements such as a client attending specified recovery training. A contractor must **not** use gift cards to compensate a **volunteer** or employee. A contractor must establish **written gift card policies and procedures** on the eligibility, the accountability, and the distribution of gift cards.

The contractor must submit with its invoices the purchases, distribution, and remaining balance of gift cards before CM may authorize reimbursement of these expenses. Records of those receiving gift cards and the reasons for the distribution must be kept by the contractor and be submitted to the CM at the time of invoicing DHHS. Gift Card logs must contain the following information:

- Recipient's name and signature
- Date recipient received 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 card which must include the gift card serial number and denomination purchased. Contractor must maintain only minimal gift card inventory to avoid any mishandling of this asset. Inventory should last only a maximum of ninety (90) days. The contract budget must include the dollar limit on the gift card value and the total dollar limit for a gift card.

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

- 6.4.2.12 **Insurance (Business)** – Contractors are required to have their insurance coverage at the contractor's expense prior to entering into a contract with the County. Insurance costs are only reimbursable when permitted by the contract and approved by Risk Management. If the County Council approves a Council grant budget with insurance costs as part of the contract costs for non-competitively bid contracts, the County will reimburse the contractor for those insurance premiums prorated to the County contract only. If approved by the County a contractor is to submit a copy of the insurance document, proration method and proof of payment to the CM for reimbursement.

- 6.4.2.13 **Office Supplies** – Contractor must provide copy of the invoice and proof of payment for any office supplies for which it seeks reimbursement. The supplies must be directly related to the scope of services in the County 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.
- 6.4.2.14 **Program Supplies** must provide invoice and proof of payment. Also, include the activity or event that the program supplies will be used which relates to the scope of services and identify the names of the event participants. Contractor can write on the receipt(s) the event or program that the supplies will be used.
- 6.4.2.15 **Postage and Printing** – Contractor must provide a copy of the invoice and proof of payment for any postage and printing for which it seeks reimbursement. The postage and printing must be related to the contract's scope of services. Any proration of expenses must be justified by the contractor.
- 6.4.2.16 **Stipends** – Contractor must provide the name of a person receiving a stipend, amount of stipend, and validation that the individual, eligible for the stipend, has met the contract or program requirements and proof of payment. A stipend is payable only for work directly related to the scope of work under the contract. A stipend is considered by the IRS to be compensation to whomever receives the funds. Contractor must comply with applicable IRS regulations.
- 6.4.2.17 **Background Checks** - Contractors must establish a background check policy in accordance with the DHHS Background Check Policy for those serving vulnerable populations. The policy must be available to the CM for their inspection and review. The costs of the employee's, volunteer's, and other staff's background checks may be included as a direct operating line item cost in the contract budget up to the staff's FTE on the contract.
- 6.4.2.18 **Volunteer Expenses** - Volunteer expenses may be included in the contract budget if the volunteer services are entirely or significantly support the contract's scope of services. Examples of volunteer expenses that are allowable are **mileage reimbursements** for volunteers taking clients to

appointments or for the volunteer's background checks costs. These expenses are only allowable if there are sufficient funds available in the contract budget and the expenses are specifically listed in the contract budget which have been approved in advance by the contract monitor.

6.4.2.19 **Specialized Certifications** – if a contractor is having difficulty hiring a qualified candidate with a specialized certification required by the contract's scope of service, on a case by case basis, DHHS will consider as an allowable cost to secure the specialized certification. There must be sufficient funding in the contract budget to support the certification cost and the cost for specialized training must have prior approval of CM and DHHS COO.

6.4.2.20 **Employee Parking** – is allowable as direct operating costs. The County will only reimburse a contractor up to the employee's FTE on the contract budget. County will only reimburse up to the County's rate for monthly sticker cost at the County garages. At the time of this writing, the rate is \$150 but it may change in the future and the increase or decrease would be allowable. These costs will only be allowed if there are sufficient funds available in the contract to perform the scope of services and reimburse employees for parking.

