

# **COST GUIDELINES FOR RESIDENTIAL CHILD CARE FACILITIES**

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**I. OVERVIEW**

**A. Purpose**

These Guidelines define the allowable expenses for the care of children in out-of-home placement.

**B. Legal and Regulatory Foundation of Cost Guidelines**

The following documents issued by the Federal Office of Management and Budget (derived from the Code of Federal regulations Title 45, part 74) establish the principles for determining the costs of grants, contracts and other agreements with non-profit organizations.

- < **A-87** Cost Principles for State and Local Governments
- < **A-110** Grants and Agreements with Institutions of Higher Education, Hospitals And other Non-Profit Organizations
- < **A-122** Cost Principles for Non-Profit Organizations
- < **A-128** Audits of State and Local Governments
- < **A-133** Audits of Institutions of Higher Education and other Non-Profit Institutions.

Additionally, all non-profit organizations are governed by Section 501 of the Internal Revenue Service Code, Exemptions from tax on Corporations, Certain Trusts, etc.

The Federal Guidelines also govern the State=s receipt of Federal Funds under the following titles:

- < **Title IV-E** Basic Care Costs
- < **Social Services Block Grant** Social Work Costs
- < **Medical Assistance** Health Related Costs

In order for the State of Maryland to receive Federal Funds for children in foster care, a facility must remain in compliance with the above cited documents.

**Other State Laws and Regulations**

The Family Law Article, Sections 506 and 509, Annotated Code of Maryland, requires that the care of non-related children be licensed. Such licensure is issued by various state agencies according to the category of service provided within the facility.

Article 19, Section 28A, of the Maryland Annotated Code requires health and welfare organizations to maintain financial records according to standards promulgated by the American Institute of Certified Public Accountants (AICPA).

Article 15A, Section 28 requires all state agencies to perform audits to assure that expenditures by facilities are in accordance with all Federal, State and AICPA guidelines.

**C. Basic Accounting Consideration**

1. **Composition of Total Costs.** The total cost of a contract program is the sum of the allowable direct and indirect cost allocated to the program, less any applicable credits. Accounting methods as outlined in Article 19, Section 28A of the Annotated Code of Maryland Standards of Accounting for Voluntary Health and Welfare Organizations are to be used in determining costs. The same accounting system must be used for all program areas.
2. **Definition of Reasonableness.** A cost is reasonable if: In its nature or amount, it does not exceed that which would be incurred by an ordinarily prudent person in the prevailing circumstances.

The cost is of a type generally recognized as ordinary and necessary for the operation of the facility or the performance of the contract;

It is consistent with the restraints or requirements imposed by such factor as generally accepted sound business practices, absence of any conflict of interest, Federal and State laws and regulations, and contract terms and specifications;

It is the action that a prudent person would take under a given circumstance, considering his responsibilities to the public at large, the State, his employees, his clients; and,

It does not significantly deviate from the established practices of the institution or unjustifiably increase the contract costs.

3. **Definition of Allowable Cost.** A cost is allowable if it is assignable or chargeable to a particular cost object in accordance with the relative benefits received and if it:
  - < Is incurred specifically for the contract;
  - < Benefits the contract or other functions and can be distributed in reasonable proportion to the benefits received; or
  - < Is necessary to the overall operation of the institution, when a direct relationship to any particular cost objective cannot be

shown.

4. **Applicable Credits.** The term applicable credits refers to those receipts or negative expenditure types of transactions which operate to offset or reduce expense items that are allowable to contracts as direct or indirect costs. Typical examples of such transactions are: receipts from other government agencies, purchase discounts, rebates or allowances; recoveries or indemnities on losses; sales of scrap or incidental services; and adjustments of overpayment or erroneous charges. The applicable portion of any income, rebate, allowance, and other credit relating to any allowable cost, received by or accruing to the contractor shall be credited as a cost reduction.

## II. STANDARDS OF ACCOUNTING

### A. **Key Concepts**

All non-profit child care agencies and institutions are required to maintain their financial record according to the Standards of Accounting for Voluntary Health and Welfare Organizations. The Standards of Accounting contain three key concepts:

1. **Accrual Basis** - Revenue and expense are related to and identified with specific time periods when they are incurred;
2. **Fund Basis** - Fund accounting is a classification system for a logical grouping assets according to the purpose for which they are donated. The American Institute of Certified Public Accountant in its Audit Guide recognized five main categories of fund: Current Unrestricted Fund; Current Restricted Fund; Land, Building and Equipment Fund; Endowment Fund ; and Custodian Fund.
3. **Functional Basis** - Method of accounting which requires that the year-end financial reports segregate the agency's expenditures into two broad categories: Program Services and Supporting Services are those activities which enable the agency to remain in business so that it can provide program services. Program Services are those services for which the agency exists.

For Cost Guidelines purposes, the functional basis of accounting will be the focal point of discussion.

## B. Functional Accounting Requirements

The adoption of the Standards of Accounting for Voluntary Health and Welfare Organizations by the State of Maryland requires that organizations maintain financial records both by object (salaries, telephone, etc.) and by function. Functions can be broken down into supporting services and program services.

Budget forms have been developed to obtain the following information on

### **supporting services:**

- ® **Management and General Services** - A variety of activities not identifiable with program functions, but which are indispensable to their conduct and to the organization.
- ® **Fund Raising Services** - Expenses of all activities that constitute an integral and inseparable part of appeal for, financial support.

The **program services** for purchase of care programs are Direct and Education.

