

Contract Cost Principles and Guidelines

Introduction

The City of Philadelphia Contract Cost Principles and Guidelines is designed to serve as a manual for City departments entering into professional service contracts, contracts which are not competitively bid through the procurement process but are either awarded directly by the department or competitively solicited and awarded using a request for proposal (**RFP**). Professional services are defined as the labor, time and effort provided by particular professionals or organizations such as legal, engineering or accounting firms or health and human services providers to deliver a specific product or service sought by the City.

The manual begins with a General Information and Definition chapter, which contains some basic definitions, defines different types of contracts as well as the meaning of the term “service unit costs”.

The Cost Principles and Guidelines chapter discusses general guidelines for determining what types of costs should be allowable and establishes standards for the allowability of individual cost items such as entertainment, fund raising, and travel. Departmental staff involved in contracting should find this section an especially useful guide. This chapter also includes definitions of direct and indirect cost and explains two methods for allocating indirect costs.

The Standard Budget Format chapter explains how to use the standard contract budget format shown in the appendices. The contract budget format was developed to serve as a model for the type of cost information that should be requested from contractors. This chapter also discusses how to calculate service unit cost.

For a listing of what is contained in the other sections of this manual, please consult the index [on the next two pages](#).

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General Information and Definitions

Scope of Service

A professional services contract must clearly state the work to be performed or the results to be achieved such as reports, documents, task completed, units of service to be provided, or other forms of work products. The work products or performance expectations must be clearly defined by the appropriate City department contracting officer.

Each contract with measurable deliverables should include a timetable and implementation schedule for the work to be performed. The schedule should include benchmarks and due dates. Contracts providing services to a client population (where there is no clear deliverable) should specify percentages, outcomes, success rates, or any other element(s) that the contracting department will use to measure the contractor's effectiveness.

Types of Contracts

Fixed Price Contracts

Place responsibility on the contractor to perform the defined scope of services at a price, or at an hourly or daily rate, which is established in advance and which cannot be adjusted upward after the contract begins even if the contractor experiences changes in its cost structure which increase the Contractor's expenses. There are at least four types of fixed price contracts: **a) fixed fee, b) hourly, c) per diem, and d) capitation**. In addition each of these may also include a provision for reimbursement of out-of-pocket expenses as referenced in section (e), below. Hourly, capitation, and per diem contracts are also referred to as "**fee-for-service**" contracts.

Fixed price contracts, other than per diem contracts where the rate is based on cost reimbursement, will not require a budgetary submission showing a line-item breakdown of all costs composing the fixed price or lump sum amount. These contracts will require a budget showing the calculation of the contract amount; e.g., hourly rates for contract employees and hours to be spent on the contract project. In addition, departments may determine if they will require a cost allocation plan for the indirect costs subsumed in the hourly, per diem or capitation rate or lump sum charge. **If the charge for indirect costs is a separate item in the contract cost, then the contractor must submit a cost allocation plan or letter of assurance from CPA firm accepting the cost allocation plan methodology.** The reimbursement of out-of-pocket costs, which are not included in the fixed price, is governed by the allowability guidelines in the Cost Principles and Guidelines.

All departments entering into fixed price contracts (fixed fee, hourly, per diem or capitation) must prepare an annual plan by April 30 explaining the department's procedures for determining the appropriateness of the cost of each type of fixed price contract. Departments must describe the steps taken to ensure that the City is paying a fair and reasonable amount for the services performed. Verification of price may be accomplished by ensuring adequate competition (both formal and informal), using a comparison of prices for similar projects, ensuring conformance with market rates, or performing an in-house analysis of the project to establish an estimate of cost.

Each department's plan must list the types of fixed price contracts into which the department anticipates entering in the upcoming fiscal year and the anticipated number of each type. Each **type** of fixed price contract should have its own plan for evaluation. These plans may differ by division or unit in the department and, in such cases, each division or unit should submit its own plan. The plan(s) must be maintained on file in the department and be approved by the department Commissioner or agency head, or designee.

a) Fixed fee contracts

Establish a fixed price for the work to be provided, which will not change regardless of how much time is spent by the contractor to complete the job. Contracts of this type should be employed when the quantity of services to be provided is known beforehand and the services are clearly defined in terms of products to be delivered (“**deliverables**”), such as preparation of reports, installation of new computer systems, or design of buildings.

b) Hourly contracts

Establish in advance an hourly rate for the services to be provided. The total amount ultimately paid to the contractor will, therefore, depend on the number of hours worked. For Example, if a City department retains a data processing consultant to provide assistance to the City when needed throughout the year, it should use an hourly contract because it is difficult to estimate what the department’s demand for those services will be in advance. Hourly contracts are also used in cases where there is a clear deliverable and the amount of hours to be worked can be reasonably estimated. In the latter case, departments may want to fix a maximum number of billable hours for the completion of the deliverable. In any event, if an hourly contract is employed, the Department, for purposes of cost control, must establish a maximum number of hours that can be billed to the City during the contract period.

c) Per diem contracts

Are used in instances where the contractor is providing service to a client population (such as the homeless or abused children) and the quantity of the services to be provided will vary depending on the needs and the number served of the client population.

The per diem is a daily rate per client served for a particular type of care. A per diem contract may cover several different types of care each with a separate daily rate.

d) Capitation contracts

Establish a fixed fee per client served. This will not change regardless of the amount of services provided to the client (such as the number of days of treatment). However, the ultimate value of the capitation contract will vary depending on the number of clients served. An example of a capitation contract is the contract between the City and health maintenance organizations (HMOs) to provide health services to City employees. The monthly cost per employee is fixed in advance, but the total value of the contract will depend on the number of employees enrolled throughout the year.

e) Any of the foregoing contracts

May combine a cost reimbursement feature in the fixed fee arrangements. This type of contract allows for the reimbursement of allowable out-of-pocket costs in addition to the professional services, which are recognized on an hourly or fixed fee basis. Out-of-pocket costs, which are eligible for reimbursement, are those costs which are not included in the hourly or fixed fee and which are directly and specifically related to the provision of the services provided under the contract. Examples of this type of cost include communications expenses (including messenger service), copying and printing expenses, and specialized materials and supplies. Departments may want to restrict the types of allowable out-of-pocket expenses as well as the maximum amount reimbursable.

