

STATE OF MARYLAND

DEPARTMENT OF HEALTH AND MENTAL HYGIENE

LOCAL HEALTH DEPARTMENT
FUNDING SYSTEM MANUAL

As of July 1, 2003

STATE OF MARYLAND
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SECTION 100 – INTRODUCTION

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Scope

- (a) General coverage - This Manual specifies administrative and fiscal policy for all funding originating in the Local Health Department Funding System (LHDFS) made by the Maryland Department of Health and Mental Hygiene (DHMH) to local health departments (LHD) and which are processed through the Division of Program Cost and Analysis (DPCA) and are reflected on the Unified Funding Document (UFD).

- (b) Exclusions – This Manual does not govern the following:
 - (1) the administrative and fiscal policy of the Developmental Disabilities Administration’s Fee Payment System;

 - (2) grants as defined by COMAR 21.02.02.01B(46), other than Unified Funding Document funding;

 - (3) procurement contracts processed, executed and administered by the Department as provided in COMAR Title 21; or

 - (4) interagency agreements, memoranda of understanding or other similar arrangements with other governmental entities except for local health departments.

- (c) The Manual shall, by reference, become part of each award on the UFD. In the event of a conflict between this Manual and any of the Conditions of Grant Award on the UFD, the specific Condition of Grant Award shall prevail, but only to the extent allowed by applicable law, and only where the specific Condition of Grant Award states intent not to incorporate all or specific parts of this Manual.

- (d) All program administrations are required to have their UFD awards reviewed and processed through the DPCA.

- (e) The Division of Program Cost and Analysis will provide assistance on the UFD to the program administrations relative to sound fiscal management and proper accountability of public funds.

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Background

The DHMH’s LHDFS is performance driven and may involve contributory funding by the LHD in support of health related services. Such contributory funding includes income from user fees, insurance payments, charitable contributions and endowments, other government programs and other third party incomes. DHMH FUNDING GENERALLY DOES NOT COVER THE FULL COST OF THE SERVICE.

This Manual describes the details of the funding system. This revised Manual as

it applies to local health departments, supersedes all previous versions of the DHMH, Human Services Agreements Manual and DHMH, Grants Manual.

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Overview of Funding Process

The LHDFS is a funding system that limits reimbursement of LHD incurred costs to those that the Department agreed to support. It is not a system of full-cost reimbursement. Except for Formula Funding (see Section 1020) and Block Funding (see Section 1005), the funding system generally employed by the Department and which is described in this Manual has the following characteristics:

- a.) it is based on an approved line item budget, which is part of the funding agreement,
- b.) it is a performance driven system incorporating satisfaction of agreement specific performance measures,
- c.) it incorporates limited line item control of the LHD's expenditures,
- d.) it assumes the existence of other incomes to support the program,
- e.) it operates under the condition that departmental monies are spent last and recovered first, unless expressly specified otherwise, and,
- f.) it requires the LHD to attempt to collect fees from clients for certain specific human services.

Payments are made primarily in three ways: (1) as a transfer to an account maintained by DHMH for local health departments, (2) as a reimbursement for net costs of the local health department reflected on the DHMH 990 Report, and (3) per an invoice from local health departments. Local health departments are required to maintain records in accordance with generally accepted accounting principles and as specified by DHMH. At the end of each fiscal year a financial reconciliation is conducted, subject to audit and settlement by DHMH.

Funding reflected on the UFD is subject to audit by the DHMH Audit Division. Post audit resolution is based on these audit findings; this process is known as "Audit Settlement" (See Section 1002).

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Summary of Responsibilities – LHD inquiries should be directed to the Departmental offices indicated below, in the following topical areas.

- a) Annual LHD Budget and Planning Instructions - Division of Program Cost and Analysis
- b) Solicitations - program administration
- c) Status of award - program administration
- d) Request for payment via invoice - Division of Program Cost and Analysis
- e) Request for supplemental funding - program administration
- f) Request for budget modification - program administration
- g) Year-end Report (DHMH 440) - Division of Program Cost and Analysis

- h) Reconciliation - Division of Program Cost and Analysis
- i) Audit - DHMH Audit Division
- j) Post-Audit Settlement - Division of Program Cost and Analysis
- k) DHMH Invoices - DHMH General Accounting Division
- l) General policy clarification and technical or fiscal issues - Division of Program Cost and Analysis or program administration
- m) Corrections to FMIS Reports - DHMH General Accounting Division, except for corrections caused by reconciliation which should be directed to the Division of Program Cost and Analysis
- n) Forms - Division of Program Cost and Analysis or DHMH web page
- o) State procurement issues - the Office of Contracts Policy, Management and Procurement

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Distribution of Manual

One Manual will be issued to each LHD and program administration. The Manual is available on the DHMH web page through the links to the Budget Management Office and then to the Division of Program Cost and Analysis. Please contact a Grants Management Officer in the Division of Program Cost and Analysis for questions concerning the Manual, its distribution and its application. The telephone numbers for the Division of Program Cost and Analysis are: (410) 767-5140 or (410) 767-6062.

SECTION 1000 - DEFINITIONS

- 1000** **Accrual Basis** - a method of accounting whereby revenue is recognized as services are rendered and expenses are recognized as efforts are expended or services utilized to obtain the revenue.
- 1001** **Advance Payment** - a payment made to a LHD by DHMH before the expenditures relevant to that payment have been incurred.
- 1002** **Audit Settlement** - a post audit process in which managerial decisions are made based on reports filed by the DHMH Audit Division.
- 1003** **Award** - refers to that part of the total program budget that is funded by DHMH.
- 1004** **Award Letter** - a document issued by the program administration which summarizes provisions of the funding agreement (See Section 2020.04).
- 1005** **Block Funding** – These funds are awarded to the local health departments for specific program purposes, e.g., some bio-terrorism funding. The local health departments do not need to adhere to a line item budget and funds may be moved between line items without program administration approval unless specified otherwise. Only the total expenditures are considered in the reconciliation process.
- 1006** **Budget** - expenditure plan and income estimate detailed by line item entries.
- 1007** **Budget Modification** - a line item revision of a previously approved budget that neither increases nor decreases the amount of the award and does not increase or decrease the services to be performed.
- 1008** **Conditions of Grant Award** – specific and general conditions relative to each award listed on the UFD, which are accepted by the LHD as binding upon the LHD upon receipt of UFD awards from DHMH.
- 1009** **Construction** - the act of building a new structure from the ground up. This does not relate to repair, maintenance or renovation involving an existing structure.
- 1010** **Consultant** - an individual or organization that the LHD engages to deliver health-related services of a particular type or discipline directly to third party clients. Consultants are non-salaried and receive compensation for professional services by virtue of expertise and/or licensure in a professional discipline. Funding Agreements with Consultants are usually Fixed Price or Unit Price (hourly) and should be shown in the appropriate sub-object 200 series, other than line items 280, 289, 291 and 292 in the DHMH 4542 budget.
- 1011** **Contractor** - an individual or organization that the LHD engages to deliver non-

health related services or goods for the LHD. Examples of such services include: housekeeping, trash removal, bookkeeping, legal, and accounting services. If the funding agreement used by the LHD to acquire these services from the contractor is a Cost Reimbursement Agreement (see definition # 1013, Cost Reimbursement Funding Agreement), these costs should be shown in line item # 899 (Special Projects) on the DHMH 4542 budget packet. If the LHD uses a Fixed Price or Unit Price Funding Agreement for these services (see definition # 1019 , Fixed Price and Unit Price Funding Agreement), the costs should be shown in the appropriate sub-object 800 series, other than line items 881, 896, 898 and 899, in the DHMH 4542 budget.

