DIVISION OF PUBLIC HEALTH
CONTRACTS UNIT
BUDGET WORKSHOP 2016

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GOALS

Become familiar with the Contractor Budget Categories available in Open Window.

Learn DPH policy rules and how they apply to the Contractor Budget.

Identify and correct errors and inconsistencies in cost calculations and narratives.

Budget Codes / Funding

Budget Office

We cannot emphasize strongly enough how important it is to communicate early with your Business Officer in Budget to ensure contract funds are budgeted correctly.

Open communication between Program, Budget and Contracts is the key to moving your contract swiftly through the approval process.

Funding Availability

- Grant Redirects
  - Program should prepare redirects in collaboration with their Budget Officer ASAP.

- Budget Revisions
  - Internal (type 14) vs. External (type 11 and 12).

- Notice of Grant Award (NGA)
  - Budget cannot sign off until the NGA has been received.

Requirement Accounts

532 vs. 536

532XXX designates a POS contract.

536XXX designates an FA contract.

Center Codes

Discuss the Center with Budget

- Be sure to use the correct Fund, RCC and FRC for your contract.

- Open Window selects the Fund based on the Service Title entered for that contract.

- Alert your Team Leader of any changes.

Contract Length

- **As a general rule, DPH does not permit Multi-Year Contracts for budgeting reasons.**

- **Use of State Dollars – one penny of State dollars means contract <u>must</u> run on period aligned with the SFY (June 1 – May 31).**

External Approvals

- Excess State Rates & Money Report items must be approved by Budget & Analysis. (1-2 weeks)
- DHHS IT approval is required for IT components – pay attention to IT Questionnaire in OW, compare to budget. (2-3 weeks)
- Contracts with IT components $100,000 or more must go to a special committee. (3-5 weeks)
- Public Affairs review may be required if media items are not local outreach. (1-2 weeks)
- Contracts $200,000 or more must be approved by Procurement & Contracts. (30 days)
- Contracts $5,000,000 or more must be approved by Legal. (30 days)

Budget Categories

Budget Categories

- Open Window specifies budget categories
  - Very little flexibility
  - Excel budget worksheet mirrors OW
- Why it's important
  - May be used for reporting purposes
  - May be used for comparison across services
  - Consistency is key

Budget Categories

- Human Resources
  - Salary/Wages
  - Fringe Benefits
  - Other
- Other Operating Expenses
  - Supplies and Materials
    - Furniture
    - Other
  - Equipment
    - Communication
    - Office
    - IT
    - Assistive Technology
    - Medical
    - Vehicles
    - Scientific
    - Other

Budget Categories

- Other Operating Expenses
  - Travel
    - Contractor Staff
    - Board Members Expense
  - Utilities
    - Gas
    - Electric
    - Telephone
    - Water
    - Other
  - Repair and Maintenance
  - Staff Development

Budget Categories

- Other Operating Expenses
  - Media/Communication
    - Advertising
    - Audiovisual presentations/multimedia/tv/radio presentations
    - Logos
    - Promotional items
    - Publications
    - Public service announcements and ads
    - Reprints
    - Text Translation into another language
    - Websites and web materials

Budget Categories

- **Other Operating Expenses**
  - **Rent**
    - Office Space
    - Equipment
    - Furniture
    - Vehicles
    - Other
  - **Professional Services**
    - Legal
    - IT
    - Accounting
    - Payroll
    - Security

Budget Categories

- Other Operating Expenses
  - Dues and Subscriptions
  - Other
    - Audit Services
    - Service Payments
    - Incentives and Participants
    - Insurance and Bonding
    - Not Otherwise Classified
- Subcontracting and Grants
- Indirect Cost
- Contractor Match

Budget Categories

TRUE or FALSE

The Contractor wants to serve lunch during an activity.

35 participants x $10.90 per lunch = $381.50.

This belongs under Staff Travel because we are paying for lunches at the State Rate.

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Budget Categories

FALSE

Because these are participants, this item belongs under:

Other Operating Expenses

Other

Incentives and Participants

Subcontractors

- When to use the Subcontractor budget?
  - When the Contractor is subcontracting out the <u>program work</u> to another entity.

  Examples:

  The Contractor is giving a portion of the funds to another entity who will also render services to participants such as providing education.

  The contract is for an evaluation and the building of a database which will track recipients of service, number of services received, etc. The Contractor hires an IT vendor to build the database. In this instance, the IT vendor is a <u>subcontractor</u> because the work is program-related.