Cost Reimbursement Contracts

Provide for payment of allowable costs incurred in contract performance pursuant to an approved line-item budget. This type of contract establishes at the outset an estimated cost of performance of the contract and a dollar ceiling which the contractor may not exceed (except at the contractor's own expense). In some cost reimbursement contracts, the contract provides for payment to the contractor of an agreed fixed fee or profit in addition to reimbursement of allowable incurred costs. This type of contract, which is a variation of a cost reimbursement contract, is referred to as a **Cost Plus Fixed Fee Contract**.

The following provisions shall apply to cost reimbursement contracts and to the portion of any fixed price contract, which contemplates reimbursement for out-of-pocket costs:

- a. Costs may be reimbursed only if they are recognized as allowable and allocable under Cost Principles and Guidelines chapter.
- b. The contractor may make no change to its budget that increases the total contract amount or that reduces the level of services to be provided. Any movement of funds from personnel into another line item, no matter the amount, must receive prior written approval. Departments may require more stringent notification and approval guidelines for the movement of funds within a budget if desired or if required by non-City funding sources. All changes must be reflected in a revised budget submitted within 10 days of the end of each fiscal quarter.

Contingency Fee Contracts

Establish an arrangement whereby a contractor collects revenue or reduces costs on the City's behalf and is paid a percentage of the revenue collected or of the amount of cost reduction. The final value of the contract will depend upon the total amount of revenue collected or the total amount of cost reduction during the term of the contract.

A contingency fee contract should only be used (a) after the contracting department completes a cost/benefit analysis demonstrating that a contingency fee contract will be more advantageous to the City than a fixed contract or (b) when the risk to the contractor is sufficiently high to render a fixed fee contract inappropriate.

Service Unit Cost

Cost accountability is an essential element of compliance with the guidelines concerning professional service contracts for the City of Philadelphia. The City desires to know not only the total cost of a program or contract but also how many clients or citizens are served by the contract and what the cost is per client or citizen. In the case of contracts which are costed at an hourly or per diem rate, this calculation is a relatively easy process. In the case of contracts which call for the delivery of a set job or report, the cost per unit is simply the cost per job or per report.

However, contracts in which compensation is based on a program budget may present a problem in determining a service unit cost since the unit of service may not be clearly defined. It is the intent of the City to quantify these costs wherever possible. If the contract objective or outcome is not quantifiable, some measure of service level and the effectiveness of service delivery must be identified. An example of a measurable, but not quantifiable, service objective may be “the percentage decrease in the rate of new AIDS cases within a target population” for a contract for AIDS Community Outreach and Education.

If more than one objective or end product is required as part of the terms of the contract, then each of these objectives must be stated separately in measurable terms. Each service objective or outcome must be clearly defined so that the City can properly evaluate the effectiveness of program service delivery.

It is important to note that the cost per service unit is only one of a number of factors that the City will use to evaluate the effectiveness of a program. However, clearly defining the stated objective of the contract and maintaining accurate cost records by service objectives will allow the City to make an informed judgment as to the worthiness and credibility of a contract. A discussion of how to calculate service unit costs, together with examples, is included in the Standard Budget Format Section.

Cost Principles and Guidelines

This section will define direct costs and indirect costs and will provide a method for calculating an indirect cost rate and allocating indirect costs among several contracts. Included are general guidelines for determining whether costs are allowable and for determining whether costs are *reasonable and necessary*. The City's Cost Principles and Guidelines do not relieve the contractor of responsibility for following regulations and restrictions imposed by the funding source for contracts that are funded by a non-City source. **Whenever a non-City funding source's regulation or requirements are more restrictive than the City's Contract Cost Principles and Guidelines, the non-City funding sources regulations and requirements must prevail.** This section also establishes standards for determining the allowability of specific cost items which are usually included in a contract.

Direct Costs

Direct costs are those costs that can be specifically identified with a particular project or contract and are to be charged directly to the contract.

An example of a direct cost is the salaries and fringe benefits of personnel which can be directly attributed to a particular contract. However, salaries and fringe benefits may not always be treated as a direct cost. Salaries and benefits of executive officers and administrative employees may be considered as an indirect cost in cases where no system exists for tracking how much of their time is spent on each of the organization's contracts.

Any cost incurred that has been treated as an indirect cost cannot also be included as a direct cost. All costs specifically identified with other contracts of the organization are direct costs of those projects and may not be charged to the contract in question either directly or indirectly.

Indirect Costs

Indirect costs are any costs which are not directly identified with a single contract but which are allocated among multiple contracts or funding sources.

Indirect costs must not duplicate any cost separately identified in the line-item budget as a direct cost. Indirect costs must be fully described and documented by a cost allocation plan. A letter of assurance from a CPA firm accepting the contractor's cost allocation plan methodology may be substituted for the submission of the plan.

This letter must be submitted at the time of the contract budget submission. However, the contracting department may require the submission of the contractor's indirect cost allocation plan in addition to the CPA firm's letter of assurance. Both the direct costs and indirect costs shall exclude capital expenditures except as referenced in Maintenance, Custodial and Repair Costs, and, Rental Costs.

An example of an indirect cost is general administrative expense. If an organization administers several contracts, it can allocate general administrative expenses among the different contracts or funding sources proportionately. The percentage allocated to each contract or funding source will ultimately depend on the method of allocation used.

Following is a discussion of two methods for allocating indirect costs: 1) the simplified allocation method and 2) the multiple allocation base method.

Simplified Allocation Method

Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (1) separating the organization's total costs for the base period as either direct or indirect and (2) dividing the total allowable indirect costs by an equitable distribution base, which consists of salaries and fringe benefits. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual contracts. The rate should be expressed as the percentage of the total amount of allowable indirect costs to the base.