- ® **Direct Services** are defined as costs that cannot be clearly defined as Unallowed, Management and General or Education.
- ® **Education Services** are defined as activities which involve operating an on-ground educational program approved by the Maryland State Department of Education.

Homework help and tutorial support provided before or after the regular school program are not education costs but would be included in **Direct Cost**.

**Organizations are required to further detail the Direct Cost function for salary costs into the following service elements:**

- a) **Room and Board** - Room and Board are defined as any activity which contributes to providing children with housing, food, clothing, school supplies or personal incidentals. Cleaning, housekeeping and laundry would also be included. In general, the functions of a

housekeeper, maintenance worker and cook would be included.

- b) **Time Study** - Staff identified as Time Study will become part of the Time Study sample. The sample helps DHR claim Federal funds for the care of children. Staff not identified only as Room and Board, Medical or Education should be included in the Time Study category. During the actual Time Study these staff will be surveyed to determine the percentage of their time that can be charged to Federal funding sources. Staff such as Child Care Workers, Social Workers, and Nurses should be included in the Time Study Category.
- c) **Medical** - Medical refers to the administration of medical procedures which requires the individual carrying out the procedure to be licensed under state law as a medical professional. Psychological or educational testing or assessment as well as diagnosis and evaluation of a child's health conditions are also included.

### C. Proration of Expenses

Expenses can be allocated to the Direct Care or Education function and respective service elements either directly or indirectly.

**Direct Costs** - A direct cost is any cost (line item expense) which can be identified specifically with a particular function or service element. The application of direct costs and the proration of indirect costs to the Direct Care and Education function and other functions within the agency must be consistent.

**Indirect Costs** - An indirect cost is one which, because it is incurred for common or joint objectives, cannot be charged directly to a function or service element. After direct costs have been determined and charged directly to the appropriate function or service element, the remaining expenses are indirect costs to be allocated to two or more functions or service elements. The overall objective of the allocation process is to match the indirect costs in reasonable proportions with the benefits provided to those functions, service elements or cost objectives. Proration of indirect costs may be accomplished using space utilization or hours (verified by reporting records).

A base period for distribution of indirect costs is that period wherein statistics are accumulated for work performed within that period. The accumulated statistics will be used for distribution of costs to

two or more functions or service elements. The base period should coincide with the fiscal year established by the facility. The base period should be selected to avoid inequities in the distribution of costs.

**D. Time Reporting**

Since staff compensation constitutes the largest single expense of an agency, the proration of single staff time to program or supporting services is essential for an accurate reflection of functional costs. Time reporting records must be maintained for all staff.

For employees who are assigned to more than one function or service element, time reporting records must be maintained to verify the proration of staff related expenses to functional or service element areas. Time reporting may include daily or periodic records. A sampling of time reporting records should be conducted for employees whose activities vary considerably throughout the year and from year to year.

**III. Supporting Services**

Supporting Services, sometimes referred to as administrative costs, include two functions: (1) Management and General; and (2) Fund Raising. For purposes of financial reporting, the facility will be accumulating the costs for supporting services for the total facility in operation. Those agencies which have more than one program function or service element shall prorate allowable supporting service costs in a uniform and equitable manner to each program function or service element.

**A. Management and General**

Expenses related to the following activities are to be reflected in the Management and General function: overall executive direction of the agency; office management, auditing, bookkeeping, budgeting; personnel recruitment; general record keeping; corporate legal services; and board activities. This listing is representative of the types of activities to be reflected in this function and is not intended to be inclusive.

Time spent on directly supervising fund raising or program function/service element staff is to be charged to those functions and not to the Management and General Function.

Generally, small facilities do not require full-time administrative staff. Where several such facilities are administered by a single

corporation, a full-time director and secretary become essential to good management. Salaries for staff should be generally the equivalent of comparable positions with the State system. (See Section IV.)

Costs associated with other specific types of activities under Management and General may include, but are not limited to, the following:

1. **Personnel Administration:** Costs for the recruitment, certification, classification, establishment of pay standards, and related activities are ALLOWABLE.
2. **Payroll Preparation:** The cost of preparing payroll and maintaining necessary related wage records is ALLOWABLE.
3. **Budgeting:** Costs incurred for the development, preparation, presentation, and execution of budgets are ALLOWABLE.
4. **Procurement Service:** The cost of procurement service, including solicitation of bids, preparation and award of contract, and all phases of contract administration in providing good facilities and services is ALLOWABLE.
5. **Training and Education:** The cost of training provided for employee development which directly or indirectly benefits contract programs is ALLOWABLE.

**B. Fund Raising**

This function includes costs associated with the solicitation of contributions, bequests and foundation grants, the costs of transmitting appeals to the public and the staff costs connected with the campaign. Fund raising activities shall be allocated an appropriate share of indirect costs. However, fund raising costs are UNALLOWABLE. Please refer to Article 19, Annotated Code, Section 26-A, Uniform Accounting Standards.

**IV. Direct Cost & Education Functions**

**A. Direct Cost Function**

The program service function, Direct Cost is defined as any cost which cannot be clearly defined as unallowed, Management & General, Fund Raising or Education. For this element, a definition is provided and where appropriate the specifications relating to the functions and qualifications of staff. It is recognized in these

definitions that services will vary with the intensity of service need rather than be directly related to the size of the facility.

The following cost items are included, but Direct Cost is not limited to:

- ® Salaries of child care staff;
- ® Support staff (housekeeping, maintenance, etc.);
- ® Staff benefits, taxes and insurance;
- ® Occupancy costs and costs of maintenance and upkeep of the facility, where directly applicable;
- ® Food supplies, equipment, telephone, travel, transportation, clothing and personal needs; and
- ® Costs associated with insuring the child's religious freedom, right to education, and constructive use of leisure time.