- 1012** **Core Service Agency (CSA)** - the designated city, county or multi-county authority that is responsible for planning, managing and monitoring publicly funded mental health services.
- 1013** **Cost Reimbursement Funding Agreement** - denotes a funding agreement that relates the award to a detailed line item budget, possible line item control, and detailed reporting requirements such as year-end –reports (DHMH 440), audits, and documentation of the Vendor of Record’s review of the detailed line item budget. The expenditures for these agreements would be found in line item 896 for health related cost reimbursement agreements and line item 899 for non-health related cost reimbursement agreements.
- 1014** **Delinquent Account** - as defined by COMAR 17.01.01.03B or 17.01.01.04B (3)
- 1015** **DHMH** - The Department of Health and Mental Hygiene of the State of Maryland, the Department.
- 1016** **Director** - refers to the chief executive authority in any of the DHMH program administrations.
- 1017** **Encumbrance** - the obligation to expend funds, supported by contract or purchase order. An encumbrance may be recognized as an expenditure under certain conditions.
- 1018** **Fiscal Year** - the State of Maryland's fiscal year, running from July 1 through June 30.
- 1019** **Fixed Price and Unit Price Funding Agreement** - denotes a funding agreement where the award is not related to a budget. These funding agreements include a rate of payment for the services stipulated in the Agreement and payment is made only for services actually delivered. These types of agreements should be used only with documentation of one of the following: 1) the rate to be paid is the market rate for this type of service in the region where the service is being provided; 2) the rate to be paid is a rate set in law or regulation; 3) the rate to be paid is based on at least three years of experience with Cost Reimbursement

Funding Agreements with this vendor; or 4) is competitively procured.

The expenditures for these agreements would be found in line item 881 for health related fixed price and unit price agreements and the appropriate sub-object 800 series other than line items 881, 896 and 899 for non-health related fixed price and unit price agreements. Fixed price or unit price agreements for health related consultant services would be found in the appropriate sub-object 200 series other than line items 280, 289, 291 and 292.

Because of the nature of these agreements, they are exempt from many sections of this Manual, such as Budget Modifications, DHMH 440's, and certain provisions of the Audit section. These exemptions will be noted in the applicable sections.

- 1020** **Formula Funding** – Funds awarded to a local health department based solely on a mathematical formula, e.g., core public health funding. The expenditure of these funds is at the complete discretion of the local health departments unless specified otherwise. Only the total expenditures are considered in the reconciliation process. These funds are typically awarded to provide capacity.
- 1021** **Human Services** - for purposes of this Manual definition, means services acquired by the Department or an LHD by any method for the purpose of providing health related services, support, care or shelter directly to third-party clients under a grant, interagency agreement, contract or any other appropriate mechanism, the primary purpose of which is the arrangement for direct provision of these services to individuals.
- 1022** **Human Service Contracts** - a line item (#896) on the DHMH 4542 budget that is used to budget for health-related, Cost Reimbursement Funding Agreements with organizations. (See definition # 1013, Cost Reimbursement Funding Agreement)
- 1023** **Income** - an inflow of resources, in the form of cash, receivables or other property from customers or clients, which results from: the sale of assets or merchandise, the rendering of services, investments, grants or donations. This includes fee collections, ordinary income and capital gains and/or that which results from grants, gifts or donations.
- 1024** **LHD** - Local Health Department. A local health department is located in Baltimore City and each of the twenty-three Maryland counties.
- 1025** **Local Executive Authority** - a local government official, other than a local health officer/commissioner authorized to enter into and execute LHDFS agreements with the DHMH. Typically, this would be the Mayor, County Executive, the County Council President, County Commission President, etc. or their designees.

- 1026** **Local Funds** - refers to funding supplied by a county or municipal government. The LHD may or may not be the conduit of such funding and the funding may or may not be a statutory requirement or a matching requirement.
- 1027** **Local Health Department Funding System (LHDFS)** - The LHDFS is an administrative process whereby all DHMH awards for a given fiscal year to a LHD are listed in one document. That document is called the Unified Funding Document (UFD). The UFD is updated each month and includes award amounts, changes to existing awards, funding sources, relevant conditions of grant award and contact information for each award. The UFD is produced and distributed by the DPCA based on information received from the program administrations.
- 1028** **Matching Funds** - funding supplied by another source (e.g. state, local or federal) pursuant to a specific agreement to share or match LHDFS expenditures by some ratio, such as 90%/10% match.
- 1029** **Minority Business Enterprise (MBE)** - as defined in COMAR 21.01.02.01.
- 1030** **Modified Accrual Basis** - a basis of accounting whereby expenses are recognized on an accrual basis, i.e., as costs are incurred, while revenue is accrued only if those revenues are both measurable (reasonably estimable) and available to pay current period expenditures. Fee collections from self pay clients are not to be accrued and are recorded only when the income is received.
- 1031** **Performance Measure** - the identified measure of the output of a specific human service agreement. Performance measures are the deliverables identified by the program administration in each UFD award for each service funded by the Department. Performance measures must be specific, objective and measurable. There is an inherent correlation between the satisfaction of the performance expectations, i.e. performance measures, defined in the UFD and Departmental funding. Some examples of performance measures are: number of visits, number of counseling sessions, number of persons trained, number of days of service, funded slot utilization.
- 1032** **Prior Approval** - written permission provided by an authorized official in a DHMH program administration, in advance of an act when such approval is required, particularly when that act might be expected to result in either the obligation or expenditure of funds or performance measures which differ from the approved budget.
- 1033** **Program Administration** - a unit of the Department which funds and administers public health related programs via the LHDFS.
- 1034** **Purchase of Care** - a line item (#0881) on the DHMH 4542 budget that is used to budget for health-related, Fixed Price or Unit Price Funding Agreements with organizations. (See definition # 1019, Fixed Price and Unit Price Funding

Agreement)