Some non-profit organizations treat all costs as direct costs except general administrative expenses. These organizations generally separate their costs into two basic categories: (1) direct functions and (2) general administrative expenses. Joint costs such as rental costs, operation and maintenance of facilities, telephone expenses and the like are prorated individually as a direct cost to each category and to each contract, or other activity using a base most appropriate to the particular cost being prorated.

Under this method, indirect costs consist exclusively of general administrative expenses.

The following is an example of a simplified allocation method. In this case indirect costs are distributed based on the percentage that contract salary and fringe benefits are of the total salaries and fringe benefits of the agency.

Example 1: Base = Salaries and Fringe Benefits

a. Total agency salaries and fringe benefits:	200,000
b. Contract salary and fringe benefits:	50,000
c. Contract indirect cost rate (b/a):	25%
d. Total agency indirect costs	75,000
e. Contract indirect cost (c x d):	18,750

Multiple Allocation Base Method

Where an organization's indirect costs benefit its major functions in varying degrees, such costs must be accumulated into separate cost groupings. Each grouping is to be allocated individually to function by means of a base which best measures the relative benefits. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping. When an allocation can be made by assignment of a cost grouping directly to the function benefited, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the City and the organization.

In general, any cost element or cost-related factor associated with the organization's work is potentially adaptable for use as an allocation base provided that (1) it can readily be expressed in terms of dollars or other quantitative measures and (2) it is common to the benefiting functions during the base period.

An example of a multiple allocation base for personnel expenditures could be "number of employees." An example of a base for purchasing expenditures could be "number of requisitions processed."

Listed below are examples of a multiple allocation base method. In this example the base for the personnel department is the number of employees, while the base for the purchasing department is the number of requisitions processed.

Example 1: Base = Number of Employees in Agency

a.	Total number of employees in agency:	100
b.	Number of employees assigned to City contract:	20
c.	Contract indirect cost rate (b/a):	20%
d.	Total agency cost for personnel:	\$60,000
e.	Contract indirect cost for personnel: (c x d):	\$12,000

Example 2: Base = Number of Requisitions Processed by Agency

a.	Total number of requisition processed:	30
b.	Number of requisitions processed for City contract:	10
c.	Contract indirect cost rate (b/a):	33.3%
d.	Total Agency cost for purchasing	\$15,000

In this case the total indirect cost would be \$17,000, comprised of \$12,000 in personnel costs and \$5,000 in purchasing costs. Note that in this example the percentage for indirect purchasing costs is greater than that for indirect personnel costs. This method should be used when indirect costs vary and where there are sufficient data and reliable bases to justify the use of more than one base.

Basic Guidelines for Allowability of Costs

The cost principles and procedures in this Section shall be used to determine the allowability of incurred costs for the purpose of reimbursement of costs under the contract terms and conditions. Any deviation from these cost principles must be in accordance with the provisions in the **Deviations** Section.

Factors Affecting Allowability

The tests of allowability of costs under these principles are:

They must be reasonable.

They must be assigned to contract agreements under the standards and methods provided herein.

They must be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

They must conform to any limitations or exclusions set forth in these principles or in the contract agreement as to types or amounts of cost items.

They must be permitted under the provisions of the contract.

Reasonable Costs

A cost may be considered reasonable if the nature of the goods or services acquired and the amount involved reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:

Whether the cost is of a type generally recognized as necessary for the operation or performance of the project or program under the terms and conditions of the contract.

The restraints or requirements imposed by such factors as generally accepted sound business practices and federal, state and City laws and regulations.

Whether the actions taken with respect to the incurrence of the cost are considered prudent and consistent with established practices and policies of the business, industry, profession or service being contracted.

Whether the cost amount is within a reasonable range of current market prices.

Whether there exists a significant deviation from established practices which may unjustifiably increase the costs of the contract.

Standards for Selected Cost Items

Listed below are selected budgetary cost items, a description of such costs, their allowability and required documentation. However, no cost item included in these Guidelines will be considered allowable unless it is specifically approved by the City in the actual terms and conditions of the contract entered into by the City and the contractor. It should be noted that each type of expense can be either direct or indirect depending on whether it can be directly associated with a particular contract.

For all cost items included in a contract, the minimum required documentation is the contractor's original invoice. Any additional supporting documentation is noted specifically within the cost category description listed below. Supporting documentation is to be maintained by the contractor on site unless the contracting department requires that it be submitted with the contractor's invoice.

Although the following list is extensive, it is not meant to be exhaustive. For cost items which are not specifically covered by the categories below, clarification and determination of allowability must be obtained in writing from the Deputy Director of Finance for Accounting and Administration.

Acquisition of Real Estate

Costs incurred for the acquisition of real estate are allowable only if approved in advance and in writing by the City, and only to the extent allowed by the Commonwealth's funding agency and the terms of any applicable grant or funding agreement and associated regulations. The City may require that the contractor refund all or a portion of the funding in the event that the contractor fails to keep the acquired property in service for non-profit uses consistent with the purpose of the funding for a period of time to be determined by the City. In this case, the City may require that the contractor execute and deliver such documents and instruments as the City may require, including, without limitation, reimbursement agreements, deed restrictions and prohibitions on junior liens or mortgages.

Advertising Costs

Advertising costs mean the cost of media services and associated costs. Media advertising includes magazines, newspapers, brochures, radio and television programs, direct mail, exhibits and the like. Advertising costs are generally unallowable unless specifically required by law or regulation or approved by the City as provided for in the terms and conditions of the contract. Advertising to recruit individuals to fill staff vacancies or for outreach purposes is allowable if approved by the City. When printed or audio/visual material is approved by the City and prepared and used for public consumption, the material must state that the material was paid for by the City of Philadelphia.

Required documentation will be the contractor's original invoice which denotes that the advertising was related to the specific project or award.