### **Staffing Criteria**

The adequate number of staff needed at any given time to supervise children in residence is a function of the needs of the children in care, as reflected in the severity of behavioral or emotional functioning. Also affecting staff patterns are the size and physical layout of the facility, the number served, age of population serviced, and program goals and objectives. All of these variables will be reflected in the intensity of services offered and the particular staffing patterns of the facility. The various staff patterns may range from the minimal personnel needed for 24-hour coverage, to a more intense combination of professionally trained staff with appropriate supportive staff where needed.

The number of staff employed, their professional training, number of supportive or back-up staff employed, and number of specialized staff employed, as well as ranges of salaries paid, may all vary with the needs of the children.

An appropriate staff development and training program is needed to insure professional development of child care staff, and should be geared to the individual needs of the staff. The annual salary of the child care staff should adequately compensate for overtime and hours worked, and shall comply with appropriate wage and hour laws, and child care regulations.

### **Social Work Services**

The Department of Juvenile Justice and the Department of Human Resources Standards and Licensing Procedures for Care of

Children, define the social worker as having the responsibility for screening applications; serving as the liaison with the family and community while the youth is in residence; providing casework service for the child; and, helping to plan for the child's discharge and aftercare. In addition, the social worker coordinates the planning, treatment, and staffing for individual children.

In order for any social work services cost to be allowable by the State, an appropriately licensed social worker shall be on staff or on contract and must provide or supervise the provision of social work services. Social work licensure is required by the Annotated Code of Maryland (Health Occupations Article 18-101....18-502 and COMAR 10.42.02, AVendorship@).

Costs of both social work staff and social work consultation services may be charged to this service element. Other related non-staff costs may also be charged to this service element when properly documented.

### **Health Related Services**

In general, the qualifications of health related staff are determined by appropriate licensing or certification for that profession.

**Physicians** - To assure the availability of services as needed, the services of a physicians can be obtained most efficiently on a fee-for-service basis.

**Psychologists** - A State licensed Ph.D. is required for clinical and diagnostic evaluations. Educational evaluations may be conducted by a psychologist with a Master's Degree. In lieu of psychiatric services, a clinical psychologist may be used to insure an individual treatment plan for each child in conjunction with the social worker.

**Psychiatrist** - Both direct services and consultation are acceptable. This discipline need not be licensed as a child psychiatrist, but must be licensed by the State. The primary responsibilities are to insure that an appropriate individual treatment plan is developed for each child and to prescribe any psychotropic medication.

All facilities will be expected to secure psychiatric service on an Aas needed@ basis. In addition, facilities serving children with more intense needs should provide on-going consultative services, especially assistance with semi-annual evaluations.

In some facilities, as much as 12 hours per week or more of the

time of a psychiatrist or clinical psychologist may be needed to handle intake and evaluations.

In addition to on-going consultation, time spent by the psychiatrist providing therapy and prescribing psychotropic medication is an allowable cost.

**Nursing** - Nursing staff is allowed and may be required, depending on the population served. When part of the staff, the nurse should be on duty when the residents are awake and active, and on-call after 10:00 p.m.

**Licensed Registered Nurse (RN)** - Since State licensing requires that all LPN's be supervised by RN's, only the larger facilities will generally utilize both.

**Dentistry** - Dental services can best be made available on a contractual or fee-for-service basis, and should be available for annual check-up and on an as needed@ basis for emergencies.

**Health Specialist** - Special services may be required (such as gynecologist, where females are in residence).

**Therapist** - Other unique types of therapy are allowable under diagnostically indicated.

Other non-staff costs related to accessing medical services (travel, etc.) are allowable. Also, health-related items not covered by Medicaid, i.e., the first \$.50 on prescription drugs, over-the-counter drugs and eye glasses are allowable as needed.

## **B. Education Function**

Educational services are reimbursable when they are full-time and not otherwise available. Reimbursement is made only for periods of actual attendance. To be chargeable, the program must be operated as an extension of the facility. Educational services are of two types:

- 1) A school which has been approved by the Department of Education; or
- 2) A transitional or developmental educational program geared to the specific therapeutic needs of the individual. This must include a planned return of the child into the educational mainstream. All individuals in this program must have an

individual educational plan that is time and goal specific and compatible with the child's total goal treatment plan. It should include reasons why the child cannot attend public school and when the child returns to public school or another educational program may be anticipated.

A vocational program must be geared to the career goals of the individual and may include work on job readiness. All teaching staff shall be certified by the State Department of Education.

**C. Recommended Salaries for Staff**

In developing salary scales for staff of residential facilities, two variables must be taken into account: (1) the number or variety of staff needed due to the size of the program and intensity of services; (2) the experience and professional training of the staff as required by the program plan and the children's service needs.

