

**DIVISION OF DEVELOPMENTAL DISABILITIES SERVICES
BUDGET PREPARATION GUIDE FOR RFP HSS-16-006 ACIST**

General Budget Guidelines

Please read these guidelines thoroughly before beginning to complete the budget form.

RFP respondents are required to complete an ACIST Budget Form to determine the appropriateness of proposed agency costs allocated to the ACIST program and to assist DDDS in making cost comparisons among bidders. All costs should be budgeted for twelve months of operation. One-time start-up costs must be reported separately.

TYPES OF COSTS

The total cost of programs is comprised of the allowable program costs, plus the allocable portion of agency administrative costs. Therefore, for purposes of this budget form, ACIST costs are categorized into those two separate and distinct types: Program Costs and Administrative Costs. Definitions of these costs are provided below.

Program Costs

Program costs are defined as those costs incurred in the provision of services to clients (see Cost Category 7 for a further discussion of the difference between program costs and administrative costs of personnel). Examples of program costs include: salaries and applicable other employment costs, travel, contractual services (such as telephone, postage, and rent), supplies, and capital outlay/equipment.

One method of distinguishing administrative personnel from program service personnel is by their proximity to client services. For instance, direct service workers would include staff working with clients and may or may not also include their supervisor, if they spend 100% of their time in supervision. As appropriate, the next level of supervision/management may also be considered as part of the program staff if their principal accountability is related to the direct oversight of the program. All levels of personnel above this level should be considered administrative staff. Full Time Equivalent (FTE) positions should be prorated if they spend time working in multiple programs. Administrative costs should be detailed in Cost Category 7, Administrative Costs.

Certain costs, such as those for space or utilities, can be either administrative or program-related, depending on whether the employee that occupies the space is a program or administrative position.

Administrative Costs

Administrative costs are defined as those costs incurred to provide central support functions to the service components of the program. Administrative costs are those that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature that do not relate solely to any major program area of the organization. In general, administrative costs cannot be readily identified to a specific program objective without effort disproportionate to the results. This category may also include the allocable share of salaries and fringe benefit costs, operation and maintenance expense, depreciation and use allowances, and interest costs. Examples of costs that fit in this category include central office functions, such as the director's office, the office of finance, business services, budget and planning, personnel, payroll, safety and risk management, general legal counsel and management information systems.

UNALLOWABLE COSTS

Costs that may not be used as part of the program budget include:

1. Costs incurred before the effective date or after the termination date of the program.
2. Costs of acquisition, renovation or improvement of facilities or land, unless specifically approved by the DDDS Director in writing and in advance of any work being performed. Ongoing costs of facility maintenance and repair are distinguished from improvement and are allowable.
3. Costs of political activities, including contributions to political organizations and expenses related to lobbying.

In determining the allowability of costs, the department used, *Subpart E of the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, which replaced OMB (Office of Management and Budget) Circulars A-21, A-87 and A-122 Federal Cost Principles on December 26, 2013. A copy of this document is available at the following link:

<http://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1&rgn=div5>

Definitions and Budget Narrative Justification Requirements

The first 6 categories relate to the operation of the program. Administrative costs must be reported under Cost Category #7, Administrative Costs.

Cost Category 1 – PROGRAM SALARIES

Definition: Compensation paid to fulltime or part-time employees of the organization who directly participate in the successful completion of program objectives. (See IRS **Pub. 15-A**, Employer's Supplemental Tax Guide, for more information on how to determine whether an individual providing services is an independent contractor or an employee.)

The percentage of salary allocated to this program for each position should be equal to the proportion of time that that position spends working in the program. Salary costs for staff that perform functions that are only related to the ACIST program for part of the time may be allocated to the ACIST program using an appropriate allocation methodology (see the section entitled Cost Allocation Methodologies for a list of acceptable allocation methodologies). *DO NOT report the salaries of administrative staff in this section even if they are allocated to this program by an allocation methodology such as a time study. Salaries of administrative staff should only be reported in Cost Category 7, Administrative Costs.*

JUSTIFICATION REQUIREMENTS: The bidder must provide a copy of job descriptions for each staff position that is necessary for the accomplishment of program objectives. The job description should state the major duties to be performed and the necessary qualifications of the individual hired to perform them. **A Salary Detail Sheet must be completed with the information for all positions that are included in this cost category. Instructions for the Salary Detail Sheet are included as a separate attachment. In most cases the Salary Detail Sheet will serve as the Budget Narrative for this portion of the Budget Form.**

Cost Category 2 - OTHER EMPLOYMENT COSTS

Definition: Includes employee benefits and payroll taxes related to positions proposed under this program. Costs may include the following line items:

Unemployment Insurance, Pension or 401(k)-type retirement program, Health Insurance, Worker's Compensation, FICA, Medicare Tax and other benefits

The percentage of "Other Employment Costs" for any position that is only partially allocated to this program cannot exceed the percentage of salary charged in the program for that position. For instance, if 25% of a salary is requested, no more than 25% of any applicable "Other Employment Cost" may be proposed.