Bonding Costs

Costs of bonding required or approved by the City are allowable. In certain cases the City requires assurance against financial loss to itself or others by reason of performance or default of the contractor.

Required documentation will be copies of bond documents and premiums paid to bonding and insurance companies. These expenses may be included in an indirect cost calculation, but if they are, they should not be included as a direct cost line item.

Communication Costs

Costs incurred for telephone services, local and long-distance telephone calls, telegrams, radiograms, fax transmissions, postage and the like are allowable. Required documentation will be the contractor's original invoice, supported by detail which indicates which charges relate to the specific project or award. If the detailed bills are too voluminous, a special listing should be provided which summarizes communication costs associated with the project on contract award. Any communication costs which are included in the indirect cost rate calculation cannot also be included as a direct cost line item.

Employee Compensation

Compensation for personnel costs includes wages, salaries and fringe benefits. Salaries must be supported by a detailed list of all personnel, their job classifications titles, their annual salaries, their hourly rate where applicable, the amount of time they worked on the contracted project, and the amount of time they worked on other projects. Salary costs must be supported by daily time and attendance and payroll distribution records.

Certain salary expenses such as those for administrative personnel may be included in the indirect cost calculation. If this is the case, these costs may not be included as a direct cost line item(s).

Fringe benefit costs shall be limited to the following: employer contribution to Social Security (FICA) and Medicare taxes, employer expenses for Workers' Compensation insurance, health insurance (including vision, prescription, and dental), life insurance, unemployment insurance, disability insurance, and pension costs. Costs are allowable as either a direct cost of the contract provisions or as an indirect cost.

The maximum for fringe benefits shall not exceed the percentage of salary as established annually by the Office of the Director of Finance. The instructions for determination of this percentage, including a reference table, are contained in the section, Fringe Benefits Rate Calculation.

For an assessment of the reasonableness of salaries, prevailing industry standards should be used as a guideline wherever possible.

Entertainment Costs

Costs of amusement, diversion, social activities, entertainment, ceremonials and any costs relating thereto, such as meals, lodging, rentals, transportation and gratuities are generally unallowable. Exceptions may be made when such costs are directly related to the service being delivered and when such costs are incurred for the direct benefit of the program clients or participants. Costs must be specifically justified as a direct cost and approved as a line item in the budget.

Equipment Costs

Equipment means an article of nonexpendable, tangible, personal property having a useful life of more than two years and an acquisition cost of \$500 or more per unit.

Acquisition cost means the net invoice unit price of an item of equipment including the cost of modification, attachments, accessories or auxiliary apparatus necessary to make it useable for the purpose for which it was acquired. Ancillary charges such as freight, insurance and installation may be included in the acquisition cost. **Equipment expenditures are unallowable as indirect costs.**

The full cost of the equipment is allowable if the use of the equipment is solely in support of the City contract and is included as part of the approved budget.

If an agency bills the City for the full cost of equipment, then this equipment will become the property of the City at the termination of the contract or program.

Required documentation will be the contractor's original invoice, supported by detail which indicates which charges are related to the specific project or contract. At a minimum, a physical inventory must be taken at the end of each contract period and, when required by the contracting department, be submitted with the final invoice.

Leased equipment may be charged as a direct cost when normal usage does not warrant its purchase or when renting is a less expensive option. The rental charge shall be prorated depending on the portion of usage in support of the City contract **Rental**.

If the equipment purchased by the contractor is not for the sole purpose of the City contract, then the contractor may receive compensation in the form of a use allowance. In order to apply the use allowance method, the purchase price must be divided by the useful life established for the equipment to arrive at a yearly amount. The amount must then be allocated to the City on a percentage basis in accordance with the portion of usage for that contract.

The following is an example of how to apply the use allowance:

- a. Purchase price of copying machine: \$10,000
- b. Useful life: 5 years
- c. Use allowance per year: \$10,000 divided by 5 years = \$2,000
- d. City contract as a % of total equipment use: 25%
- e. Portion of yearly use allowance to be applied to City contract = \$ 500

Charges for use allowances must be supported by the contractor's original invoices, and adequate property records. At a minimum, a physical inventory must be taken at the end of each contract period and, when required by the contracting department, be submitted with the final invoice.

Equipment purchases are intended for use by the contractor in providing services to the City and should not be bought solely for use by City employees working in conjunction with the contractor as a mechanism to circumvent procurement regulations or City Charter provisions.

Fines and Penalties

Costs resulting from failure of the contractor to comply with federal, state and City laws and regulations are unallowable, including financial awards pursuant to arbitration, settlement or dispute resolution.

Fringe Benefits Rate Calculation

The Allowable Fringe Benefit Rate is to be calculated based on the contractor's average employee salary using the following method.

Total Cost of Salaries Divided by Total Number of Employees = Average Salary

If there are part-time workers employed, an equivalent number of full-time employees should be calculated.

TABLE OF MAXIMUM ALLOWABLE FRINGE BENEFIT RATES

Average Salary	Allowable Rate
\$15,000	53.53%
\$17,500	47.79%
\$20,000	43.48%
\$22,500	40.13%
\$25,000	37.46%
\$27,500	35.26%
\$30,000	33.44%
\$32,500	31.89%

If average salary exceeds \$35,000, the maximum allowable rate is 31.05%.

Example:

Total Salaries \$750,000

Number of Employees or
Equivalent Number of
Full-Time Employees 30

Average Salary: $\frac{\$750,000}{30} = \$ 25,000$

Maximum Allowable Fringe Benefit Rate = 37.46%

Fund Raising and Public Relations

Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.

General Administrative Expense

Administrative expenses not directly attributable to the contract are allowable only as an indirect cost.

Gifts, Contributions and Donations

Gifts, contributions and donations to any individual or organization are unallowable.

Insurance Costs

Insurance includes insurance which the organization is required to carry under the terms of the contract and any other insurance which the organization maintains in connection with the general conduct of its operations. Costs of insurance required and maintained pursuant to the terms and conditions of the contract and which is maintained solely for the contract are allowable as a direct cost. All other insurance costs may only be charged as an indirect cost. Required documentation will be copies of paid premium invoices and, upon request, copies of the insurance policies themselves.