The salaries noted on the following pages are comparable position in various sized State operated residential child care facilities. They are referenced because they reflect the only statewide, structured salary system in effect for residential child care facilities. **Salaries have been updated per the Department of Budget and Management State Salary Plan effective 7-1-2007.**

<b>Program Position Equivalent Executive Director</b>	<b>State Personnel Classification</b>	<b>Grade</b>	<b>Salary Range</b>	
	Administrator I	16	\$40,268.00	\$64,282.00
	Administrator II	17	\$42,867.00	\$68,626.00
	Administrator III	18	\$45,650.00	\$73,259.00
	Administrator IV	19	\$48,664.00	\$78,130.00
	Administrator V	20	\$51,911.00	\$83,350.00
	Administrator VI	21	\$55,388.00	\$88,927.00
	Administrator VII	22	\$59,107.00	\$94,909.00
<b>Comptroller</b>	Fiscal Services Admin. I	18	\$45,650.00	\$73,259.00
	Fiscal Services Admin. II	19	\$48,664.00	\$78,130.00
	Fiscal Services Admin. III	20	\$51,911.00	\$83,350.00
	Fiscal Services Admin. IV	21	\$55,388.00	\$88,927.00
	Fiscal Services Admin. V	22	\$59,107.00	\$94,909.00
	Fiscal Services Admin. VI	23	\$63,087.00	\$101,301.00
<b>Accountant</b>	Accountant I	14	\$35,568.00	\$56,438.00
	Accountant II	15	\$37,837.00	\$60,222.00
<b>Bookkeeper</b>	Fiscal Accounts Supv.	12	\$31,461.00	\$49,571.00

<b>Office Secretary</b>	Office Secretary I	8	\$24,744.00	\$38,516.00
	Office Secretary II	9	\$26,257.00	\$40,996.00
	Office Secretary III	10	\$27,876.00	\$43,647.00

### Other Support Staff

While intensity of a program may be a factor, the major determinant of staff pattern will be facility size.

<b>Program Position Equivalent</b>	<b>State Personnel Classification</b>	<b>Grade</b>	<b>Salary Range</b>	
<b>Maintenance Worker</b>	Maintenance Assist	6	\$22,007.00	\$34,035.00
<b>Groundskeeper</b>	Groundskeeper	5	\$20,772.00	\$32,014.00
	Groundskeeper Supv.	8	\$24,744.00	\$38,516.00
<b>Housekeeping</b>	Housekeeping	8	\$24,744.00	\$38,516.00
	Housekeeping Manager	10	\$27,876.00	\$43,647.00
<b>Food Service</b>	Food Service	8	\$24,744.00	\$38,516.00
	Food Service Manager	11	\$29,607.00	\$46,490.00

### Child Care Staff

The size and qualifications of the child care staff must reflect the size, program needs, and degree of handicap of the child population.

<b>Program Position Equivalent Direct Care Workers</b>	<b>State Personnel Classification</b>	<b>Grade</b>	<b>Salary Range</b>	
	Direct Care Trainee	5	\$20,772.00	\$32,014.00
	Direct Care Asst. I	6	\$22,007.00	\$34,035.00
	Direct Care Asst. II	7	\$23,329.00	\$36,203.00

### Recreation

Recreational programs require separate attention. Staffing patterns for such programs may range from one person coordinating activities for an entire facility to a separately administered program of recreational therapy.

<b>Program Position Equivalent Recreation</b>	<b>State Personnel Classification</b>	<b>Grade</b>	<b>Salary Range</b>	
	Recreation Specialist I	12	\$31,461.00	\$49,571.00
	Recreation Specialist II	13	\$33,444.00	\$52,886.00

## Education

The necessity and the scope of the educational program will be determined by the needs of the children in a particular facility. Staff salary scales are based on experience, professional training, and the need(s) of the children served.

## Social Work Services

The professional training of the social work staff will be the major determinant of the salary scale.

The complexity of treatment for therapeutic functions performed by the staff are also determinants.

Costs may include time in family therapy, individual psychotherapy, group work, treatment coordination, etc.

<b>Program Position Equivalent</b>	<b>State Personnel Classification</b>	<b>Grade</b>	<b>Salary Range</b>	
<b>Social Worker</b>	Social Worker I	15	\$37,837.00	\$60,222.00
	Social Worker II	16	\$40,268.00	\$64,282.00

## Health Related Services

The amount of health related staff utilized by a facility will be a function of size, complexity and intensity of the program offered. A small, less intensive program may provide on call or contractual services, while a larger more intensive program may provide full time staff in addition to contractual services.

<b>Program Position Equivalent</b>	<b>State Personnel Classification</b>	<b>Grade</b>	<b>Salary Range</b>	
<b>Nurse</b>	LPN I	11	\$29,607.00	\$46,490.00
<b>Nurse</b>	LPN II	12	\$31,461.00	\$49,571.00
<b>Nurse</b>	LPN III	13	\$33,444.00	\$52,886.00
<b>Nurse</b>	RN	16	\$40,268.00	\$64,282.00
<b>Dentist</b>	N/A	N/A	Fee for Service	
<b>Psychiatrist</b>	N/A	N/A	Fee for Service	
<b>Psychologist</b>	N/A	N/A	Fee for Service	
<b>Physician</b>	N/A	N/A	Fee for Service	

## V. HANDLING REVENUE

### A. Use of Outside Income

The facility is required to identify revenue from all sources. All revenue and expenses are to be included in an agency's budget and are to be accounted for in the agency's financial records. However, private contributions and certain governmental funds shall be excluded in determining a rate.

**B. Grants**

A grant or any revenue generated through governmental agencies, must be considered an applicable credit unless the grant or revenue source specifies usage of funds for purposes not generally allowable (such as capital improvements). For example, income from Job Training or U.S. Department of Agriculture funds for food are considered to be applicable credits. Gross expenditures are to be reflected in the line item and function, and income is to be reflected in the appropriate revenue line item and charged to the proper function.

**VI. EXPENSES**

The following is a brief description of each expense category.