- 1035** **Reconciliation** - a year-end process in which the fiscal aspects of an award on the UFD are resolved, subject to audit and settlement.
- 1036** **Renovation** - refers to activities which alter, convert or restore all or part of an existing property and add to the value or prolong the life of a property or adapt the property to new uses. The term also includes the installation or replacement in whole or part, of fixtures or systems such as plumbing, heating/cooling and electrical. Renovation includes activities which would otherwise be considered repair and maintenance such as painting, installation and replacement of minor fixtures if they are part of a renovation project.
- 1037** **Repair and Maintenance** - refers to activities which sustain, prevent damage to or restore existing components of a property or a system and which do **not** add to the value or prolong the life of a property or adapt the property to new uses. A repair keeps a property in good operating condition. The term excludes both activities entailing structural modification and the installation or replacement of systems such as plumbing heating/cooling and electrical.
- 1038** **Subvendor Service Provider** - an organization which delivers health related services to third party clients. The Service Provider can be the Vendor of Record (see # 1042) or an organization that has a funding agreement with the Vendor of Record.
- 1039** **Supplemental Award** - the means by which the Department provides additional funding to a LHD program.
- 1040** **Third Party Clients** - as defined in COMAR 21.01.02.01.
- 1041** **Unified Funding Document (UFD)** – A monthly document listing all the DHMH awards to a LHD. This document contains the following components.
1. Indicates if the original budget was submitted
 2. Indicates that a Fund Certification was submitted
 3. Identifies if a budget was submitted with a supplement /reduction
 4. Identifies the current type of transaction being posted (supplement/reduction/modification)
 5. Identifies the Local Health Department by County
 6. Identifies the program administration’s project code (G5044, T380G)
 7. Identifies the program administration that is providing the funding
 8. Identifies the County’s PCA code (F765N, F696N, F731N) - assigned by Community Health Administration
 9. Identifies the CFDA number for federal funds
 10. Identifies the unique award number (AD394RED, CH357IMM) - assigned by Division of Program Cost and Analysis
 11. Provides a description of the award. (IMMUNIZATION – IAP)

12. Indicates the base award for that fiscal year
13. Indicates any supplements/reductions to the base award
14. Identifies the total amount of the award
15. Identifies the funding source - General, Federal, Special Funds
16. Identifies the federal tracking number for federal funds, e.g., 03-1540, 02-2600
17. Identifies that there are conditions associated with the award
18. Identifies a contact person and phone number
19. Indicates if the signature sheet is signed and received by Program Cost & Analysis

1042

Vendor of Record - the LHD which entered into a LHDFS agreement with the DHMH and to whom Departmental funding is awarded.

2010

ACQUISITION OF SERVICES

2010.01

Selection of a Local Health Department to Provide Services – The local health departments are considered the principal operational arm of the Department. Therefore, except as provided in 2010.03, Directors of program administrations must consider the use of a local health department as the vendor-of-record or service provider for any new human services program within the jurisdiction, before issuing a solicitation for such services under the procurement process. New programs include types of services not previously supported by Department funds and additional or expansion services that are already supported by Department funds.

2010.02

Director Responsibility – The Director of the program administration is responsible for the determination of the content, nature and specifications of the services to be delivered and for the determination of the available level of State funding.

2010.03

Exclusions – The requirement for Directors of program administrations to consider local health departments for funding does not apply to funding: (1) by the Mental Hygiene Administration for Core Service Agencies, (2) by the Developmental Disabilities Administration for provider services under the Provider Consumer Information System (PCIS), or (3) pursuant to specific contrary federal, state or local requirements.

2010.04

New Programs – The Director of the program administration, in consultation with the local health officer, shall make a determination whether to utilize the local health department as the vendor-of-record or provider for any new human services programs within the respective jurisdiction. The Director of the appropriate administration and the local health officer may mutually agree that the services will be provided by a person or entity other than the local health department.

2010.05

Mediation and Appeal Process - If the Director and the local health officer do not agree on the role of the local health department, the issue shall be resolved by the following mediation/appeal steps:

Level 1: An attempt to mediate will be managed by the Director of the
Community Health Administration, or designee.

Level 2: The appropriate Deputy Secretary, or designee.

Level 3: The Secretary, or designee.

2010.06

Notice of Award - When the local health department is not funded as the vendor-of-record or provider for a human services program within its jurisdiction, the local health officer shall be notified in writing by the Director of the program administration of any contract award and supplemental award, reduction and/or termination made by alternative means to organizations located within the jurisdiction.

2020 **LOCAL HEALTH DEPARTMENT FUNDING SYSTEM (LHDFS)**

- 2020.01** **LHDFS** – All funds must be awarded to LHD’s utilizing the LHDFS process. Commencing in Fiscal Year 2004 (July 1, 2003) the Department of Health and Mental Hygiene will be implementing an electronic budget submission process for local health departments. This process is summarized below.
- a) Local health departments will submit their budget for review electronically to the program administration;
 - b) the program administration will review, approve and electronically submit the budget to the Division of Program Cost and Analysis (DPCA);
 - c) the DPCA will review, approve and upload the budget into the FMIS system;
 - d) the program administration will be notified by DPCA that the budget has been uploaded successfully, and
 - e) the program administration will send to the health officer an award letter, pertinent conditions of award and an electronic version of the approved budget file.
- 2020.02** **Term Of Award** – Awards made through the LHDFS are awarded for a period of time not to exceed one year in accordance with State appropriations. This award period must occur within the state fiscal year (July 1 through June 30).
- 2020.03** **Health Officer’s Signature** – A signature sheet must be signed annually by the Health Officer. This sheet is only required for the initial UFD award, and is valid for any subsequent new awards, modifications, reductions, and/or supplements made to the UFD during the award term. The Health Officer’s signature validates the acceptance by the Health Officer of responsibility to provide or secure human services in accordance with the specific conditions delineated by the UFD. If a specific provision(s) on the UFD contradicts the provision(s) of this Manual, said instrument shall prevail over this Manual but only to the extent allowed by applicable law, and only where the UFD specifically states intent not to incorporate all or a specific part of this Manual.
- 2020.04** **Award Letter** – For all awards made through the LHDFS, including new awards, modifications, reductions, and/or supplements, the Health Officer will receive an award letter issued by the program administration. At a minimum the award letter will contain:
- a) Name of the LHD,
 - b) Award number,
 - c) Program Cost Account (PCA) number,
 - d) Amount of award,
 - e) Source(s) of funding, if federal funds are included in the award, the amount of federal funds by CFDA number and the DHMH federal grant tracking number, and
 - f) Term of the award
- 2020.05** **Conditions of Award and Award Specifications** – All initial awards and any

subsequent changes may be accompanied by conditions or specifications placed on the LHD by the program administration that may limit or restrict the expenditure of the awarded funds. The UFD will note if any conditions or specifications are applicable to a particular award. Any full conditions or specifications will be sent to the Health Officer attached to the award letter. These conditions or specifications may include a line item budget, a program plan, performance measures, etc., as determined by the program administration.

2020.06

Unified Funding Document – This document summarizes all DHMH local health department funding awarded annually by each program administration to each local health department. The DPCA will update the UFD monthly and distribute it to each local health department and to each program administration.