BUDGET NARRATIVE JUSTIFICATION REQUIREMENTS: Show computation for each employment cost item specified in the budget. Specify the nature of "other benefits" and show relevant computation.

Cost Category 3 - TRAVEL

Definition: Cost of transportation, lodging, and related cost of travel for trips necessary for carrying out program objectives.

- a. Mileage:** Reimbursement for miles traveled by agency employees/volunteers in private vehicles for the purpose of carrying out program plan objectives must be in accordance with established agency policy. Mileage cost related to travel to and from an employee's principal place of business is not allowable.
- b. Common Carrier:** Bus, train, taxi, or airplane fares.
- c. Lodging:** Applies to overnight travel only.
- d. Other Travel:** Tolls, parking fees, tips for service, baggage check fees. Does not include conference registration.

BUDGET NARRATIVE JUSTIFICATION REQUIREMENTS: The bidder should indicate the reimbursement per mile and reimbursement per meal, etc. in their agency policy. Show computation of budgeted figure. Briefly describe the general purposes of travel.

Cost Category 4 - CONTRACTUAL SERVICES

Definition: Services performed by people who are not in the employ of your agency (see definition of employee in Cost Category 1 – SALARIES). Allowable services include the following line items:

- a. **Other Professional Services:** Includes professional services such as legal, educational or medical which are not specifically defined in other line items and which assist in successful accomplishment of program objectives.
- b. **Postage and Freight:** Includes the costs of postage and/or shipping of program-related correspondence and items when such expenses are not billed as part of the original cost of the item.
- c. **Telephone:** All telephone charges related to the operation of program functions.
- d. **Utilities:** Includes water and sewerage, electricity, gas for heating (natural and propane), and other heating fuels (listed separately on the budget).
- e. **Insurance:** Includes insurance for building, contents, motor vehicles and liability insurance for employees who work in the program (general liability insurance should be included under Administrative Costs).
- f. **Rental/Mortgage - Building/Office/Land (see line item g for facility Use Allowance):** Includes rental on space related to the operation of the program. Rental costs are allowable to the extent that costs are reasonable in light of such factors as: rental cost of comparable property, if any, current market value in the area, alternatives available, and the type, life expectancy, conditions, and the value of the property leased. Agencies may be asked to produce data that demonstrates that the cost per sq. ft. is reasonable for the area in question. Funds shall not be requested for rental of facilities that are not utilized for program objectives or that are in excess of the reasonable space necessary to carry out such objectives. In determining the reasonableness of the rent charged, the department will use *Subpart E of the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Where utilities are included in the rental amount they must be clearly identified. Mortgage costs are allowable to the extent that they are proportionate to the square footage used by the program and to the value of the property. Where an agency holds a clear title to a facility, one of the methods in line item g should be used to charge for space costs. (see * at end of this section)
- g. **Use Allowance and Depreciation:** This category is appropriately used to record space costs related to the ACIST program where the agency holds a clear title to a building or equipment.

In this case, the agency may use one of two methods but, once chosen, a methodology may not be changed without the approval of the program manager in accordance with IRS guidelines. The two methods are:

- i. **Use allowance:** when this method is followed, the use allowance for buildings and improvements, including land improvements, such as paved parking areas, fences and sidewalks, will be computed at an annual rate not exceeding two percent of the acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding 6 2/3 percent of acquisition cost.

- ii. Depreciation: where this method is followed, the straight-line method shall be used in the absence of clear evidence indicating another method should be used. The bidder should provide a depreciation schedule.

In either case, the method chosen (in accordance with Uniform Guidelines) shall be documented and initiated by the independent CPA firm that prepares the annual financial statements and agency audit. Final approval shall be made by DDDS.

Additional restrictions on the use of these two methodologies are as follows:

- i. The computation of depreciation or use allowance shall be based on the acquisition cost of the assets involved.
- ii. Any portion of the cost of buildings and equipment donated by the Federal, State or Local government including the land cost is disallowed.
- iii. Any portion of the cost of buildings and equipment contributed by the organization in satisfaction of a matching requirement is disallowed.
(see * at end of this section)

For additional guidance on how to depreciate property see IRS Publication 946 or form 4562 or visit the IRS website at:

<http://www.irs.gov/pub/irs-pdf/p946.pdf> - 454.8KB

- h. Rental - Equipment:** Includes rental of all equipment necessary to carry out program objectives.
- i. Repair/Servicing/Maintenance:** Includes repair, servicing and maintenance of program facilities, motor vehicles, office equipment, and all other equipment that is necessary to carry out the program.
- j. Printing and Binding:** Includes printing and preparing for distribution of all program related printed matter, including brochures, flyers, etc. for the promotion of program objectives. This does not include office stationery (see Stationery and Office Supplies) or newspaper display ads (see Advertising).
- k. Association Dues and Conference Fees:** Includes all membership fees and registration/attendance fees at conference/workshops where such activity or membership is directly related to the accomplishment of program objectives.
- l. Advertising:** Includes advertising for bids for programed services, advertising for program positions or advertising for program activities in the public media, etc.
- m. Other Contractual Services:** Includes costs that cannot be classified under contractual services line items a through l above. Examples of such costs include property taxes, stipends, temporary employment agency fees, etc.

* BUDGET NARRATIVE JUSTIFICATION REQUIREMENTS: For items f & g above, the agency must specify the owner of the building in which the program will operate and the relationship of the building owner to the programed organization. For all items above give general purpose and basis for each item requested in this cost category.

Cost Category 5 - SUPPLIES AND MATERIALS

Definition: Supplies and materials must have a cost per unit of less than \$1,000 regardless of the item's expected useful life.

- a. **Food:** Includes food purchased for human consumption as part of a service program.
- b. **Linens and Blankets:** Includes the purchase and repair of linens and blankets for use as part of a service program for residential services.
- c. **Stationery and Office Supplies:** Includes all office stationery and office supplies necessary for program activities.
- d. **Housekeeping Supplies:** Includes supplies necessary for building maintenance and client personal hygiene as part of a site-based program or service.
- e. **Educational, Recreational, Cultural Supplies and Subscriptions:** Includes all such materials useful in the development of program activities or in the provision of direct services through educational means.
- f. **Motor Vehicles - Accessories, Tires, Parts, Motor Oil/Grease:** Includes expendable items, which are purchased and installed by agency personnel. Such expenditures are limited to the repair and servicing of agency-owned or leased vehicles only. Motor vehicle repairs performed by garages, etc. should be budgeted under "Contractual Services" (see #4i).
- g. **Gasoline:** Includes gasoline purchased for the necessary operation of agency-owned or leased motor vehicles used for program activities.
- h. **Other Supplies and Materials:** Includes all supplies and materials that cannot be properly classified above, that are necessary for program activities.

BUDGET NARRATIVE JUSTIFICATION REQUIREMENTS: Give purpose and basis for each category requested in this line item.

Cost Category 6 - CAPITAL OUTLAY/EQUIPMENT

Definition: Capital outlay items have a cost per unit of \$1,000 or more and a useful life of more than one year.

BUDGET NARRATIVE JUSTIFICATION REQUIREMENTS: Itemize and give purpose for requested costs. Any capital purchases made for the ACIST program using DDDS funds shall become the property of DDDS at the termination of a contract if requested by the Division.

Cost Category 7 – ADMINISTRATIVE COSTS

A more detailed definition of Administrative Costs as distinguished from Program Costs was provided at the beginning of this document. Examples of costs that fit in this category include central office functions, such as the director's office, the office of finance, business services, budget and planning, personnel, payroll, safety and risk management, general counsel and management information systems.

Types of costs that may be included under this category include:

- a. Salaries
- b. Unemployment Compensation
- c. Pension

- d. Health Insurance
- e. Workers Compensation
- f. FICA
- g. Other Benefits (specify in narrative)
- h. Other Support costs (specify in narrative, including cost per sq. ft. for buildings)
- i. Agency local office administrative costs allocated to the ACIST program
- j. Agency central office administrative costs allocated to the ACIST program

In most cases the agency will use either the line item format to report its local agency (as opposed to central headquarters) administrative costs that are represented by items a through h above, or it may lump all of those cost items into item i, for instance, if such costs have been allocated to this ACIST service using a single allocation percentage. When applicable, item j will be used to report “central office” (most often outside Delaware) administrative cost.

BUDGET NARRATIVE JUSTIFICATION REQUIREMENTS: The allocation of each line item cost in this category must be supported by a valid methodology that fairly and equitably distributes costs to the ACIST program in direct proportion to the benefit derived. For each line item, the agency must provide a valid methodology for allocating the cost. The Salary Detail Sheet must be completed with the information for all positions that are directly charged in this cost category. Bidders must include an organizational chart that identifies the relationship between the programed program or service and the rest of the organization.

Additional General Budget Preparation Guidance

Start-up costs: such proposed costs for new programs must be clearly identified separately from on-going program costs. Start-up costs must be detailed under Item #9 on the Budget Worksheet.