**A. Employees' Salaries**

Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the contract agreement, including but not necessarily limited to wages, salaries, and supplementary compensation. The costs of such compensation are ALLOWABLE to the extent that total compensation for individual employees is reasonable for the services rendered.

Amounts charged to service programs for personal services, regardless of whether treated as direct or indirect costs, will be based on documented payrolls. Payrolls must be supported by time and attendance or equivalent records for individual employees.

CHARGE: Directly to appropriate function or services element or allocated to 2 or more functions or service elements.

**B. Employees' Benefits and Payroll Taxes**

Employees' benefits in the form of employer's contribution or expenses for social security, employees= life and health insurance plans, unemployment insurance coverage, workers compensation insurance, pension plans, and the like, provided such benefits are granted under approved plans and are distributed EQUITABLY are ALLOWABLE.

CHARGE: In accordance with employee salaries.

**C. Professional Fees and Contract Service Payments**

1. **Legal Fees.** The cost of legal expenses required in the administration if service programs are ALLOWABLE. (**Legal expenses incurred in connection with organization and reorganization and with the prosecution of claims against the Federal and State Governments are UNALLOWABLE**).

CHARGE: Corporate legal fees are to be Management and General; program-related legal fees are to be charged directly to the appropriate function.

2. **Accounting and EDP Services.** The facility will establish and maintain accounting and other related data processing systems required for the management of service programs.

CHARGE: Management and General

3. **Audit Fees.** The cost of audits necessary for administration and management of functions related to contract programs are ALLOWABLE.

CHARGE: Management and General

4. **Temporary Help.** CHARGE: Directly to one function or service element or allocated to 2 or more appropriate functions or service elements.

5. **Social Work.** CHARGE: Direct Costs.

6. **Psychiatric Fees.** CHARGE: Direct Costs.

7. **Psychologist Fees.** CHARGE: Direct Costs.

#### **D. Client Maintenance Supplies**

The cost of materials and supplies necessary to carry out the service program are ALLOWABLE. Purchases made specifically for the Program should be charged at their actual prices after deducting all quantity discounts, rebates, and allowances received by the facility.

Withdrawal from general stores or stock rooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

1. **Food Supplies\***

- a. **Purchased Food \*\***
- b. **Other (explain)**

CHARGE: Direct Costs.

- 1. **\*Food preparation staff should be shown in Budget Form E-6, Position Numbers 120 – 139.**

**\*\*Please see page 30 for USDA moderate food cost plan.**

- 2. **Clothing and Personal Needs Supplies**

CHARGE: Direct Costs.

- 3. **Medical Supplies**

CHARGE: Direct Costs.

- 4. **Recreation and Craft Supplies**

CHARGE: Direct Costs.

- 5. **Educational Supplies**

CHARGE: Education if there is an on -grounds school, otherwise Direct Cost.

- 6. **Laundry, Linen and Uniforms**

CHARGE: Direct Costs.

#### **E. Telephone and Telegraph**

Communication costs incurred for telephone calls or service, telegraph, teletype service, wide area telephone service (WATS), centrex (TIE LINES), postage, messenger service and similar expenses are ALLOWABLE. It is expected that each facility will make available whatever communications systems are necessary to assist residents to maintain contact with natural parents or former foster parents or other relatives with whom they have an emotional attachment.

CHARGE: Split between Direct Cost, Management and General, Education and Unallowed, either by direct charge or by allocation.

**F. Postage and Shipping**

CHARGE: Split between Direct Cost, Management and General, Education and Unallowable.

**G. Occupancy**

**Cost of Space.** The cost of space in privately or publicly owned buildings used for the benefit of the program is ALLOWABLE. **The total cost of space is allowable to the extent that it is reasonable and does not exceed the rental cost of comparable space and facilities in the same locality.** For space costs which seem excessive, additional data may be requested. The cost of space procured for program usage may not be charged to the program for periods of non-occupancy.

**Rental Costs and Related Party Transactions.** Rental costs of land and buildings are allowable if the rates are reasonable in light of such factors as rental costs of comparable facilities and market conditions in the area, type, life expectancy, condition, and value of the facilities leased, options available, and other provisions of the rental agreement. In addition, 8 to 10% of the assessed value will be the maximum allowance.

Rental costs specified in sale and leaseback agreements incurred by providers through selling facilities to investment organizations, such as insurance companies, associate institutions, or to private investors, and who are concurrently leasing back the same facilities, are allowable only to the extent that such rentals do not exceed the amount which the service provider would have received had it retained title to the facility.

Rentals for land and buildings owned by affiliated organizations including corporations or by the stockholders members, directors, trustees, officers, or other key personnel of the institution or their families, either directly or through corporate trusts, or other similar arrangements in which they hold a more than token interest, are allowable (if not forbidden by the Licensing authority). They are allowable only to the extent that such Rentals do not exceed the amount the facility would have received if legal title to the facilities had been vested in it. Such charges shall not exceed the normal costs of ownership, such as depreciation, interest, taxes, insurance, and maintenance provided that no part of such costs shall duplicate any other costs.

**Other Occupancy Costs.** The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations are ALLOWABLE to the extent they are not otherwise included in rental or other charge for space.

CHARGE: Split between Direct Cost, Management and General, Education or Unallowable by direct charge or by allocation based on square footage.

## **H. Property Insurance and Taxes**

### **Taxes**

In general, taxes or payments in lieu of taxes which the agency is legally required to pay are ALLOWABLE.

### **Insurance**

Cost of insurance required, approved and maintained pursuant to the contract are ALLOWABLE.