Interest Costs

Costs incurred for interest on borrowed capital are unallowable. Interest paid for funds borrowed from a lending institution or endowment fund may be considered an allowable expense in the case where funds are borrowed to meet the actual cash flow requirements of a contracted program and to the extent that the City is eligible for reimbursement from a non-City funding source. It must be documented that the actual cash flow requirements are such that obligations could not be met and that the loan was obtained at the lowest interest rate available as evidenced by quotations from three potential lending sources.

Losses Incurred Under Contracts

A loss incurred under *this* or any other contract is unallowable.

Maintenance, Custodial and Repair Costs

Normal maintenance, custodial and repair costs necessary for the upkeep of property acquired and maintained for the purpose of the program are allowable as a direct or an indirect cost. Custodial and maintenance costs for the upkeep of space may be included as part of a rental charge. If the cost of maintenance, custodial or repair services is included in the lease or rental payment, it is allowable to the extent that the additional lease or rental payment amount reflects the actual costs of the services. These services may be purchased separately, if they are offered at a lesser cost. If these services are purchased separately, documentation showing that this was the most economical method for the provision of these services must be provided. Capital costs to maintain or improve a site which is used for direct services to clients and that are reimbursable from a non-City funding source are allowable in accordance with the funding source's regulations and guidelines if prior written approval is granted by the City. Upon completion of the capital improvements, the site cannot be used for any other purpose unless prior written approval has been granted by the City.

Costs must be appropriately documented for reimbursement.

Material and Supplies Costs

Costs incurred for purchased materials and supplies directly related to the performance of the contract or for basic client care are allowable.

Such costs should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates and allowances received by the organization. Delivery charges may be included as a proper part of material cost.

Required documentation will be the contractor's original invoice indicating purchase of supplies and any other supporting packing slips, delivery tickets and receiving reports.

Memberships, Subscriptions and Professional Activity Costs

Costs for membership in civic, business, technical and professional organizations and subscriptions to civic, business, technical and professional publications are generally unallowable except when directly related to the program and contract performance and specifically approved by the City. Costs of meetings and conferences are generally unallowable except when directly related to program and contract performance and specifically approved by the City.

Printing

Printing costs are allowable as long as they are required in completing the assigned contract. Such costs should be treated as direct costs if they are directly associated with the project. They may be treated as indirect costs, however, if they are incurred in overall general administrative functions or are minor in total costs.

When printed materials, such as brochures, pamphlets, or informational flyers, are prepared and used for public consumption, the material must state that it was funded by the City of Philadelphia, unless pre-printed material is purchased in support of a program.

Required documentation will be the contractor's original invoice, supported by copies of invoices from the printing firm or, if the printing is done within the organization, any internal work order forms which indicate the cost incurred.

Professional Services

Professional services such as legal, accounting, auditing, architecture, engineering, medical and therapeutic services rendered by members of a particular profession who are not employees of the contractor agency are allowable when justifiable for programmatic or administrative reasons and part of the approved contract budget.

A written agreement is required and shall state the services to be provided, the rate of compensation and the method of payment. Copies of all invoices submitted and paid shall be maintained as well as time records indicating the hours worked on the particular project.

The contractor must receive prior written approval of any subcontractors by the contracting department.

Rental Costs

Rental costs of land, building, equipment and other personal property are allowable provided that the rates are reasonable in light of such factors as rental costs of comparable facilities and market conditions in the area. Rental costs may not exceed fair market rental value unless pre-approved in writing by the City and reimbursable from a non-City funding source. The location of all rental properties and the cost per square foot must be listed in the supporting detail of the budget.

The type of equipment that is being rented must be listed and, if the equipment is under a lease purchase agreement, the value of the equipment at the end of the lease as well as the monthly charge must be listed.

Mortgaged real estate which is already owned by a contractor is allowable as a rental cost. The amount charged shall be prorated in relationship to the percentage of space used for the contracted program and shall be the lesser of the fair market rental value of the space or the actual monthly cost including down payment, principal and interest, major repairs and renovations calculated over the length of the mortgage unless otherwise approved by the contracting department.

A continuing participation allowance for the use of space in debt-free real estate owned by an agency is allowable if reimbursable as stipulated in the applicable non-City funding source's regulations and guidelines. This allowance must be accounted for in a restricted fund and may be used solely for services for which the City has contracted and in accordance with the guidelines and restrictions in the City's Cost Principles and Guidelines.

Security Costs

The cost to provide security services such as night guards for a building which is used for program-related functions is allowable. In situations where only part of the building is being used to provide services under a City contract, the total charge shall be prorated in direct relation to the amount of space used by the contracted program to determine the allowable amount. Required documentation will be copies of all invoices paid and time records indicating the number of hours the service was provided.

Security cost may be included as part of a rental charge. If the cost of security is included in lease or rental payments, it is allowable to the extent that the additional lease or rental payment amount reflects the actual cost of the service. This service may be purchased separately if it is offered at a lesser cost. If this service is purchased separately, documentation showing that this was the most economical method for the provision of this service must be provided.

Taxes

Taxes which the contractor is required to pay are generally unallowable. The exceptions are wage taxes included in gross salaries and state and local sales taxes incurred for the acquisition of materials, supplies and equipment. Taxes paid for the acquisition of land or buildings are unallowable except for transfer taxes to the extent to which they are reimbursable from a non-City funding source.

Training and Education Costs

Training and education costs are generally unallowable unless required to maintain licensing or certification necessary in the performance of the contract services. Training which is deemed essential both to meet the contract objectives and to improve measurably the delivery of services may be considered allowable, but the specific content of training must be approved by the department as a direct cost line item in the contract budget. Training for existing contractor staff to meet new state or federal education requirements is an allowable expense. **Training to enhance the professional skills of contractor staff to meet contract requirements is unallowable.** Appropriate documentation is required for cost reimbursement.