2030

FUNDING PRINCIPLES

2030.01 **General** - DHMH FUNDING IS GENERALLY NOT A FULL-COST REIMBURSEMENT SYSTEM. The DHMH LHDFS is generally one of contributory funding to support health related services, which derive income from user fees, insurance payments, charitable contributions and endowments, other government programs and other third-party incomes.

It is a performance driven system. Each award listed on the UFD must identify any specific performance measures required by the program administration. The performance measures are the specific, objective, measurable units of service that are to be provided by the LHD (See Section 1031). Performance measures will be utilized throughout the LHDFS, from application to award, reconciliation and audit. DHMH program administrations and local health departments share responsibility for compliance with the defined performance measures. The LHD is responsible for satisfying all approved performance measures. DHMH program administrations are responsible for approving, monitoring and modifying the LHD's defined performance measures. The LHD's funding will be based upon its compliance with the defined performance measures approved by the funding DHMH program. Failure to comply with approved performance measure standards may result in a reduction in funding.

2030.02 **Maximum Award** - The award figure reflected on the UFD is the maximum amount of funding for which the Department shall be liable.

2030.03 **Supplemental Award** - Funding may be increased via a supplemental award. (See Section 2040)

2030.04 **Modifications** - The UFD award may be modified with respect to allocation of income and expenditures via a budget modification or with respect to performance measures via amended conditions of award. (See Section 2050)

2030.05 **Reduction/Termination** - An award may be reduced and/or altered for the reasons specified in Sections 2060 and 2070.

2030.06 **Funding Period** - Funds are awarded for a specific period as noted in the award letter and the UFD. The LHD must expend those funds during such period. (See Section 2020)

2030.07 **Unspent Funds** – Except for funds awarded to Core Service Agencies, DHMH funds unspent at the close of the funding period will revert to the Department.

2040 **SUPPLEMENTAL AWARDS**

2040.01 **Nature** - A supplemental award is the means by which the Department provides

additional funding to an existing LHD program on the UFD.

- 2040.02** **LHD Request** - A LHD may request supplemental funding at any time. However, the program administration must be contacted prior to written submission of the request to ensure availability of funds and to identify special conditions that may be imposed. If approved, the same processes as that employed for an initial award shall be used.
- 2040.03** **Status** - If approved, the supplemental budget replaces the original budget and any intervening budget action.
- 2040.04** **Notice** - The LHD is notified by the program administration in writing by an award letter and inclusion of the supplemental award on the monthly UFD.

2050 **BUDGET MODIFICATION**

- 2050.01** **Nature** - Budget Modification is a revised budget, which restates the original budget and incorporates line item changes desired by either the LHD or the program administration to achieve a new approved budget. A budget

modification does not affect the total amount of the DHMH award but may affect the amount of other funding sources. A budget modification is to be distinguished from a supplemental award budget. Both are revised budgets. However, a budget modification does not alter the amount of the DHMH award, whereas a budget supplement increases the amount of the DHMH award.

2050.02 **Status** - An approved budget modification supercedes the original budget or any previous budget action.

2050.03 **Implementation** - The LHD may submit budget modifications to the program administration up to April 15th for the current fiscal year. A LHD must submit a budget modification in accordance with the following guidelines.

A) The following guidelines are applicable to LHD's receiving funds from the Alcohol and Drug Abuse Administration, the Community Health Administration, the Family Health Administration, the Mental Hygiene Administration, the Cigarette Restitution Fund Program and non-Ryan White funding received from the AIDS Administration.

The LHD must submit a budget modification when a controlled line item in a previously approved budget is exceeded by the greater of 10% or \$5,000. Controlled line items are:

- 1) the total of salaries, consultants, special payments payroll and fringe costs,
- 2) equipment,
- 3) purchase of service,
- 4) renovation,
- 5) construction,
- 6) real property purchase,
- 7) third party income, including fee collections.

Non-budgeted line items require budget modification at \$5,000 or greater. Also, a budget modification is required if a condition occurs which has been specified by the program administration in the UFD which mandates the submission of a budget modification.

B) The following guidelines are applicable to local health departments receiving funds from the Medical Care Programs Administration and the AIDS Administration that include Ryan White funding. The LHD may

submit budget modifications to the program administration up to April 15th for the current fiscal year.

The LHD must submit a budget modification when a controlled line item in a previously approved budget is exceeded as detailed below. Controlled line items and budget modification thresholds for the

Medical Care Programs Administration and awards from the AIDS Administration that include Ryan White funding are:

- 1) the total of salaries, consultants, special payments payroll and fringe costs - by 4%
- 2) equipment – by \$1,000
- 3) third party income, including fee collections – by 5%

Also, a budget modification is required if a condition occurs which has been specified by the program administration in the UFD which mandates the submission of a budget modification.

- C) The following guidelines are applicable to LHD’s receiving funds from the Developmental Disabilities Administration (DDA). The LHD may submit budget modifications to the program administration up to April 15th for the current fiscal year. Controlled line items for funds received from DDA are:

- 1) equipment,
- 2) renovation,
- 3) construction,
- 4) real property purchase.

Budget modifications are required if the budget for the above line items is exceeded by the greater of 10% or \$5,000. All other line items are **not** considered controlled line items for DDA awards on the UFD.

2050.04 **LHD Liability** - Budget modifications subject to approval (per Section 2050.03) that have not been submitted to and approved by the program administration may be considered a breach of the HDFS agreement. Unauthorized changes become the liability of the LHD. Also, it should be noted that annualized costs of personnel changes made without specific approval of the program administration (i.e. changes not requiring a budget modification) might not be funded in subsequent years.

2050.05 **Third-Party Income** - When a modification request is submitted because third-party income is over or under the budget estimate, the LHD may request an increase or decrease of the total program budget to reflect the change. When income from fees or collections exceeds the final approved budget, which may include one or more budget modifications, the DHMH funding must revert to the Department, absent provision to the contrary in the UFD. (See Section 2120.04)

2050.06 **Negotiation and Submittal** - A budget modification typically is negotiated by the LHD and the program administration and then formalized by submission of the budget modification to the program administration.

2050.07 **Form DHMH 4542** – Budget modifications are to be submitted electronically to

the program administration and must be submitted using the Local Health Department Budget Package (DHMH Form 4542). The DPCA is responsible for supplying the LHD Budget Package instructions and the electronic forms.

2050.08 **Addenda** - The program administration may require that the budget package (DHMH 4542) include additional information, for example:
a.) a narrative identification of all changes to the previous budget or
b.) a narrative describing any changes to programmatic operations.

2050.09 **DPCA Processing** - The program administration will forward all approved budget modifications to the DPCA for processing.

2050.10 **Status** – If approved, the modified budget replaces the original budget and any intervening budget actions.

2050.11 **Notice** - The LHD is notified by the program administration whether or not the modification is approved and by inclusion of approved actions on the monthly UFD. If approved, the budget modification is forwarded electronically by DPCA to the program administration who turn is responsible for sending it to the LHD.

