



Office of Policy and Management

STATE OF CONNECTICUT



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Frequently Asked Questions

PURCHASE OF SERVICE – COST STANDARDS

The questions and answers (Q&As) are organized by subject, according to the three sections of the Cost Standards. The questions are meant to be general in nature. Specific, detailed, or technical questions cannot be adequately addressed in this forum. Additional Q&As will be posted from time to time, as the need arises.

Online References:

- Office of Policy & Management, *Cost Standards*, 2006
http://www.opm.state.ct.us/finance/pos_standards/coststandards.htm

INTRODUCTION [^TOP](#)

- 1. Do the cost standards apply to State agencies other than the six major POS agencies (Department of Children and Families, Department of Mental Health and Addiction Services, Department of Public Health, Department of Social Services, Department Mental Retardation, Department of Correction)?**

Yes. They apply to all executive branch agencies with contracts that meet the cost standard's definition of a state award. State award is defined as a fully executed POS contract, grant, cooperative agreement, cost reimbursement contract, or other contract for the purchase of health or human services between a State agency and an organization.

- 2. When a contract includes both state and federal funds, do the standards apply to the federal portion of the contract?**

Yes. The standards apply to federal funds unless superseded by federal statute or federal regulation.

- 3. Do State agencies have responsibilities under the cost standards?**

Yes. State agencies are responsible for implementing the cost standards with their providers.

- 4. Can a provider organization appeal to OPM when it disagrees with an agency's interpretation of the cost standards?**

No. A provider organization must work with the State agency to resolve any differences. OPM may provide an interpretation, at the agency's request, but the issue remains one between the agency and the provider organization.

5. Do the cost standards apply to multi-year contracts that do not expire until June 30, 2008? I don't understand the question.

Yes. All contracts in effect on or after July 1, 2007 must comply with the cost standards, including contracts executed prior to July 1, 2007. Agencies must work with their organizations to ensure that all such contracts are in full compliance with the cost standards.

6. Do the cost standards apply to PSA contracts as well as POS contracts?

Yes. The cost standards apply to any PSA contract that meets the definition of a state award, as defined in the cost standards. The definition does not include PSAs with individuals.

7. Will the state single audit address the cost standards?

Yes. Instructions to state agencies for the update of the State Single Audit Compliance Supplement for SFY July 1, 2006 to June 30, 2007 include cost standard requirements. This update will be posted to the following website address during May or June:
<http://www.opm.state.ct.us/igp/munfinsr/ssainfo.htm>

8. How will OPM communicate future changes to the cost standards?

OPM will provide written notification of any changes in the cost standards to the applicable state agencies and the agencies will have the responsibility to inform their providers of these changes. The cost standards will be referenced in the human service contract template (Part II Section B.) and changes to the standards will be reflected in subsequent template revisions. We will also update the cost standards document on our website as necessary. We urge both agencies and providers to check our website periodically as this will be our primary source of information on the cost standards. The cost standards web address is:
http://www.opm.state.ct.us/finance/pos_standards/coststandards.htm

GENERAL PRINCIPLES [^TOP](#)

9. Can an appointed body of the organization (e.g., a finance committee) approve the Cost Allocation Plan on behalf of the Board of Directors?

No. Only the Board of Directors of an organization can approve the plan on behalf of the organization.

10. Is there a limit on the frequency and nature of changes an organization may make to its cost allocation plan?

No. There is no set limit, but the methodology used must be consistent over time and all significant changes must be approved by the organization's board of directors.

11. Does OPM have a standard format or template for an organization's cost allocation plan?

No. An organization may develop whatever format is appropriate for their circumstances.

12. Can the cost allocation plan (CAP) be general and then backed up by a detailed budget that has the individual salary and cost item allocations?

Yes. The CAP must include provisions for allocating allocable as direct, A&G, and compensation for salaries and wages. The amount of detail in the plan would depend on a number of factors including, but not limited to, the size and complexity of the organization, the number of revenue sources, and the number of programs. Based on these factors, the detailed budget and cost item allocation documents may or may not need to be included in the CAP.

13. In the past, organizations have classified costs as direct and indirect. Are indirect costs included in the cost standards?

No. Under the cost standards, the total cost of a state award is comprised of allowable direct costs, allocable as direct costs, and A&G costs.

14. What is the standard formula that must be used to calculate the percentage of A&G costs for state awards?

The standard formula is as follows:

$$[\text{A\&G costs}] \div [\text{Total Allowable costs} - \text{A\&G costs}]$$

Note: There may be agency specific costs that need to be deducted from Total Allowable costs (e.g., proceeds from program run business, room and board payments, costs of subcontracts, unallowable costs).

15. Can Management Information System (MIS) salaries be charged to programs when employees work on program forms and other matters, or do these costs need to be charged to A&G regardless of the type of work being performed?

In general, MIS salaries are charged to A&G. The work of these employees is typically thought to be in support of the entire organization.

16. Does the 18% cap on A&G found in the SFY2006-SFY2007 biennium budget continue into SFY2008?

No. The 18% cap is effective January 1, 2007 through June 30, 2007 and applies only to those agencies identified in the budget. For SFY2008 and beyond, the cost standards guide agencies in their contracting processes. While there is no set percentage limit for A&G costs in the standards, certain restrictions do apply. A&G costs must be reasonable and necessary. A&G costs under one state award cannot be transferred to another state award. The organization's cost allocation plan must use the hierarchy of cost methodology to reflect true A&G costs.

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17. If a cost item is allowable in the standards, does an agency have to fund that item?

No. Since agency funds for program services are finite, funded costs must be negotiated. Even though an item of cost is allowable, the agency may choose not to fund that item. Agencies can not choose to fund an unallowable cost item.

18. Do the required personnel activity reports need an explanation (narrative) of the actual work performed, or do they just need to indicate which contract the employees were working under?

The personnel activity reports must account for the total amount of work for which employees are compensated. Salary and wage charges may be made initially on the basis of estimates (i.e., the cost allocation plan). However, organizations must confirm that costs distributed based on such estimates represent actual costs to the State award and adjust costs accordingly. Cost reports (e.g., quarterly cost reports, interim cost reports, annual cost reports) submitted to State agencies must include these reconciled and adjusted actual costs.

Employees are not required to report time worked by program by fifteen minute intervals within these personnel activity reports. The organization must decide what level of detail is needed in these reports. However, organizations must ensure that charges to State awards are based on time worked in State-funded programs and adjust costs accordingly.

19. Do the standards treat bonuses and incentive compensation differently?

Yes. By definition, a bonus is a one-time ad hoc distribution of surplus funds and is unallowable. Planned incentive compensation based on established, written criteria is allowable.

20. If an organization realizes a profit on the sale of depreciable property (e.g., a building used for a state-funded program), does it have to reimburse the State for a share of the profit?

Yes. On and after the effective date of the cost standards, the State must be reimbursed based on the level of funding provided by the State for the property being sold. Due to the many possible scenarios and technical aspects of the sale of depreciable property, these transactions require negotiation between the organization and the State agency on a case by case basis.

21. Are related party transactions allowed under the cost standards?

Yes. Related party transactions are allowable under certain conditions, including the requirement that allowable transactions must be based on cost and not fair market value.

22. Is a website an allowable cost if it has a fundraising component?

Yes. A website is an allowable cost as long as fundraising is not its primary purpose and the amount of space devoted to fundraising is not disproportionate to other website purposes.

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