Budget Categories

- Differentiations
  - Purchased Copier vs. Leased Copier
  - Where does a Purchased Copier go?
  - Where does a Leased Copier go?
  - Educational DVDs purchased vs. Educational DVDs designed and printed
  - Where do Educational DVDs purchased go?
  - Where do Educational DVDs designed and printed go?

Budget Categories

GROUP ACTIVITY

Using the budget handout, divide into groups and determine what activities are not in the right category.

Do NOT worry about any calculations at this time.

Take 10 minutes.

Salary & Fringe

Salary

- Salaried vs. Hourly Staff
  - It is possible for Salaried and Hourly staff to be either full-time or part-time
  - Contractor's internal accounting must reflect annual salary or hourly wage in accordance with the budget
- Consequences
  - Audit exception
  - Change to Contractor's risk status

Salary

- How to Spot Inconsistencies in Staffing
  - Annual Salary is far too low to be reasonable
  - Percent of time worked doesn't match with duties listed
  - Number of months worked doesn't match contract period

Salary Narrative

- Must include position title and name of staff (or TBD)
  - TBD is only allowable when the position is vacant at that time. Renewals should be updated with staff name.
- Must include duties relevant to the program activities
- Must include "part-time" if relevant (we will assume full-time, otherwise)
- UNC, Duke, WFU, etc. staff must be designated in their narratives:
  - Exempt / Non-exempt
  - SPA / EPA / EPA Physician

Salary

GROUP ACTIVITY

Using the budget handout, divide into groups and determine what staff salary calculations and staff salary narratives require follow up with the Contractor.

Do the wages make sense and are the narratives complete?

Take 10 minutes.

Federal Salary Caps

Salary Caps to Executives funded by Federal NIH / DHHS Grants

Federal Executive Level II

Consolidated Appropriations Act, 2014 (Public Law113-76) restricts the amount of direct salary of an individual under an NIH / DHHS* grant, cooperative agreement or applicable contract to Executive Level II of the Federal Executive Pay Scale.

Currently: $181,500.**

*Agencies include ACF, AHRQ, AoA, ATDSDR, CDC, CMS, HRSA, HIS, NIH, NIS and SAMHSA.

** Subject to change with new Federal Budget.

Fringe Benefits

- What is a fringe benefit?
  - Fringe benefits are a collection of various benefits given to employees in addition to wages or salaries

- What are some examples of fringe benefits?

- Must give detail on each fringe benefit and how it is calculated

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Fringe Benefits

- UNC-System have a set of DHHS-approved fringe benefit rates (found on toolkit)

- Rates listed in UNC budgets must comply with the latest department approved rates
  - If any deviation from approved rates exist (such as a lesser fringe benefit), it must be noted in the budget narrative.

- If requesting any tuition, must adhere to the approved tuition schedule
  - Cost for UNC tuition goes in Other Operating Expenses – Not Otherwise Classified.

Fringe Benefits

What is FICA?

Federal Insurance Contributions Act (FICA) is a U.S. law requiring a deduction from paychecks and income that goes toward the Social Security program and Medicare.

2 components: Social Security and Medicare
Employer-paid portion of Social Security = 6.2%
Employer-paid portion of Medicare = 1.45%
Total employer-paid FICA = 7.65%

However, there is a SALARY CAP on Social Security.

Fringe Benefits

The Social Security Salary Cap (also known as Wage Base) is the maximum earned gross income on which a wage earner's Social Security tax may be imposed.

For the period of 1/1/15 – 12/31/16:

The maximum annual earnings subject to the 6.2% Social Security tax is $118,500.

As of 1/1/17:

The maximum annual earnings subject to the 6.2% Social Security tax is **$127,200**.

Fringe Benefits

This means that ANY staff on a contract whose annual salary equal to or greater than $127,200, their annual Social Security portion of FICA must be calculated at $7886 (or $127,200 x 6.2%).

This calculation applies to all salaries equal to or greater then $127,200 – irrespective of the prorated salary.

Medicare is taxed at the total salary – there is no cap.

Fringe Benefits

EXAMPLE: If annual salary is $156,000, FICA calculation is as follows:

Social Security portion:
$127,200 (SS cap) x 6.2% = $7886

Medicare portion:
$156,000 x 1.45% = $2,262

For OW entry:
$7886 goes in Fringe Amount
1.45% gets added to the Fringe Percent

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Fringe Benefits

- DPH Policy: Fringe Benefits Thresholds
  - Equal to or greater than $8,000 in annual health insurance

    if exceeds, must have current documentation of health insurance premiums paid by Contractor or cost allocation documentation

  - Up to 20% for all other benefits

    if exceeds, must have current documentation of Contractor's fringe benefit policy

Fringe Benefits

□ Spotting Errors in Fringe

- Look for salaries equal to or greater than $127,200

  Was FICA formula deleted (if using Excel)?