2060 **REDUCTION IN FUNDING**

2060.01 **Reasons** - The reasons an award may be reduced are:

- 1) a failure to perform under one or more terms and conditions of the UFD,
- 2) a specified reduction in the scope of services to be delivered, as determined by the program administration,
- 3) a reduction in state appropriations - a cutback in state appropriations or

revision of estimated state income or insufficient appropriations to cover all costs for multi-year contracts,

- 4) a reduction in funding from non-general fund sources,
- 5) a realization of third party income in excess of that estimated in the budget, and/or,
- 6) an actual or projected under spending from that estimated in the budget.

2060.02 **Departmental Liability** -In the event of a reduction in funding, the appropriate program administration will be liable for payment of any valid expenditure, including an encumbrance, made by the LHD prior to receiving notice of the reduction.

2060.03 **Notice** – For a local health department, notification of the reduction is through the UFD. A Change in Grant Status for Local Health Departments (DHMH Form 4542M) will be forwarded to DPCA by the program administration along with the revised budget. The DPCA is responsible for the notification of the local health department.

2070 **TERMINATION**

2070.01 **Unified Funding Document (UFD)** - Termination of funding for a program awarded through the UFD shall follow the guidelines below.

2070.02 **Notice** - The program administration, by ninety (90) day written notice, may terminate funding awarded through the LHDFS in whole or in part when it is deemed by the program administration to be in the best interest of the recipients of service, the program administration and/or the State of Maryland.

2070.03 **Termination by the LHD** - Should the LHD wish to terminate a program funded through the UFD, it must make a written request for termination to the Director of the appropriate program administration at least ninety (90) days before the proposed termination date. Approval of the program administration must be secured before services to clients are stopped.

2070.04 **Departmental Liability** - In the event of the termination of a UFD program, the appropriate program administration will be liable only for payment of expenditures/encumbrances for authorized activities up to the effective date of termination.

2070.05 **Final Report** - Upon termination, by either the program administration or the LHD of a UFD program, the LHD must submit a final report of receipts and expenditures (DHMH 440) and performance measures (DHMH 440A) within sixty (60) days after the effective date of termination. If money is due the Department, a check for the full amount due must follow the final report (DHMH 440) within thirty (30) days of reconciliation.

2080 **ACCOUNTING**

2080.01 **Standards** -The vendor must maintain an accounting system and records relating to funds awarded through this Manual which conform to both the Annotated Code of Maryland, State Finance and Procurement Article, Sections 7-401 through 7-405 and Generally Accepted Accounting Principles.

2080.02 **Program Specificity** - A separate, distinct accounting record must be maintained for each award on the UFD.

- 2080.03** **Periodicity** - Accounting for each approved budget period must be segregated from every other budget period.
- 2080.04** **Income** - All income must be recorded, either on a cash or accrual basis, showing both source and amount.
- 2080.05** **Expense** - Each expense must be recorded on an accrual basis and charged against its appropriate line item and must be substantiated by documentation sufficient to identify the transaction.
- 2080.06** **Encumbrance** – Obligations for goods and services, which are to be furnished wholly in the subsequent year, are not recognized as expenditures in the current year. The Department recognizes any of the following conditions as a valid encumbrance of funds.
- a) The LHD has signed a contract for capital equipment, the delivery of which is scheduled during the funding period but the delivery is delayed for reasonable cause.
 - b) The LHD has signed a contract for Renovation/Remodeling goods and/or services which contract period begins but may not be completed during the funding period.
 - c) The LHD has signed a contract for services which contract period begins but may not be completed during the funding period.

Note: All of the foregoing encumbrances should be reflected in the final year end (June 30th) financial reports (DHMH 440 Annual Report or FMIS).

- 2080.07** **Salary, Fringe and Consultants – Documentation**
- (a) Salary and fringe costs must be supported by the following:
 - 1) Maintenance of a time-reporting system for personnel funded by the award;

- 2) maintenance of adequate records supporting charges for fringe benefits and,
- 3) maintenance of payroll authorization and vouchers.

- (b) Consultant costs must be supported by the following:
- 1) Maintenance of a time-reporting system for consultants funded by the agreement;
 - 2) maintenance of consultants' invoice and,
 - 3) maintenance of consultants' signed agreement and any professional licenses required by law.

2080.08 **Inspection** - The LHD's and any subvendor's accounting records relating to each award on the UFD must be made available for inspection or audit by the Department during normal business hours. All records must be maintained for five years and until all audit requirements are met, unless a longer retention period is required by federal, state or local requirements and then destroy if no longer needed.

2080.09 **Accounting Methods** - A LHD's accounting method or accounting basis determines when transactions and economic events are reflected in its financial statements. All local health department programs listed on the UFD may be on the accrual or modified accrual basis of accounting.

Generally, a LHD will not be permitted to change its basis of accounting merely to gain short-term advantage. Rather, a change in the basis of accounting would be made to improve accuracy and would remain in effect until it could be demonstrated that another change would result in greater accuracy. (See Section 2120.06)

2080.10 **Client Funds** – Local health departments who act as custodians of client funds or representative payees for clients must maintain appropriate records to account for these monies. The record shall include the client specific detail of source, amount received and nature and amount of any disbursement of clients' funds. Local health departments have a fiduciary responsibility to the clients in the handling of client monies. Local health departments are to establish the controls necessary to safeguard these monies. DHMH will not support or fund the replacement of client funds that are lost or stolen.

2090 **FISCAL REPORTING**

2090.01 **General** - Each LHD receiving funding under the provisions of this Manual generally file one or more of the following reports: DHMH 438 Interim Report of Actual Expenses, Receipts and Performance Measures, DHMH 440 - Annual Report, DHMH 440A Performance Measures Report and/or DHMH 990- Statement of Expenditures and Receipts.

2090.02 **Interim Report of Actual Expenses, Receipts and Performance Measures - DHMH 438** - This report is a required submission for those local health departments paid through invoices (DHMH 437) submitted to the DPCA. Local health departments paid through invoices submitted to DPCA must also submit in accordance with the schedule established by DPCA a separate Interim Report of Actual Expenses, Receipts and Performance Measures (DHMH 438) for each award on the UFD. These reports are required from the LHD on a quarterly or bi-monthly basis. The actual expenses, receipts and performance measures reported will be subject to analysis by the DPCA and/or the program administration prior to making the requested payment (via the DHMH 437).

Detailed instructions relating to the exact methodology and process for local health departments to submit the Interim Report of Actual Expenses, Receipts and Performance Measures (DHMH 438) are issued by and available from DPCA. In conjunction with the instructions on the Interim Report, local health departments should read the detailed instructions for the DHMH 437 Form, Human Service Agreement - Request for Payment – Vendor Invoice that also are available from DPCA.