6.4.2.21 **Transportation benefits** – Contractors must seek out benefits available from the County Department of Transportation and Maryland State resources before requesting any reimbursement of transportation benefits from DHHS. The reimbursement to contractor is based on the FTE listed on the contract budget. For example, an employee works 50% of her time on the contract. The County will only reimburse the Contractor up to \$75 ($\$150 * 50\%$ FTE) for that month. The \$150 amount is based on the County's monthly rate for their parking garages in FY 19. The rate may change in future years and DHHS will reimburse contractor at the future rate if County funds are available. These expenses are allowable if there is sufficient funding available in the contract budget to perform the scope of services and reimburse employee commuter benefits. A contractor's employee must only be reimbursed for one type of commuter expenses - parking or transportation and not both.

Contractor must have an employee policy to govern these benefits that are in compliance with Internal Revenue Regulations.

6.4.2.22 **Allocation Method** – For many expenditures, Contractor will spread an expense among several contracts or cost centers such as telephone and rent. For each expense that is spread among contracts or cost centers, the Contractor must provide their methodology for spreading the costs among the contracts and cost centers. For example, a County contract occupies a portion of the building which the Contractor rents. The contractor must provide how the rent expense was determined for the County contract. Is it based on the number of FTEs on the contract or the square footage of the space occupied by the County program? Allocation methods should be straight forward and simple. If the allocation method is the same for each monthly invoice, it should be provided for the first invoice for the contract term. If the methodology is calculated monthly by the contractor, the methodology must be submitted to the contract monitor monthly with the contractor's invoice.

Many contractors allocate a portion of their direct operating expenses to the contract budget. When a contractor invoices the County, the allocation methodology for each expense must be documented when submitting the first invoice during the fiscal year. The allocation method should be simple and straight forward such as allocated rent amount to the contract based on the contract's FTEs or the square footage occupied by the program.

6.5 Allowable Capital Equipment Over \$5,000

6.5.1 **Any capital equipment** is usually an asset that has a useful life greater than one year which is reimbursed to the contractor from the contract's funding. Capital Equipment over \$5,000 must be approved by DHHS in advance as part of the contract's budget. At the conclusion of the contract, an inventory of County purchased equipment must be conducted by the contractor and any capital asset greater than \$5,000 must be included in the contract line item budget and be specifically identified in the contract budget which is funded through the contract's compensation amount. 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.

6.5.2 Examples of capital equipment over \$5,000 are as follows:

- Data Processing Equipment
- Vehicles
- Other Machinery or Equipment

6.5.3 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. Contractor must update this list **annually** and submit the inventory **annually** to the CM.

7.0 List of Unallowable Costs for DHHS Contractors

7.1.1 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.

7.1.1.1 Alcoholic beverages

7.1.1.2 Bad Debts

7.1.1.3 Interest expense related to a line of credit.

7.1.1.4 Charitable or Political Donations and Contributions.

7.1.1.5 Depreciation

7.1.1.6 Entertainment costs.

7.1.1.7 Fines and Penalties (tax penalties, traffic violations, late fees, etc.).

7.1.1.8 Goods and services for personal use.

7.1.1.9 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.

7.1.1.10 Costs related to professional fees for **fund raising events.**

- 7.1.1.11 Costs related to **political activities or lobbying costs.**
- 7.1.1.12 Costs of **insurance on the lives of trustees, officers, or similar positions** when the organization is named as beneficiary.
- 7.1.1.13 Costs incurred in connection with **any criminal, civil or administrative proceeding.**
- 7.1.1.14 **Selling and marketing** other than outreach activities specific to the scope of services.
- 7.1.1.15 **Normal professional licenses and memberships** for social workers, nurses, therapists, etc. Unusual or program-wide licenses or memberships may be allowable on a case-by-case basis. This is in line with DHHS practice, since the Department does not pay for its employees' normal licenses but does support Department-wide memberships and a few licenses that employees do not typically maintain on their own.
- 7.1.1.16 **Losses from other contracts.**
- 7.1.1.17 **Investment expenses.**
- 7.1.1.18 **Overtime compensation without prior approval of the County.** Having overtime in the approved contract budget will constitute prior approval.
- 7.1.1.19 **Maryland Sales Tax for Maryland Tax Exempt Organization**