  Did they utilize the salary cap calculations?

- Eyeball annual fringes quickly using a baseline

  Use 10% or 1% as a baseline to guesstimate fringe

  Move the decimal to the left once for 10% and twice for 1%

  10% of $48,000.00 = $4800.00

  1% of $48,000.00 = $ 480.00

Fringe Benefits

The Contractor's Budget lists 5.3% as one of the fringe benefits.

The annualized amount for this benefit on an annual salary of $48,000 is listed as $1,680.

5.3% x $48,000 = $1,680

Is this Correct?

HINT: use 10% as a baseline to figure it out.

Fringe Benefits

NO!

Move the decimal over once to get 10%:   4800

5% is half of 10%. What's half of 4800?:   2400

5.3% is close enough to 5% to determine that $1,680 is <u>not</u> correct.

The Contractor transposed the percentage and used 3.5% instead of 5.3%.

5.3% of $48,000 = $2,544.

Take a Break!

Cost Narratives

Cost Narratives

- What does an adequate cost narrative look like?
  - What is it?
  - How many?
  - How much?
  - For what purpose?
  - Calculations make sense and are easy to follow/recreate.

- Is this an adequate cost narrative?

  Dell laptop computers = $1,018.

  What's missing?

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Cost Narratives

□ Adequate cost narrative

Dell 13″ laptop computers: 1 each for the 2 regional program coordinators to use in the field to enter data into the web-based tracking system. 2 x $509/each = $1,018.

Cost Narratives

- Allocated Costs – overhead items / items prorated across multiple programs
    - What are some examples of items that may be cost allocated across programs?

- Contract Administrator should be aware the Contractor has multiple programs across State and Federal levels

- Proration should make sense for the level of funding/support received for this program.

Cost Narratives

- Allocated Cost Narrative should include
  - What is it?
  - What is the annual cost?
  - What is the prorated % or allocation for this program?
  - How is the allocation calculated?
  - Calculations make sense and are easy to follow/recreate.

Cost Narratives

- Rent narrative for a 12 month contract

  Rent prorated across 3 programs = $22,000

  Does this give the complete picture?

  What is missing?

  What do you need to ask the Contractor?

Cost Narratives

Rent narrative for a 12 month contract:

Annual rent of $66,000 for 2,510 square feet. Program XYZ accounts for 40% of the total funding for this agency.

$66,000 x 40% = $26,400.

Cost Narratives

- If using FTEs as a basis for costs, the calculations must reflect only the FTEs working on the contract
  - If there are 4 FTEs on the contract, cannot base supply calculations on 5 FTEs
- Ensure correct number of months are used in calculations
  - If the contract is for 8 months, cannot base electric calculations on 9 months
  - Be extra cautious when Contractor is re-submitting budgets due to a change in the start date

Cost Narratives

□ Anytime "space" is an item, must give the total square footage of a facility and the amount of square feet being used on the project

- Rent or mortgage on office space
- Rental of a community center for activities
- Warehouse

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Cost Narratives

- **HOT words** such as: consultant, catering, celebrations, flowers, honorariums, parties, showers, rallies, holidays, Christmas, etc. **are NOT allowed**.

- If gift cards are being used as incentives, be sure to include the gift card tracking language in the Performance Standards section of the SOW.

Audits

- Audit costs are NOT allowed on Purchase of Service (POS) contracts.

- Only Level 3 grantees may include audit expenses in the budget. Audit expenses should be prorated based on the ratio of the grant to the total pass-through funds received by the entity.

- Level 3 grantees are non-governmental agencies that receive $500,000 or more in <u>grant</u> funds, directly from the State.

- Per NCGS 143C-6 Part 3, only Level 3 grantees are required to submit a "yellow book" or A-133 audit.

Cost Narratives

GROUP ACTIVITY

Using the budget handout, divide into groups and determine what items (not including salary and fringe) have calculation and/or narrative issues and require additional follow-up with the Contractor.

You will NOT need a calculator.

Take 10 minutes.

Good Practices & Policies

Calculations

- Run the numbers – Contractors make arithmetic mistakes

- Use up to date State Rates for travel, meals and snacks

- No exceptions to any In-State rates or Out-of-State meal rates

- Any exceptions to the Out-of-State Lodging rate should be few and far between and justified to withstand intense scrutiny. Additional approval time required.

Cost Negotiation

- The entire budget is negotiable.
- Costs should be reasonable and prudent
- We have a fiduciary responsibility to ensure the best use of State and Federal funds.
- Do not take the Contractor's budget at face value. Examine for inconsistencies.
- Costs should correlate to activities laid out in the Scope of Work.