2090.03 **Annual Report** - A local health department's Annual Report of Expenses, Receipts and Performance Measures (DHMH 440) for the budget period must be submitted to the DPCA by August 31 for the immediately preceding fiscal year or by sixty (60) days after close of funding period, unless the LHD elects to use FMIS. A LHD having its invoices paid by the DHMH, General Accounting Division has the option of submitting a DHMH 440 Report in place of the FMIS report. If the LHD exercises this reporting option, the DHMH 440 Report must be filed by August 31. Failure to submit this report within the specified time may result in funds being withheld until the reports are filed and reconciliation is complete.

2090.03.01 **Letter of Justification** - A Letter of Justification to request approval must accompany the annual report (DHMH 440) if actual expenditures vary from the approved budget for those items listed under Section 2050.03. The DHMH 440 Report will be returned by DPCA to the LHD if the Letter of Justification is missing. Local health departments whose expenditures are included on FMIS reports and who elect not to file a DHMH 440, must, nevertheless, file a Letter of Justification for variances as stated above. The Letter of Justification should state the nature of and rationale for the expenditures(s). The submission of timely

budget modifications is the preferred methodology to address unbudgeted expenditures and controlled line item over expenditures. However, the submission of the aforementioned year end Letter of Justification and its approval, as indicated on the DHMH 440 or FMIS report, is acceptable for reconciliation and audit purposes. It is recognized that the director of the program administration may disapprove any unauthorized expenditure.

- 2090.04** **Computer Facsimile** - A facsimile generated by the LHD may be acceptable in lieu of the departmental forms, DHMH 437, DHMH 438, and DHMH 440. Prior approval of the format by the DPCA is advised. The LHD assumes liability for rejection of their report format if prior approval is not obtained from DPCA.
- 2090.05** **Program Option** - The program administration may require additional fiscal reports at the Director's discretion.

2100

PAYMENT

2100.01 **Overview** - There are three primary methods of payment, as follows.

- 1) The DHMH, General Accounting Division through the State Comptroller, pays invoices on behalf of most local health departments.
- 2) The DHMH pays certain local health departments based on their submission of an invoice (DHMH 437) to the DPCA. This payment method is employed for certain costs of some local health departments.
- 3) The DHMH pays local health departments based on submission of monthly DHMH 990 Reports to the DHMH, General Accounting Division.

2100.02 **Payments by Submission of Invoices by a LHD**

Local health departments paid through invoices submitted to DPCA must submit a separate Request for Payment - Vendor Invoice DHMH 437 for each award on the UFD. These invoices are required from the LHD on a quarterly or bi-monthly basis. Detailed instructions relating to the exact methodology and process for local health departments to submit their invoices are issued by and available from DPCA. LHD payments will be subject to departmental cash management practices; funding will be advanced only to the extent warranted by an analysis of the related Interim Report of Actual Expenses, Receipts and Performance Measures (DHMH 438).

2100.02.01 **WIC Program** - The Women, Infants and Children (WIC) Program allows for monthly LHD payments. In such cases, the form DHMH 4330 must be used. Quarterly expenditure reports must be submitted to the State WIC Office.

2110 **COST PRINCIPLES**

2110.01 **Background** - This section establishes the cost principles for Departmental UFD

funding. The Director of the program administration is afforded broad discretionary authority to target Departmental support of LHD program costs to promote maximum effectiveness in the service delivery system consistent with state objectives. Also, this section establishes certain guidelines for the consideration of LHD costs to ensure accountability in the distribution of public funds.

2110.02 **Program Discretion** - The Director of the program administration shall exercise his/her discretion in determining what aspects of a LHD's program are to be supported by departmental human services funding.

2110.03 **Limitations** - The LHD may use funds for expenditures required to carry out an approved project/program limited by:

- a. the budget approved by the Director,
- b. the conditions of grant award and/or award letter (Refer to Section 2030),
- c. the specification of allowable costs in this section, unless specifically modified by the Director of the appropriate administration, and,
- d. the total amount of the award, as enumerated in the approved budget.

2110.04 **Reasonableness** - The Director will subject projected expenditures specified in a proposed budget or budget modification to a reasonableness test in accordance with any applicable DHMH policy and/or his/her own judgment regarding the general public interest and that of the clients to be served. Irrespective of its classification as an allowable cost, a cost is allowable only to the extent it is accepted as reasonable by the Director. Reasonableness requires that the cost be such an amount as would ordinarily be paid for comparable goods or services by a comparable purchaser, depending on the facts and circumstances in each case. Reasonable cost usually is limited by fair market value.

2110.05 **Criteria** - A cost may be considered unreasonable on the basis of either its nature or amount. In determining the reasonableness of a given cost, consideration shall be given to any and all relevant circumstances, including but not necessarily limited to the following:

- a. federal, state, local grant/contract regulations,
- b. requirements imposed by the terms and conditions of the award,
- c. whether the cost is of a type generally recognized as ordinary and necessary for the LHD's performance of the program,
- d. the restraints inherent in and the requirements imposed by sound business practices and arm's length bargaining and,
- e. the action that a prudent business manager would take under the circumstances, including general public policy and considering responsibilities to the employees, customers and the State.

In addition, the Chief, DPCA may review expenditures reported on the annual DHMH 440 for reasonableness and may request specific approval of the Director for all expenditures that the Chief, DPCA does not consider reasonable.

2110.06 **Direct Costs** - Any costs which are or can be specifically identified with a particular cost object (budget line item) and which is allocable to the approved project/program for which the funds are awarded is considered a direct cost. The LHD shall attribute all costs directly unless it is specifically authorized by the program administration to allocate certain costs as indirect costs.

2110.07 **Indirect Costs** - Indirect costs are defined under this policy as those costs which have been incurred for multiple or common objectives (shared costs) or as those costs associated with more than one cost object within that part of the LHD's operation which are both funded by the Department and which are not readily identifiable as direct costs without effort disproportionate to the achievable results. Indirect costs are not administrative or overhead costs per se. Such costs should be identified as direct costs unless they meet the foregoing test.

2110.07.01 **Authorization** - The Director of the program administration may, in accordance with applicable policy, authorize indirect costs to fairly reimburse a LHD for that portion of the program which, while necessary for the performance of the award, cannot readily be identified and funded as separate line items in the direct cost portion of the LHD's budget. The Director shall ensure that the approved budget (DHMH 4542) specifies the indirect cost for each award on the UFD.

2110.08 **Allowable Costs** - The Director may allow any costs which are consistent with the scope and purpose of those aspects of a program, which are or shall be supported by funding approved by the Department. Specific costs decisions not consistent with this Manual must be reflected in the conditions of grant award.

2110.08.01 **Guidelines** - The following expense items, unless specifically rejected or limited by the Director, may be considered allowable costs under the described conditions. Inclusion here does not guarantee acceptability; conversely, omission does not necessarily preclude it. Moreover, specification as an allowable cost does not absolve the LHD from the responsibility to document these costs in accordance with generally accepted accounting principles.