7.2 Unallowable Fringe Benefits

- 7.2.1 **Staff training and development** (seminars, workshops, training, conferences, etc.) This must be a direct operating expense to the contract, or it is not to be reimbursed by the County. Training across the organization such as FMLA, Workplace Harassment, Active Shooter, etc. should be part of the indirect costs to the organization.
- 7.2.2 **Staff employment verification checks** including volunteers, interns, or other staff (criminal and financial background checks, fingerprinting, clearance, etc.) This must be a **direct operating expense** to the contract or it is not to be reimbursed by the County. For **administrative staff**, verification check costs should be part of the **indirect costs** to the organization.
- 7.2.3 **Bonuses as a fringe cost** may be a direct salary cost to the contract if contractor has an Employee Performance Policy in

place which clearly outlines the criteria for issuing a bonus to an employee.

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

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

8.0 Suggested Support Documentation for Indirect and Fringe Costs

8.1.1 Every organization may have a different methodology for preparing its indirect and fringe rates. Below is a summary list of suggested documentation contractor may be required to provide the CM, who then will submit to CT for review and evaluation.

8.1.1.1 Latest Audited Financial Statements.

8.1.1.2 Trial Balance for the latest Audited Financial Statements.

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

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

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

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

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

8.1.1.8 Retirement contributions by the employer.

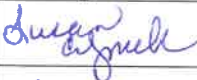
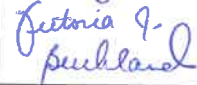

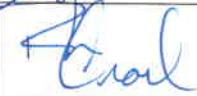
8.1.1.9 Employee Handbook describing the Employer's benefits for insurance, retirement and employee's leave, paid holidays and other benefit information or other similar documentation. The Handbook or other document should note the percentage of the employer's and employee's share of the fringe benefits.

8.1.1.10 Any other documentation to support indirect or fringe costs.

9.0 Responsibilities

- 9.1 The **Director** of DHHS shall ensure compliance with this Policy.
- 9.2 The **Director** of DHHS or designee approves or disapproves the indirect and/or fringe rate.
- 9.3 **Contractor** provides the documentation for the indirect and fringe costs to the CM or the DHHS negotiating team or DHHS Compliance Team.
- 9.4 **Contract Monitor (CM)** provides the documentation for review and evaluation to the Compliance Team for an indirect and fringe rate recommendation to the Director of DHHS or designee.
- 9.5 **CM or DHHS Negotiations Team** sends the indirect and fringe form approved by the DHHS COO to the contractor. See Exhibit A.
- 9.6 **Compliance Team** analyzes the financial data and prepares a recommendation for approval or disapproval of the indirect and fringe rates to the Director or designee approved by the DHHS COO. See Exhibit I for form. Disseminates the approval rates to the CMT, the DHHS Negotiation Team and CM.

10.0 Document Approvals

Role	Position	Name of Approver	Approval Signature	Date Approved
Author	Compliance Team Manager	Susan Cymek		12/2/2019
Office of Chief Operating Officer	Service Area Administrator	Victoria S. Buckland		12/2/2019
Policies and Procedures Department	Policy and Operational Risk Manager	Joy Page		12/12/19
Final Approver	Director of Dept. of Health and Human Services	Raymond L. Crowel, Psy.D. Director		12/11/19

11.0 TABLE OF SUPPORTING DOCUMENTATION REQUIREMENTS FOR ALLOWABLE DIRECT COSTS

Be aware some funding sources may have specific requirements. Please refer to those conditions. Also, be aware sales tax is not an allowable cost for non-profit contractors.

Category	Documentation	Comments
Salary	<ul style="list-style-type: none"> ▪ Payroll records with pay period dates, ▪ Cost center (if applicable) Gross wages ▪ Payroll Deductions. ▪ Time sheets approved by employee and supervisor. 	<p>Timesheets and payroll reports must correspond for the same period of time.</p>
Consultation or subcontractors	<ul style="list-style-type: none"> ▪ Copy of consultant agreement ▪ Specifies work to be performed ▪ Hours ▪ Pay rate ▪ Provide at contract execution and annually. ▪ Alternately, it could be based on a task order where certain milestones must be met by contractor prior to reimbursing the cost for the deliverable. ▪ Subcontractor budget may be required with the same elements of the prime contractor. 	<ul style="list-style-type: none"> ▪ Consultant should be listed on budget as a direct operating costs and not personnel. ▪ Consultant does not receive fringe benefits. Remind contractor of IRS consequences if converting an employee to a consultant status ▪ County will not be liable for the significant penalties.
Staff Development	<ul style="list-style-type: none"> ▪ Agenda – does it meet the scope of services? ▪ Registration form 	