Cost Negotiation

- Allowable Expenditures must follow the rules of the grant/legislation.
- State rate exceptions should be negotiated out of the budget.
- Encourage double occupancy for hotel stays.
- Incentives should not be the bulk of the budget.

Case Study

TRUE or FALSE

In an audit of a not-for-profit organization, the Office of the Auditor reviewed the Contractor's budget and questioned the number of printed t-shirts and bags.

Case Study

TRUE

In an December 2012 audit of a not-for-profit organization in relation to a particular grant with DPI, part of the findings were:

The $4,250 custom shirt and bag order provided each of the campers and camp counselors with a different t-shirt for each day of a five-day camp. We question the need for 450 custom shirts and 75 bags as there were only 30 campers and seven camp counselors for the five-day camp.

Encumbrance and Payments

PO/NCAS Numbers

The PO numbering system now mimics the Open Window contract number.

Financial Assistance (FA) contract PO numbers begin with **16001** followed by the five digit Open Window contract number.

Purchase of Service (POS) contract PO numbers begin with **20041** followed by the five digit Open Window contract number.

CER Template

Please make sure that a new template is provided to Contractors with each new contract that shows the correct Contract number, Purchase Order number, GL Account and GL Center information.

Failure to update this information could result in a delay in payment to your Contractors.

The latest revisions of forms are on the Contracts Unit website.

Expenditures

CERs are due by the 10th of the month following the service period, even if they are for $0.

CERs must be for actual expenditures, and as such cannot be submitted before month end.

A Late Payment Exception Request must accompany any CER that is presented for payment over 30 days past the end date of the contract (UNC has 60 days).

Contracts signed after the effective date require approval from B&A before the Controller's Office will pay the invoice.

Indirect Cost on CERs

If a contract contains Indirect Cost as a line item on the executed budget:

☐ The Contractor MUST break out the Indirect Cost amount on the CER, separate from other expenses.

☐ Failure to do so will result in the CER being returned for correction by the Contracts and/or Controller's Office.

Change Request Form

The Change Request Form is used for both encumbrance and code changes.

Please provide a valid reason for the change request.

The information listed on the form must be accurate.

The CFDA and Award numbers for Federal funds must be listed for tracking purposes.

Suspension of Funding List

The Suspension of Funding List (SOFL) is updated weekly by the Office of State Budget and Management and can be found on their website.

No Contractor will be reimbursed for their expenditures nor can we execute a contract with the entity while they are on the SOFL.

Overpayments to Contractors

Occasionally, contractors make errors on their CERs which result in an overpayment.

These errors are sometimes found in a timely manner, or can be well after a contract has ended as a result of an internal audit.

If you have an instance where there has been an overpayment, contact the Encumbrance Officer immediately for resolution.

Additional Training

Training Available

Contracts 101:

Power Point Presentation available on DPH Contracts website under the heading Training then Contracts:

http://publichealth.nc.gov/employees/contracts-forms.htm

Contracts Refresher Course:

Power Point Presentation available on DPH Contracts website under the heading Training then Contracts:

http://publichealth.nc.gov/employees/contracts-forms.htm

Open Window Workgroups:

Contracts Team Leaders will train Contract Administrators in Open Window. Email your Team Leader to request inclusion in a workgroup. When a workgroup is not feasible, one on one assistance may be provided.

Questions?

Current State Rates*

Mileage reimbursement rate: $0.54/mile

Breaks: $4.50 per person

	In-State	Out-of-State
Breakfast	$ 8.30	$ 8.30
Lunch	$10.90	$10.90
Dinner	$18.70	$21.30
Lodging	$67.30	$79.50

*Rates effective as of 1/1/16 and accurate as of 10/10/16

Source: https://ncosbm.s3.amazonaws.com/s3fs-public/documents/files/BudgetManual.pdf

Helpful Website Addresses

NC DPH Contracts Unit:
http://publichealth.nc.gov/employees/contracts-forms.htm

NC DHHS Open Window:
http://dhhsopenwindow.nc.gov/

NC Grants:
www.ncgrants.gov

NC OSBM (for the SOFL):
http://www.osbm.state.nc.us/

Helpful Website Addresses

NC Secretary of State (Private Sector):
https://www.sosnc.gov/thepage.aspxOffice of the State
Auditor:
www.ncauditor.net

NC Dept. of Administration Debarred Vendors List:
http://www.pandc.nc.gov/actions.asp

Federal System for Award Management (SAM)

(home to the now defunct systems: CCR and EPLS)

https://www.sam.gov/portal/public/SAM/