Generally, allowable costs are:

- a. Those costs relating to items included on the DHMH 4542 Program Budget Page, some of which are discussed further below.
- b. Accounting, Audit, and Legal Services as limited by Section 2110.09.o,
- c. Advertising - when it is for the purpose of recruitment of personnel or for outreach to actual or potential recipients of UFD supported services,

- d. Books, Periodicals, and Professional Journals - when these materials are for the general use of the LHD staff and/or the recipients of UFD services,
- e. Communications - including those for printing and copying,
- f. Consultant's Fees - when necessary to provide the level of service established in the UFD and/or award letter (See Section 2160),
- g. Dues and Membership - fees to professional organizations and societies, provided these memberships are organizational rather than personal,
- h. Equipment Lease and/or Purchase - the schedule of equipment prices in the Department of Budget and Management budget instructions for the applicable fiscal year may be used in any reasonableness test for these items (See Personal Property, Section 2150),
- i. Fringe Benefits - such as Life Insurance, Health Insurance, Disability Insurance, Social Security, Workmen's Compensation, Retirement, and Unemployment Insurance. The maximum percentage allotted to fringe benefit elements listed in the Department of Budget and Management budget instructions for the fiscal year for which funds are being requested may serve as a decision-making guide for the Director.
- j. Fund Raising Costs may be allowable. Fund raising costs, which do not generate a net benefit over time, may be disapproved in future budget requests. Income from fund raising in excess of the DHMH supported fund raising costs is not an allocable income source. (See Section 2120.03 Allocation of Income, item g.),
- k. Insurance is an allowable cost. Organizational liability insurance is an allowable cost, as is the cost of vehicle insurance.
- l. Interest costs may be allowable, with the prior approval of the program administration.
- m. Maintenance and Repair, except as provided under COMAR 10.04.01.08
- n. Payments to Advisory Council or Board of Directors as reimbursement for meals and travel only,
- o. Relocation costs for moving an organization; reimbursement for employee relocation costs are limited to the guidelines established by DHMH relating to the reimbursement of interview and moving expenses for new State employees.
- p. Renovation costs, as defined in Section 1036 and to the extent they meet the provisions of Section 2140,
- q. Rent or Mortgage - generally, the State does not pay rent for space occupied in public buildings; the actual costs of operating these buildings, e.g., utilities, janitorial service, grounds keeping, etc., may be allowable. (See Real Property- Section 2140)
- r. Salaries and Wages
- s. Travel - costs for mileage reimbursement by private automobile, van, or truck and daily meal allowances are allowable when related to UFD related programs. Rates published in the Department of Budget and

- Management budget instructions may be used as a reasonableness test.
- t. Vehicle - purchase or leasing costs are allowable if the vehicle is for transportation of recipients of Departmental services to or from service locations or for the transportation of service personnel and/or supplies from one service site to another or to home-bound clients for the purpose of delivering service. Rates published in the Department of Budget and Management budget instructions may be used as a reasonableness test.
 - u. Training costs for staff

2110.09 **Unallowable Costs** - The following items are costs generally considered to be unallowable for purposes of Departmental support. The list is not exhaustive; omission does not constitute acceptance as an allowable cost. The Director may allow cost in any of these categories when it is in the public interest to do so; conversely, he/she may elect not to support funding of a cost not listed here, including those generally considered to be allowable under the previous section (Section 2110.08.01).

Generally, Unallowable Costs are:

- a. Costs or expenses unrelated to the DHMH funded project,
- b. Costs not adequately documented,
- c. Collection costs and credit card processing fees,
- d. Malpractice insurance for a consultant and malpractice insurance for the LHD's professional employees is generally not allowable,
- e. Bonuses, except when awarded in accordance with an established program of state or local government,
- f. Client funeral and/or burial expenses,
- g. Contingency Funds, Reserves or Roll Over Funds, except as noted in CSA Section 2200,
- h. Depreciation - on all real property and on equipment purchased with awarded through the UFD,
- i. Employee/staff relocation costs in excess of limitations included in the DHMH, Personnel Services Administration's guidelines,
- j. Staff entertainment costs,
- k. Fines, claims, judgments, or penalties,
- l. Fundraising cost may be allowable. Fundraising costs, which do not generate a net benefit over time, may be disapproved in future budget requests. Income from fund raising in excess of the DHMH supported fund raising costs is not an allocable income source. (See Section 2120.03 Allocation of Income, item g.),
- m. Gifts, contributions, donations,
- n. Interest on obligations to local, state or federal governments or on obligations arising from item k. above,
- o. Legal fees to defend or pursue claims - A retainer paid to an attorney for normal business expenses such as a real estate transaction is allowable.

- Legal fees for defense of clients are not an allowable cost.
- p. Lobbying and/or advocacy costs (including membership dues in industry associations whose principal activity is lobbying or advocacy),
- q. Sabbatical leave,
- r. Bad debts incurred by private paying clients or third party payers and bad debts resulting from denied costs by the Department.
- s. Chaplain training and other religious training programs for staff members,
- t. Licensure fees for staff members; except for class C driver's license where having the license was a condition of employment at the time of employment,
- u. Losses and/or deficits on other grants and contracts,
- v. Loss of renting out a portion of the facility.

2110.10 **Pre-Payment of Expenses** - The Department prefers that expenses not be incurred until the actual delivery of goods or services. Pre-payment in this context applies only to payment made in the current funding period where the goods or services will not be delivered until the subsequent funding period. However, the Department will recognize the LHD's prepayment of expenses as valid under the following conditions:

- a. the agreement provides for refunding to the Department of unused pre-payment in the event funding is prematurely terminated, and
- b. the prepayment is expressly approved in writing by the program administration.

- 2120.01** **Background** - This section establishes the principles by which LHD income is considered. The section addresses both the DHMH award and all other LHD income and reviews the relationship among income types. The term "Income" is defined in Section 1000.
- 2120.02** **Director Authority** - The Director of the program administration shall have the authority to deviate, on an individual basis, from the principles stated in the following sections so as to exempt or modify the treatment of certain income. The Director of the program administration shall notify the DPCA of his/her decision to exempt or modify the treatment of income.
- 2120.03** **Allocation of Income** - All income resulting from, earmarked for or allocated to the operation or proposed operation of the DHMH supported human services delivery program is considered "allocable income" and must be identified in all budget and fiscal reporting documents and must be used to offset DHMH funded expenditures.