Cost of other insurance in connection with the general conduct of activities are ALLOWABLE, subject to the following limitations:

- ® Types, extent and cost of coverage will be in accordance with sound business practice and the rate and premiums shall be reasonable.
- ® Costs of insurance or of contributions to any reserve covering the risk of loss of damage to Federal Government property is allowable only to the extent that the institution is liable for such loss.

Contributions to a reserve for a self-insurance program are ALLOWABLE to the extent that the type of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are UNALLOWABLE unless expressly provided for in the contract agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are ALLOWABLE.

CHARGE: Split between Direct Cost, Management and General, Education and Unallowed by direct charge or by allocation.

**I. Rental and Maintenance of Equipment**

CHARGE: Direct according to who uses equipment.

**J. Supplies (Other than for Client Maintenance)**

CHARGE: Management and General.

**K. Outside Printing and Publications**

1. **Outside Printing.** Cost for printing and reproduction services necessary for administration and community relations, including, but not limited to forms, reports, manuals, and information literature, are ALLOWABLE.

CHARGE: Management and General.

2. **Other Publicity and Promotion Expenses.** Advertising media include newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. Advertising costs ALLOWABLE are those which are solely for:

- a) Recruitment of personnel required for the program.
- b) Solicitation of bids for the procurement of goods and services.
- c) Disposal of scrap or surplus materials acquired in the performance of the contract agreement.
- d) Other purposes specifically provided for in the contract agreement.

CHARGE: Management and General.

3. **Subscriptions and Publications.** The cost of books and subscriptions to civic, business, professional, and technical periodicals are ALLOWABLE when related to the contract program.

CHARGE: Direct to individual element or service function of staff incurring expense.

**L. Travel**

Travel costs are ALLOWABLE for expenses for transportation, lodging, subsistence, and related items incurred by employees or by children in care, who are in travel status on official business incidental to the contract program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual cost incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in non-federally sponsored activities. Visitations of children to their own homes or other appropriate community residences should be arranged for in the interest of enabling the child to return to his permanent residences in the community as early as possible. Such visitations may occur as frequently as weekly, but should occur no less frequently than quarterly. Cost allowances should be anticipated accordingly.

CHARGE: Direct to individual element or service function of staff incurring expense. For clients charge to direct costs.

**As of 7-1-07 the State reimbursement rate per mile driven is \$.485. (per Federal reimbursement rate adjustment effective 2/1/07)**

**M. Conferences, Registration Fees and Meeting Costs**

1. **Conferences and Registration Fees.** All travel and living expenses incurred by the agency in sending staff member to conferences are to be included in this category. Registration or tuition costs for such conferences or institutions are also in this category.

CHARGE: Direct to individual element or service function of staff incurring expense. For clients charge to direct costs.

2. **Agency Meeting Costs.** This item includes costs of meals, transportation, rental facilities for meetings, and incidental costs where the costs are primarily incurred for the dissemination of technical information and are program related. Such costs are ALLOWABLE.

CHARGE: Direct Cost.

**N. Specific Assistance to Individuals**

Allowances should be budgeted to meet the clothing and personal needs of children in residence. It is recognized that clothing needs will vary dramatically, depending upon the former circumstances of the child. Per Circular Letter Maryland DHR/SSA #08-03 issued July 1, 2007, the clothing allowance will be as follows:

Infant through age 11	\$60 per month per child
Age 12 and over	\$75 per month per child

Provider budgets are expected to contain the appropriate amount per child. Likewise, a personal allowance should be made available for all children to meet individual needs.

CHARGE: Direct Cost.

**O. Treatment Foster Care Board Payments, Respite Care, Difficulty of Care**

Cost paid to foster parents for the care of children.

CHARGE: Direct Cost

**P. Membership Dues**

The cost of membership in civic, business, technical and professional organizations is ALLOWABLE, provided: (1) the benefit from the membership is related to the program; (2) the expenditure is for agency membership; and (3) the cost of the membership is reasonably related to the value of the services or benefits received.

CHARGE: Management and General

**Q. Awards and Grants**

CHARGE: Direct to individual element or service function

**R. Recruitment and Miscellaneous Personnel Expenses**

Cost of classified advertisements, agency fees, approved travel expense incurred for interviewing, relocation expenses of new employees, bonding and public liability insurance.

CHARGE: Management and General.

## **S. Depreciation and Use Allowances**

Depreciation represents the decline in value of plant and equipment due to wear and tear during normal use, or to obsolescence. Depreciation is an expense that is recorded by distributing the original cost of an asset over its estimated useful life. Land is not depreciable. Depreciation is not allowed on idle or excess facilities.

**Depreciation is not allowable on any real property, improvement, or equipment funded through the following sources: DHR/SSA Funds, Federal Grants, Other State Agencies, Start Up Grants. All assets falling into these categories are not subject to depreciation.**

Depreciation on prior year(s) real property, improvements, and equipment purchases will be handled as follows:

If the property, improvements, and equipment acquisitions were funded through any of the sources outlined, the depreciation is not allowable. For property, improvements, or equipment purchases not funded by any of the sources outlined above the process follows:

All estimates of useful life will be based on IRS Guidelines for the class of assets at the time of purchase. For simplicity, use the depreciation schedule submitted on your Federal Tax Return Form 990. Donated depreciable assets must use the current market value or its equivalent as its original cost.

## **T. Interest Expense**

Certain interest expense is allowed only as specifically provided by the Federal Office of Management and Budget in the most current circulars A-87 and A-122 (see I. OVERVIEW, B. Legal and Regulatory Foundation of Cost Guidelines, page 3).