Travel Costs

Travel costs are the expenses for transportation, lodging, meals and other related items incurred by employees who are in travel status for the organization and are allowable only when they are directly attributable to the specific work of the contract. Such costs will only be reimbursed in accordance with the rates established by the City in its Administrative Board Rule No. 2.

Required documentation will be copies of all invoices from airlines, travel agencies, trains and bus companies as well as copies of validated tickets. If air or train travel is required, all accommodations must be coach.

Utilities

The cost of utilities such as heat, electric, water, sewage and fuel necessary for the operation of a building which is used for program related functions are allowable. In situations where only part of the building is being used to provide services under a City contract, the total amount shall be prorated to the contracted program to determine the allowable amount. All costs must be fully documented.

Utility costs may be included as part of a rental charge. If utility costs are included in lease or rental payments, they are allowable to the extent that the additional lease or rental payment amount reflects the actual cost of the utilities. Utility service may be purchased separately if it is offered at a lesser cost. If this service is purchased separately, documentation showing that this was the most economical method for the provision of this service must be provided.

Deviations from Cost Principles

When the best interest of the City would be served by a deviation or when these cost principles are found to be inconsistent with state or federal funding rules and regulations, the City may authorize a deviation from the cost principles set forth herein, provided that all costs are reasonable, lawful, allocable and accounted for in accordance with generally accepted accounting principles. A written request for a deviation must be submitted to the Accounting Bureau, Office of the Director of Finance for approval.

Standard Budget Format

Budget Preparation

Following is a sample budget format (Appendix A) to be used for all contract budget submissions. For contracts that include direct personnel costs, a sample personnel format follows (Appendix B). For contracts that include indirect costs, a sample format follows (Appendix C). Some sample budget items have been included for illustrative purposes only. Each department will make its own determination as to what items should appropriately be included on a contract budget submission. Though there may be some deviation from the form, it is mandatory that all budget submissions contain the information shown on the form and required in the accompanying guidelines. The guidelines are in no way meant to limit the budget information requested for the contractor. Budget formats required by non-City funding sources or budget formats developed by an individual department may be substituted for the attached format, provided the budget information contained therein meets the minimum standards required in Appendices A, B, and C. Departments are to ensure that budgets contain all information deemed necessary to justify fully all contract expenses. Per diem contracts, where the rate is based on cost reimbursement, are expected to contain the requested budget detail in order to determine those contractor expenses that have been used to calculate the per diem charge.

The guidelines in the Basic Guidelines and Standards for Selected Cost Items Section contain definitions and specific cost items which are allowable and should be referred to when constructing a contract budget. Each budget item and the accompanying information that must be provided is also explained in the guidelines.

It is required that the amounts of all funding sources for every item on the contract budget be shown, as well as the total cost of the item. The percentage of the total cost which is being charged to the contract must also be shown. Additional columns should be added for items that receive funding from more than one City contract so that there is one column for each. The specific contract should be identified at the top of each column.

The Cost Principles and Guidelines section contains an explanation of the determination of direct and indirect costs and methods for calculating indirect expenses. There is flexibility in determining whether a particular expense will be considered as direct or indirect. Each item included as an indirect cost must be listed on the budget with the amounts of all other funding sources shown. The base chosen and the calculation used for indirect cost must also be shown on the budget or certified as discussed in **Indirect Costs**. Some budgets may be very simple and require only one section of the sample format. This is acceptable as long as all required information is provided. For example, a contract that consists of only a charge for personnel on an hourly basis will use only Sections I and V of the budget format, accompanied by the personnel detail sheet. The budget for a per diem contract, which will need to show all the components that go into the calculation of the per diem charge, will most likely require Sections I through V of the budget format. The budget for cost reimbursement contracts will consist of all sections of the budget format that contain reimbursable expenses.

Contract Budget Format

DIRECT EXPENDITURES

SECTION I

	CONTRACT FUNDING	OTHER CITY FUNDS	APPENDIX A OTHER FUNDS	TOTAL COST
PERSONNEL (see attached for details)				
SALARIES	\$34,750		\$69,250	\$104,000
FRINGE BENEFITS	\$ 5,219		\$10,939	\$ 16,158
TOTAL	\$39,969	\$0	\$80,189	\$120,158

SECTION II

SUB-CONTRACT COSTS (.listed by contractor name)

<u>NAME</u>	<u>SERVICE TO BE PROVIDED</u>			
J.J. Hughes, Inc.	accounting	(prorated at _ %)	\$ 5,000	\$ 5,000
	TOTAL		\$ 5,000	\$ 5,000

SECTION III

OPERATING EXPENSES (prorate if applicable)

RENT (see attached documentation)	20%	\$ 6,000		\$24,000	\$30,000
UTILITIES (list items)					
COMMUNICATION EQUIPMENT (list items 1 telephone)	20%	\$ 34		\$ 136	\$ 170
OFFICE SUPPLIES		\$ 54			\$ 54
TRAVEL		\$ 235			\$ 235
OTHER (Specify)					
PRINTING		\$ 295			\$ 295
TOTAL		\$ 6,618	\$0	\$24,136	\$ 30,754

SECTION IV

EQUIPMENT

<u>PURCHASE</u> (list items and quantity)					
2 LASER PRINTERS		\$ 300			\$ 300
2 WORK STATIONS		\$ 900			\$ 900
TOTAL		\$ 1,200	\$0	\$0	\$ 1,200
<u>LEASE/RENTAL</u> (list items & quantity)	(prorated at %)				
1 COPY MACHINE (\$___/mo.)		\$ 100		\$ 300	\$ 400
TOTAL		\$ 100	\$0	\$ 300	\$ 400

SECTION V

TOTAL DIRECT EXPENDITURES	\$52,887	\$0	\$104,625	\$157,512
TOTAL INDIRECT EXPENDITURES (see attached)	\$18,155	\$0	\$ 81,845	\$100,000
TOTAL EXPENDITURES (DIRECT & INDIRECT)	\$71,042	\$0	\$186,470	\$257,512