Category	Documentation	Comments
	<ul style="list-style-type: none"> ▪ Certificate of Completion ▪ Proof of payment. 	
Travel - Local	<ul style="list-style-type: none"> ▪ Travel log with staff name ▪ Date of Travel ▪ Origination & destination Use Google or MapQuest printouts to support mileage. ▪ Business Purpose of the travel. 	<p>Organization should use Montgomery County Administrative Procedure 1-5, Local Travel for guidance unless grant conditions of award specify otherwise.</p>
<p>Travel – Non-Local</p> <p>Meetings and Conferences</p>	<ul style="list-style-type: none"> ▪ Prior approval by CM reflecting in contract budget with specific details outlining the cost ▪ Copy of airline ticket, Only coach will be reimbursed. ▪ Proof of payment. ▪ Copy of agenda and how it relates to the scope of services for this contract. ▪ Copy of detailed hotel portfolio. Hotel rates should not exceed General Services Administration (GSA) rates. ▪ Proof of payment. ▪ Copy of restaurant bill proof of payment or use General Services Administration (GSA) – Federal per diem rates based on the locality of the trip. ▪ Request the name of others included on the restaurant bill, 	<p>County does not reimburse for meals included in the conference fee. This should be a rare occurrence with County contracts.</p> <p>Organization should use Montgomery County, Administrative Procedures 1-2, Non-Local Travel for guidance unless grant conditions of award specify otherwise.</p>
Rent	<ul style="list-style-type: none"> ▪ Copy of Rental Agreement ▪ Proof of payment. ▪ Invoices must reflect the prorated rent amount. 	<p>Request annually from contractor.</p>

Category	Documentation	Comments
	<p>Documentation of space usage should be submitted by the contractor at the beginning of fiscal year or commencement of contract.</p> <ul style="list-style-type: none"> ▪ Methodology for allocation ▪ Any changes must be supported by the contractor such as office square footage or other allocation method. 	
Utilities	<ul style="list-style-type: none"> ▪ Copy of utility bills with appropriate proration ▪ Proration should agree with the rental allocation ▪ Proof of payment. 	
Communications	<ul style="list-style-type: none"> ▪ Copy of invoice(s) ▪ Proration method if applicable ▪ Contractor’s cell phone policy for employees ▪ Use is related to the contract scope of services ▪ Proof of payment 	Types of communications: cell phone, telephone land line, pagers, internet, etc.
Food	<ul style="list-style-type: none"> ▪ Food is for clients and program participants only and <u>not for staff meetings.</u> ▪ Copy of invoice or receipt with the purpose ▪ List of participants or sign in sheet. 	Food should only be expenditure in rare situations such as snacks in an afterschool program or in a residential facility; or for participants in meetings held as part of scope of work.
Maintenance	<ul style="list-style-type: none"> ▪ Repairs or other costs of keeping building, machinery, copiers, etc. related to performing the contract scope of services. ▪ Invoice must contain description of services 	

Category	Documentation	Comments
<p>Equipment under \$5,000</p>	<p>performed and location.</p> <ul style="list-style-type: none"> ▪ Equipment must be included in contract budget and relate to the scope of services ▪ Copy of invoice ▪ Proof of payment ▪ Contractor must maintain an inventory of the purchased equipment and submitted annually to CM 	
<p>Gift Cards</p>	<ul style="list-style-type: none"> ▪ Copy of contractor’s Gift card policy ▪ Copy of receipt ▪ Tracking forms for all gift card purchases and distributions ▪ Client form receiving the gift cards acknowledging receipt of the form. ▪ Cards are to be kept in a secure location. 	<p>These are high risk items like cash. High potential for abuse. Tracking purchase and distribution is critical. Use sparingly.</p>
<p>Insurance (Business)</p>	<ul style="list-style-type: none"> ▪ Insurance costs are only allowed when permitted by the contract and approved by Risk Management. ▪ Contractors are expected to have their own insurance at the time of contract execution. 	<p>Please refer to the insurance requirements of the contract to determine if insurance costs are allowable on the contract.</p>
<p>Office Supplies</p>	<ul style="list-style-type: none"> ▪ Copy of invoice, receipt or internet receipt ▪ Proof of payment. ▪ Allocation Method if applicable 	
<p>Program Supplies</p>	<ul style="list-style-type: none"> ▪ Copy of invoice, receipt or internet receipt ▪ Proof of payment. ▪ Allocation Method if applicable ▪ Business purpose ▪ List of participants for the 	