## **VII. UNALLOWABLE COSTS**

- A. Bad debt and related legal costs.
- B. Contributions and donations by the institution or other agencies.
- C. Cost of depreciation on idle facilities.
- D. Costs of amusement, diversion, social activities, ceremonial, and related incidentals for staff only.

- E. Cost of research and development, except when related to the program of child care.
- F. Costs of fines and penalties resulting from failure to comply with Federal, State and local laws or imposed by a court.
- G. Costs incurred for interest on temporary use of endowment funds and on lines of credit.
- H. Costs of organized fund raising. This function includes costs associated with the solicitation of contributions, bequests and foundation grants, the costs of transmitting appeals to the public, and the staff costs connected with the campaign. Fund raising activities shall be allocated in appropriate share of indirect costs, however, fund raising costs are UNALLOWABLE. Please refer to Article 19, Annotated Code 26-A. Uniform Accounting Standards.
- I. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments.
- J. Costs of prohibited for Internal Revenue Code Section (501)(C)(3) organizations.
- K. Organizational costs such as incorporation, fees to accountants, broker, etc., in connection with establishment or reorganization.
- L. Penalties as a result of failure to submit the annual audit in a timely fashion (see Section IX of the Cost Guidelines).
- M. Costs for membership in organizations which attempt to influence enactment or modification of legislation on the Federal or State level.

**PLEASE NOTE:** This list of unallowable costs is not all inclusive. It is to be used in conjunction with other definitions of allowable and unallowable costs found in other parts of this document. Additionally, it is to be used in conjunction with all Federal regulations addressing this issue.

## **VIII. COST ACCOUNTING**

### **A. Accounting**

Agencies providing more than one program must allocate the management and general costs to those benefiting programs, including fund raising (if applicable).

Within the foster care program, separate accounts shall be maintained for each of the service elements of care or service, and appropriate state budget forms shall be used to substantiate:

1. Unallowed Costs
2. Management and General
3. Direct Costs
4. Education

Management and General expenses are further prorated to either Direct Cost or Education. For purposes of setting and reviewing rate requests, as well as for budget formulation, these indirect costs must be prorated to the direct program/service areas. Normally, this will be done on the basis of total direct costs, that is, the percentage of the direct costs in each program/service category to the total of direct costs for all categories. These prorations of Management and General expenses will be developed based upon the most recent estimated actual costs and will only be changed on an annual basis. They will be established at budget formulation time, and will be used for cost distribution purposes for the ensuing year.

All costs which can be directly identified to a particular category will be directly charged thereto. All costs of a general, administrative or overhead nature will be separately identified and accounted for in the Management and General section of accounts.

## **B. Determining Annual Costs**

Child care costs are determined by dividing the total net annual cost of the program by the utilization level. This will determine the annual costs per child which when divided by 12 produce the monthly costs. Annual costs per child divided by 365 will provide a daily rate.

The capacity and occupancy figures for the educational service will vary from those of the child care facility as a whole. Education rates will be calculated by dividing the total net annual cost of the program by the utilization level. This will determine the annual cost per child which when divided by the days school is in session will provide a daily rate.

## **C. Utilization Rates**

Utilization rates for service providers shall be based on licensed or planned capacity taking into account the last 12 months actual

capacity. Utilization rates were targeted for a minimum of 90% beginning in FY 1993.

## **IX. SUBMISSION OF ANNUAL FINANCIAL AUDITS**

### **A. Audit Requirements**

The Purchase of Care Agreement between the purchasing State agency and the Child Care Facility, states that the provider shall submit to the Department's Project Officer a Certified Public Accountant's annual audit report of its financial records as specified by the Department. Additionally, the State Finance & Procurement Article, Subscript 7-402, Maryland Annotated Code, requires every provider to submit an itemized statement detailing how State aid was spent and authorizes the agency or the State Comptroller to conduct an audit of your records.

Most significantly, the federal statutes that regulate the programs administered by the State, mandate that all grantees submit, to the Department, an independent audit. The Department is at risk of federal sanctions, specifically disallowances and repayment of funds from its grant should it fail to complete timely audits. These statutes provide:

#### **Title XX**

Each State shall, not less often than every two years, audit its expenditures from amounts received (or transferred for use) under Title XX. Such State audits shall be conducted by an entity independent of any agency administering activities funded under Title XX in accordance with generally accepted auditing standards. Within 30 days following the completion of each audit, the State shall submit a copy of that audit to the legislature of the State and the Secretary. Each State shall repay to the United States amounts ultimately found not to have been expended in accordance with Title XX or the Secretary (HHS) may offset such amounts against any other amount to which the State is or may become entitled under Title XX (42 U.S.C. 1397e(b)).

#### **Title IV-E**

In order for a State to be eligible for payments under this part, it shall have a plan approved by the Secretary (HHS) which provides that the State shall arrange for a periodic and independently conducted audit of the programs assisted under this part of part B Title IV-E, which shall be conducted no less frequently than once every three years; 42 U.S.C. 671 (a) (13).

**B. Audit Penalty**

Failure to submit within 150 days after the close of the fiscal year will result in the Department that purchases care assessing a penalty of 5% of the per diem rate per child per day or a maximum of \$10 per child per day (whichever is less) until the audit is received. If an extension is required, it must be requested in writing to the Executive Director of the purchasing Department no later than 60 days after the close of the fiscal year. The request must be sent to the Department by U.S. Mail, Return Receipt Requested. The provider will be notified of the Department's decision in writing within 15 days of the receipt of such a request.