SERVICE UNITS TO BE PROVIDED (include description)

Cataloging of books:	1,500
CONTRACT COST PER SERVICE UNIT:	\$ 47.36

Personnel Budget Format

PERSONNEL

APPENDIX B

Name	Position	% Of Time On Project	Contract Fringe Benefit Cost (show detail below)	Annual Salary	Contract Funding	Other City Funds	Other Fund	Total Contract Personnel Costs
Mary Brown	Librarian	50%	\$4,004	\$ 55,000	\$ 27,500		\$27,500	\$31,504
John Doe	Secretary	25%	\$1,010	\$ 24,000	\$ 6,000		\$18,000	\$ 7,010
Emily Jones	Payroll Clerk	5%	\$ 206	\$ 25,000	\$ 1,250		\$23,750	\$ 1,456
TOTAL			\$5,219	\$104,000	\$ 34,750	\$0	\$69,250	\$39,969

FRINGE BENEFITS (Specify)

**COST PER EMPLOYEE
PER MONTH**

Health Insurance	\$300
Pension Contribution	\$ 6
Group Life Insurance	\$ 11

TOTAL **\$317**

FICA 7.65% of salary

NAME	POSITION	RATE PER HOUR	CONTRACT HOURS	PER WEEK	CONTRACT COST
Mary Brown	Librarian	21.00	1,500	20	\$31,504
John Doe	Secretary	\$11.68	600	10	\$ 7,010
Emily Jones	Payroll Clerk	\$14.56	100	2	\$ 1,456
TOTAL					\$39,969

Indirect Expenditures

List items included

	Annual Salary	Annual Fringe Benefits	Total Salary + Fringe	Contract Indirect Rate	Contract Funding	Other City Funds	Other Funds	Total Cost
Personnel								
General Counsel	\$60,000	\$ 9,750	\$ 69,750	18.15%	\$12,663		\$57,087	\$ 69,750
Purchasing Agent	\$26,000	\$ 4,250	\$ 30,250	18.15%	\$ 5,492		\$24,758	\$ 30,250
TOTAL	\$86,000	\$14,000	\$100,000	18.15%	\$18,155	\$0	\$81,845	\$100,000

TOTAL AGENCY INDIRECT COSTS: \$100,000

Show base and calculation used

Base: Salaries and fringe benefits

- a) Total agency salaries and fringe benefits \$220,158
- b) Contract salary and fringe benefits: \$ 39,969
- c) Contract indirect cost rate (b/a): 18.15%
- d) Total agency indirect costs: \$100,000
- e) Contract indirect cost (c x d): \$ 18,155

Service Unit Calculation

For the purpose of these principles, service unit cost is defined as the cost of the most basic unit or units of service defined in the contract. If the most basic unit of service is not clearly defined in the contract, then it must be defined by the contracting department as part of this calculation process. As noted before, not all contract objectives are able to be quantified in this manner, but wherever possible a cost per service unit is to be calculated. Every contract, including those that do not lend themselves to the calculation of service unit cost, must maintain a description of its measurable objectives as discussed in [The General Information and Definitions Section](#).

The method for calculating service unit cost is as follows:

Name of Basic Unit of Service _____

1. Total Allowable Expenditures for Basic Service Units
2. Estimated Number of Basic Service Units
3. Estimated Cost per Service Unit (#1 divided by #2)

An example of how to calculate the Basic Service Unit Cost is as follows:

Basic Unit of Service: (1) Brochure Produced

- | | | |
|----|------------------------------------|-------------|
| 1. | Total Allowable Expenditures: | \$50,000.00 |
| 2. | Estimated Number of Service Units: | 200,000.00 |
| 3. | Estimated Cost Per Service Unit: | \$.25 |

If the contract entails more than one service objective, the service unit cost must be calculated proportionately for each objective. The contracting department must determine what portion of the total contract budget is allotted for each service being performed. if, for example, a department enters into a \$500,000 contract for residential and outpatient drug and alcohol treatment, it must first determine the allocation of the \$500,000 between the two service components, residential and outpatient treatment, before the service unit cost can be calculated. The calculation is as follows:

Basic Unit of Service: (1) Day of Residential Treatment

- | | | |
|----|------------------------------------|-----------|
| 1. | Total Allowable Expenditures: | \$400,000 |
| 2. | Estimated Number of Service Units: | 2,000 |
| 3. | Estimated Cost Per Service Unit: | \$200 |

Basic Unit of Service: (1) Session of Outpatient Counseling

- | | | |
|----|------------------------------------|-----------|
| 1. | Total Allowable Expenditures: | \$100,000 |
| 2. | Estimated Number of Service Units: | 2,000 |
| 3. | Estimated Cost Per Service Unit: | \$50 |

Departments are not required to use the above methods for service unit cost calculation, but any method used must be explained and the basic unit of service must be clearly identified.

Payment Procedures

Documentation required for payments pursuant to all types of Contracts

Invoices for reimbursement shall be submitted in sufficient detail for proper pre-audit and post-audit review. Supporting documentation, as referenced in the section on standards for allowable costs, is to be maintained by the contractor on site unless the contracting department requires that it be submitted with the invoice. Departments may require additional documentation as deemed necessary to justify expenditures. Invoices against a program budget contract must be submitted in the same format as the contract budget and should show contract status as measured against program benchmarks. Per diem contracts and contracts based on deliverables must specify percentage of completion, outcomes, day of care or other service elements which indicate services rendered.

The contract shall establish payment terms and shall specify that payments to the contractor are contingent upon satisfactory performance under the terms of the contract and as determined solely by the City.

Timing and Terms of Payment

Payments to the contractor are contingent upon satisfactory performance under the terms of the contract and as determined solely by the City, subject to the availability of funds and cash reserves. Reimbursement payment schedules involve payment of allowable costs after they have been expended by the contracting party and verified by the contracting department. Timely payment is contingent upon timely receipt of proper invoices from the contractor.