Category	Documentation	Comments
	event.	
Postage and Printing	<ul style="list-style-type: none"> ▪ Receipt ▪ Purpose related to contract’s scope of services. ▪ Proof of payment. 	
Stipends	<ul style="list-style-type: none"> ▪ Name of client receiving stipend and purpose of stipend ▪ Amount per client ▪ Award letter ▪ Proof of payment. 	Stipends are considered compensation by the IRS. Contractors are expected to be in compliance with IRS regulations.
Other	<ul style="list-style-type: none"> ▪ Purpose must be relevant to the scope of services ▪ Name of participants ▪ Invoices or receipts 	

12.0 TABLE OF SUPPORTING DOCUMENTATION REQUIREMENTS FOR ALLOWABLE FRINGE COSTS

Be aware some funding sources may have specific requirements for fringe benefits and may cap the fringe rate. Please refer to those conditions. Also, Employer’s Handbook may be helpful in establishing the fringe benefits offered by the employer. The review of fringe benefit and the fringe rate will be conducted by the Compliance Team. Fringe benefits will be limited to the ones below and those mentioned in this policy.

Category	Documentation	Comments
Employer’s share of retirement	<ul style="list-style-type: none"> ▪ Employee Handbook if available for the employer’s policy on paying for the employee’s retirement amount or other documentation to validate the amount of the retirement which may be based on years of service. ▪ Documentation of payment of the retirement benefit to a Trustee. 	Some employees may not be eligible for retirement until after a certain period of time.
Employer’s share of Healthcare Coverage Including Dental & Vision Insurance	<ul style="list-style-type: none"> ▪ Employer’s invoice or rate sheet for health care choice. ▪ Proof of payment of health insurance. 	
FICA Employer’s Share	<ul style="list-style-type: none"> ▪ IRS Form 941 Quarterly Forms ▪ Other information to support data on Form 941. ▪ Proof of payment 	Current rate is 6.2%
Medicare Tax	<ul style="list-style-type: none"> ▪ Same as above 	Current rate is

Employer's Share		1.45%
Category	Documentation	Comments
FUTA Federal Unemployment Tax	<ul style="list-style-type: none"> ▪ IRS Form 940 ▪ Other information to support data on Form 940 ▪ Proof of payment 	Rates may vary.
SUTA State Unemployment Tax	<ul style="list-style-type: none"> ▪ State Unemployment Tax Form ▪ Other information to support data on the Form ▪ Proof of payment 	Rates may vary.
Insurance: Life Short & Long Term Disability Workers Compensation Accidental & Dismemberment	<ul style="list-style-type: none"> ▪ Invoice from provider ▪ Proof of payment 	

13.0 Reference Documents

Montgomery County Code, Chapter 11B and Code of Montgomery County Regulations (COMCOR) Section 11B, Procurement Law

<http://www.montgomerycountymd.gov/PRO/Laws.html>

[Montgomery County Code, Chapter 27 – Human Rights and Civil Liberties, Section 27-7 and 27-8,](#)

Federal OMB Uniform Guidance 2 CFR 200

<http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf>

IRS Fringe Benefit Guide – January 2019

<http://www.irs.gov/publications/p15b/ar02.html>

Montgomery County, Administrative Procedures, 1-5, Local Travel

Montgomery County, Administrative Procedures, 1-2, Non-Local Travel

EXHIBIT A

**14.0 Montgomery County 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

Intentionally Left Blank