**C. Retained Earnings**

The Department will pay the per diem or monthly rate specified in the contract between the provider and the Department for occupied beds, up to the contract maximum, if any. The provider will reimburse the Department for any payments that have been received for unoccupied beds.

Any revenue received from the purchasing department by the provider as a result of current year operations in excess of the actual prorated costs of operations attributed to clients funded by the purchasing department, which is less than or equal to 10% of the revenues as documented by the transfer to retained earnings. The amount greater than 10% will be refunded to the purchasing departments in accordance with their share of the utilization of provider's program.

The amount transferred to retained earnings may be used in one of the following manners, as certified by the provider to all Purchasing Departments.

- A) To defray prior or future years operating expenses.
- B) To expand services based on licensing requirements.
- C) To offset the per client cost rate increases in subsequent years.
- D) To expand services in response to users group needs.
- E) For any other reasonably agreed to alternative.



United States  
Department of  
Agriculture

Center for Nutrition  
Policy and Promotion

3101 Park Center Drive  
Alexandria, VA 22302

## Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, May 2007<sup>1</sup>

Age-gender groups	Weekly cost <sup>2</sup>	Monthly cost <sup>2</sup>
	Thrifty plan	
<b>Individuals<sup>3</sup></b>		
<b>Child:</b>		
1 year	19.00	82.20
2-3 years	20.00	86.50
4-5 years	21.00	90.80
6-8 years	26.50	115.00
9-11 years	30.70	133.00
<b>Male:</b>		
12-13 years	32.30	139.80
14-18 years	33.50	145.00
19-50 years	35.90	155.30
51-70 years	32.80	142.00
71+ years	32.80	142.30
<b>Female:</b>		
12-13 years	32.20	139.60
14-18 years	32.10	138.90
19-50 years	32.20	139.70
51-70 years	31.80	137.80
71+ years	31.40	135.90
<b>Families</b>		
<b>Family of 2:<sup>4</sup></b>		
19-50 years	74.90	324.60
51-70 years	71.00	307.80
<b>Family of 4:</b>		
Couple, 19-50 years and children—		
2-3 and 4-5 years	109.00	472.40
6-8 and 9-11 years	125.30	543.10

Age-gender groups	Weekly cost <sup>2</sup>			Monthly cost <sup>2</sup>		
	Low-cost plan	Moderate-cost plan	Liberal plan	Low-cost plan	Moderate-cost plan	Liberal plan
<b>Individuals<sup>3</sup></b>						
<b>Child:</b>						
1 year	24.30	28.00	34.10	105.20	121.10	147.70
2 years	23.70	28.30	34.10	102.90	122.60	147.70
3-5 years	26.00	32.00	39.00	112.70	138.60	169.00
6-8 years	35.40	43.70	51.20	153.40	189.40	221.70
9-11 years	39.80	50.70	59.50	172.30	219.70	257.60
<b>Male:</b>						
12-14 years	44.90	55.40	65.90	194.50	239.90	285.70
15-19 years	46.50	57.50	67.30	201.50	249.20	291.50
20-50 years	46.10	57.30	70.20	199.60	248.20	304.20
51 years and over	43.80	54.00	65.10	189.70	233.80	282.20
<b>Female:</b>						
12-19 years	38.90	46.90	57.10	168.60	203.20	247.50
20-50 years	40.10	49.00	63.20	173.80	212.20	273.80
51 years and over	38.90	48.40	58.30	168.60	209.80	252.60
<b>Families</b>						
<b>Family of 2:<sup>4</sup></b>						
20-50 years	94.80	116.90	146.70	410.70	506.50	635.80
51 years and over	90.90	112.60	135.80	394.10	488.00	588.30
<b>Family of 4:</b>						
Couple, 20-50 years and children						
2 and 3-5 years	135.90	166.50	206.50	588.90	721.60	894.80
6-8 and 9-11 years	161.30	200.70	244.00	699.10	869.50	1057.40

<sup>1</sup>Basis is that all meals and snacks are purchased at stores and prepared at home. For specific foods and quantities of foods in the Thrifty Food Plan, see the report *Thrifty Food Plan, 2006 (2007)* for specific foods and quantities of foods in the Low-Cost, Moderate-Cost, and Liberal Plans, see *The Low-Cost, Moderate-Cost, and Liberal Food Plans, 2003 Administrative Report (2003)*. The Thrifty Food Plan is based on 2001-02 data; and the Low-Cost, Moderate-Cost, and Liberal Food Plans are based on 1989-91 data. All four Food Plans are updated to current dollars by using the Consumer Price Index for specific food items.

<sup>2</sup>All costs are rounded to nearest 10 cents.

<sup>3</sup>The costs given are for individuals in 4-person families. For individuals in other size families, the following adjustments are suggested: 1-person—add 20 percent; 2-person—add 10 percent; 3-person—add 5 percent; 4-person—no adjustment; 5- or 6-person—subtract 5 percent; 7- (or more) person—subtract 10 percent. To calculate overall household food costs, (1) adjust food costs for each person in household and then (2) sum these adjusted food costs.

<sup>4</sup>Ten percent added for family size adjustment.

Note: The age-gender groups differ for the Thrifty Food Plan compared with the other food plans because the Thrifty Food Plan is based on more recent dietary standards, which incorporate age-gender groupings that better represent variation in nutrient requirements of different life stages. Updates of the Low-Cost, Moderate-Cost, and Liberal Food Plans, which will reflect recent dietary standards, are in development.