Federally Negotiated Indirect Cost Rates: Some agencies may have an Indirect Cost Rate that has been negotiated with one or more federal cognizant agencies. While the Department may choose to accept this rate as the administrative cost percentage for its programs, nothing in state or federal law or regulation obligates the department to do so. Acceptance of this Indirect Cost Rate must be negotiated with the bidder to whom this contract is awarded.

COST ALLOCATION METHODOLOGIES

For each central administrative function, the agency will have to choose an allocation methodology, which will result in a fair and equitable assignment of organizational costs to each program or service. Where an agency operates only one program or service at a single location, administrative costs can most likely be wholly allocated to that program or service. Where an agency operates multiple programs or services, however, central administrative costs must be apportioned between those programs or services. Program costs may at times need an allocation methodology, such as when program staff split their time between two or more programs or locations.

Cost allocation is a process whereby the cost of maintaining the central administrative functions of an organization are distributed or apportioned to the specific programs or services operated by the organization. In cost allocation terminology, these programs or services are called *final cost objectives*, i.e. the final purpose for which both types of costs, program and administrative, are incurred. For the purpose of this RFP, DDDS defines this “final purpose” as the provision of ACIST services. Administrative costs cannot usually be easily distributed or allocated to final cost objectives where multiple programs exist within an organization. For instance, most large organizations have a human service function that engages in such activities as recruitment, hiring, training, benefit administration and payroll. The cost of operating this function is incurred for the common purpose of the organization. Without keeping detailed records of activities performed and for which final cost objective of the organization those activities were performed (i.e. which distinct service or program benefited from the activity), however, it would be nearly impossible to assign the appropriate share of the cost of the human resources function to a particular program or service.

A sound cost allocation process allows an agency to allocate the cost of central functions like human resources to final cost objectives in a manner that approximates the workload expended on behalf of the final cost objectives. Using the human resource function as an example again, an easily obtainable piece of data that is commonly used to allocate central human resource costs to programs or services is the number of FTE’s who work in those programs or services. One can easily see the relationship between the number of positions employed with a program and the workload required to recruit, to hire and to administer benefits, etc. for those employees. The more people assigned to a particular area of the organization – the greater the workload of the human resources staff, generally speaking. Other representative units of work (like FTE’s in the previous example) or *allocation bases* that are commonly used in the cost allocation process are the number of dollars expended on the provision of a program or service at the client level (in the case of human service programs) or the amount of revenue that a program or service generates for the organization. This method of apportioning administrative costs to programs on the basis of the relative dollar amount spent on or generated by the program is commonly used to allocate multiple central agency administrative functions where no other easily obtainable, more accurate basis for cost distribution is available. Again, the key is that the basis chosen should allocate the cost of central functions to final cost objectives in a manner that *reasonably approximates* the benefits that accrue to the final cost objective as a result of the central function being performed.

In addition to the proper allocation of administrative costs, bidders may also need to allocate costs if staff works with clients in multiple agency programs. For example, an agency that operates programs in multiple sites, they may have a nurse that rotates his or her time between those programs in some proportion. If, for example, the agency operates 5 programs and the nurse spent one day a week at each program, then the agency could allocate .2 FTE or 20% of the nurse’s cost to each program. This would constitute a direct allocation. Alternatively, the agency could use the number of clients served in each program (expressed as a percentage of total clients) to allocate the cost of nursing services across programs if that is a stable, more appropriate measure of workload.

Common acceptable allocation bases used to allocate shared costs (either administrative or program) that benefit more than one program or service include:

1. The percentage of agency revenue/expenditures by program
2. The percentage of total personnel costs
3. The number of FTE positions assigned to agency programs (If this method is used, the agency MUST identify all of the other programs or functions to which the person has been allocated and the proportion allocated to each which adds up to a single 1.0 FTE. Furthermore, the agency must be prepared to explain the method it used to determine the proportion of the FTE that could be allocated to each function, program or program.)
4. Square footage of shared building space allocated to a specific program
5. The number of client “slots” or clients served or expected to be served
6. Time and effort (by time study or on-going activity logs)

The essential consideration in selecting an allocation methodology and an allocation basis (see examples in the preceding paragraph) is that it is the one best suited for assigning costs to programs or services. In choosing a basis upon which to allocate costs, it is usually best to start with those functions where a cause/effect or workload/benefit relationship can easily be identified. Certain types of costs, for instance, lend themselves to a more direct cause and effect relationship than others, like the relationship between the number of staff and the workload of the Human Resources function. When the expenses in a cost grouping are more general in nature, however, such as the cost of the CEO or Executive Director of the organization, the allocation should be made through the use of an allocation base that produces results that are equitable to both DDDS and the vendor agency.

In the final analysis, the methodology(ies) used to allocate costs to ACIST programed services must be fully explained and justified in the narrative.