Advance payments will be permitted only if approved by the City and included in the contract terms, and will be approved only for non-profit organizations for new program start-up costs, or if a non-City funding source mandates that such payments be made. Recovery of these payments must be made prior to the end of the contract period. The method of recovery of advance must be stipulated in the terms of the contract, and portions of the advance may be deducted from submitted invoices on a monthly or quarterly basis.

Prohibition against use of Tax Delinquent Contractors

No contract shall be entered into or amended and no invoices shall be paid to a contractor known by the City to be indebted to it, for or on account of any delinquent taxes (including, but not limited to, taxes collected by the City on behalf of the School District of Philadelphia), liens, judgment, fees or other debts, unless the contractor has entered into an agreement or payment plan with the Revenue Department to eliminate the outstanding delinquencies. Each contract shall include a representation of non-delinquency language, or in cases of delinquency, representation that a payment agreement has been made with the City. The representation also includes language that the contractor's breach of this provision may result in the withholding of payments for services rendered in performance of the contract. There is a similar requirement that non-delinquency representations be included in all subcontracts. Providers will be required to separately represent that any subcontractor is not indebted to the City.

Business Privilege License Requirements

No contract shall be entered into with a contractor who does not have a City Business Privilege License (BPL). As stipulated in the Philadelphia Code, Section 19-2602, Subsection 1, a BPL is required of any person or corporation engaged in any business within the city limits of Philadelphia whether or not such person or corporation maintains a place of business within Philadelphia. The license is issued for a one-time fee of \$200. Before applying for a BPL, a City tax account number must be obtained from the Philadelphia Department of Revenue, located in the Public Service Concourse of the Municipal Services Building, 1401 JFK Boulevard, where application forms are available. Application forms for the BPL are available from the Department of Licenses and Inspections, License Issuance Unit, located in the Public Service Concourse of the Municipal Services Building, 1401 JFK Boulevard.

Monitoring and Reporting Requirements

The contracting department has the right at any time, with no prior notification, to evaluate compliance with the contract provisions. The contracting department shall have access to all contractor records necessary to evaluate compliance, such as time sheets and case records, and shall have the right to interview all of the contractor's staff and its clients in instances where the contractor provides services to third parties.

The contractor must submit progress reports to the contracting department within the first 90 days after the contract begins and at least every three months thereafter for the duration of the contract. It is preferable, however, to require monthly reporting by a contractor on its progress in achieving the timetable for deliverables and/or service level goals.

Audit Requirements

In order to permit the City to monitor effectively compliance with its professional services contract cost principles, the City will require certain audit standards of its contractors. Each contractor who is providing services under a Cost Reimbursement Contract or a Per Diem Contract where the rate is based on cost reimbursement must agree to make available to the City of Philadelphia upon request its books and records for inspection by representatives of the Office of the Director of Finance, the City Controller and the department to which it is under contract concerning charges, fees and costs for the individual contract. Contractors providing services under other types of contracts such as Fixed Fee and Contingency Fee contracts must agree to make available for inspection any records and financial documents related to the City contract.

In addition, contractors who are determined to be subrecipients of federal, state or city awards will have audit requirements communicated to them by the contracting department. Subrecipients expending over \$300,000 of federal awards in a fiscal year must submit a single audit in compliance with the City of Philadelphia's Subrecipient Audit Guide. Subrecipients expending under \$300,000 of federal awards in a fiscal year may not require a single audit and should refer to the Office of Director of Finance's Standard Accounting Procedure G 5-2, "Subrecipient's Audit Requirements." Single audit reports are due within 120 days of the subrecipient's fiscal year end year end date and program audit reports (non-single audits) are due within 120 days of the contract period's ending date. These statements are to be prepared by an Independent Public Accountant who is qualified under the provisions of Government Auditing Standards (Yellow Book - 1994 Revision). The IPA is to be engaged in accordance with the procurement provisions of OMB Circular A-110 entitled "Grants and Agreements with Institutions of Higher Learning, Hospitals, and Other Non-Profit Organizations". The Philadelphia City Controller's Office will assess auditor qualifications in accordance with section 103.10 of the Audit Guide. **For further details on sub-recipient audit requirements, refer to the City's Sub-recipient Audit Guide, which is issued by the Office of the Director of Finance.**

Audit requirements may be placed on contractors who are not sub-recipients either when required by a federal or state funding source or at the discretion of the department to which it is under contract. Such audit requirements must be included in the contract.

Costs associated with audits of subrecipients are reimbursable through federal or Pennsylvania Department of Public Welfare grant programs only if the amount of subrecipient grant-related expenditures exceed \$300,000 during the contract year or the contractor's fiscal year. However, lesser scope audit services are reimbursable when used by the City to monitor the grant expenditures of subrecipients with expenditures less than \$300,000.

For contracts in which payment is made on a reimbursement method, the contractor must maintain, and be prepared to provide upon request, adequate documentation including invoices, receiving reports, packing slips, delivery tickets, time records, personnel files and any other internal records which may be required to verify all costs actually incurred. If during the course of a review or audit, discrepancies are discovered or there is insufficient documentation to substantiate some costs, the City will reserve the right to retain a portion of any future contract amounts or to recover any payments made in excess of services delivered until such discrepancies are resolved or the required documentation is provided.

For contracts which call for delivery of a final report or completion of a designated task, a portion of the amount due the contractor will be retained until the final report has been received and accepted by the department and, if deemed necessary, the Office of the Director of Finance and/or the City Controller.

Contracts calling for completion of a set task will be subject to review by inspectors of the City or by its consultants. A portion of any balance due may be retained if the inspection uncovers discrepancies or incomplete work.

If the contract is partially or fully funded by federal or state grants, or if there are federal or state regulations which govern implementation and completion of a contract, and these grants or regulations require that certain reports or inspections be completed or performed, these reports will be required in addition to the reports required by the City.