Generally, income resulting from or associated with the DHMH funded human services program shall be allocated to the human services program. This allocable income includes:

- a.) the DHMH award,
- b.) user or client fee collections,
- c.) Medicare/Medicaid collections,
- d.) other insurance collections,
- e.) federal, state (other than DHMH), county, municipal or private grants, contracts or payments or charitable contributions allocated to the UFD program as specified by the terms of the UFD,
- f.) income from businesses or other ventures operated by the LHD, to the extent that the DHMH award supports the costs of the businesses,
- g.) income from fund raising, to the extent supported by the DHMH award. Excess fund raising over the DHMH support of related cost must be used for program benefit. All fund raising income must be identified separately and explicitly in the budget and all fund raising income must be accounted for and be auditable. Income from fund raising in excess of the state supported fund raising costs will be shown separately on an attachment to the DHMH 440 but will not be used in the calculation of the DHMH liability in the final year end reconciliation.
- h.) interest or dividends earned on DHMH funds or other income allocable to the UFD program,
- i.) donations, charitable contributions, gifts or endowments allocated to the UFD program, as specified by terms of UFD agreement.
- j.) proceeds from the sale of assets (See Personal Property Section 2150),
- k.) awards or judgments derived from civil proceedings, to the extent that any costs associated with the proceedings or the particular case were supported

by DHMH funds or income allocated to the UFD program, except as otherwise provided by applicable State or local law.

- l.) Rent or royalty income to the extent that any costs associated with the activity that generated income were supported with DHMH funds or income allocated to the UFD program.

2120.04 **Order of Utilization** - All allocable income other than DHMH awarded funds shall be utilized before DHMH funds are used unless the UFD specifies an alternative protocol. A LHD is responsible for initiating the negotiations for an alternative protocol.

2120.05 **Recognition** - Accounting for the UFD program may be on the accrual or modified accrual basis. Certain income because of its nature may be recognized on a cash or a modified accrual basis because to do otherwise would distort the relationship between the income and its associated operations. Fee Collections from self-pay clients are recorded only when the income is received; other third party collections may be accrued. The matching of income to the appropriate period is reviewed in the final audit. (See Section 2080.09)

2120.06 **Restricted Funds** - When certain income is designated or restricted by the funding source, its treatment is dependent upon its relationship to the UFD program supported by DHMH funding as follows:

- a) if the designated/restricted funds are in support of the program also supported by the DHMH award, then the funding should be identified as income allocated to the UFD program and displayed in the budget and fiscal reporting documents in accordance with the designation/restriction. Documentation of the designation/restriction must accompany the LHD's budget request, or
- b) if the designated/restricted funds are not in support of the program being supported by the DHMH award, then the income is not allocable to DHMH.

2120.07 **Required Matching Funds** - Required matching funds are governed by this Manual unless statutory provisions provide for alternative treatment. The Director and the health officer must mutually agree to exemptions from the requirements of this Manual and the creation of alternative treatments for required matching funds.

2120.08 **Exclusions** - The Director may exclude from allocation, any income from any source when he/she deems it to be in the public interest. The income exclusions shall be documented in the UFD, and the Director of the program administration shall inform the DPCA of the exclusions. Generally, income exclusions are granted for, but are not necessarily limited to, the following circumstances:

- a) the program administration wishes to bear the full cost of the basic

- service delivery program, or
- b) the program administration concludes that a parallel or auxiliary program funded by such income is in the general public interest or so benefits the clients that it should be indirectly supported via an income exclusion.

2120.09 **Requirement to Generate Interest Income** - The LHD must deposit all DHMH funds and those funds allocated to a DHMH supported program in a federally insured interest bearing account when such funds are not required to meet current expenses. In the event that funds on deposit exceed the federally insured limits, the financial institution must insure the funds. This insurance should take the form of the financial institution pledging collateral equal to or in excess of the deposit's value. Such interest income must be identified in all budget and fiscal reporting documents and allocated in accordance with Section 2120.03.

2120.10 **Allocable Income In Excess of Budget Estimate** - This section is applicable to LHDs receiving funds from all DHMH program administrations except the Developmental Disabilities Administration. All allocable income in excess of the amount budgeted will serve to reduce the amount of DHMH participation unless the Director of the program administration elects to permit the LHD to use such income for program enrichment or to retain the income without prejudice to the Department's support. When this income exceeds or is expected to exceed that which is budgeted, the LHD may request approval to use that excess income in the program by submitting a budget modification request. The program administration will either approve or deny that request, following the procedures for budget modification in Section 2050. When income from fees or collections exceeds what is in the final approved budget, which may include one or more budget modifications, the resulting excess in DHMH funding must revert to the Department, absent provision to the contrary in the UFD.

2120.11 **Income Shortfall** - Any shortfall in income becomes a potential liability for the LHD.

2130 **SETTING OF CHARGES AND FEES**

- 2130.01** **Background** - Local health departments and their subvendors are to set charges, subject to approval and modification by the Secretary, for services funded in whole or in part by state or federal funds administered by the Department of Health and Mental Hygiene. The Secretary may designate services for which no charge is to be set.
- 2130.02** **Context** - Fee collections are an income to the UFD program being funded in whole or in part by the Department. As such, they are governed by Section 2120, Income Principles and by such other provisions of this Manual as may be applicable in the circumstance.
- 2130.03** **Authorities Governing Fee Collections** - The Annotated Code of Maryland, Health General Article, Section 16-101 et. seq. establishes the requirement for fee collections. COMAR 10.02.01 was promulgated pursuant to that statute. DHMH Policy 3416 addresses the DHMH internal administration of this subject.
- 2130.04** **Scope** - The provisions cited above in Section 2130.03 require the collection of fees for services rendered by organizations funded in whole or in part by the DHMH. The intent of this requirement is that charges for health services shall reflect the full costs of rendering those services, that there be a single charge for each service rendered and the charge is based on a uniform methodology approved by the Secretary for determining full costs.
- The regulation provides for:
- (a) an ability to pay schedule which indicates the percentage of a charge that a chargeable person should pay based on the chargeable person's income and possible consideration of family size and related financial condition,
 - (b) the establishment of procedures for billing and collection of fees,
 - (c) the distribution and application of amounts collected, and
 - (d) the maintenance of required reports and records.
- 2130.05** **Administration** - The administration of the fee collection operation to include the application of COMAR 10.02.01, DHMH Policy 3416, and those procedures noted below rests with the DPCA.
- 2130.06** **Procedures For Fee Setting and Cost Reporting** - The procedures for setting of charges and cost reporting are governed by cost report instructions issued by the DPCA. LHDs are bound by its provisions.
- 2130.07** **Client Fee Setting** – All recipients of services and chargeable persons shall be liable for payment of the charges as set forth in the Schedule of Charges. The greater of third party payments or the fee determined by use of an ability to pay schedule may be accepted. The Secretary shall issue and revise an ability to pay

schedule for services rendered adjusted for family size. The difference between the charge for services rendered and the fee derived from this schedule shall be an ability to pay allowance.

2130.08 **Record Keeping** – An individual financial record for each recipient of services or chargeable person shall be maintained which shall contain relevant financial information including:

- a) A record concerning the ability to pay determination including, when available, documents appropriate to the verification of income, expenses, allowances and exemptions. Documentation of reductions to ability to pay determinations must include things like: tax returns, pay stubs, unemployment insurance applications or other reasonable relevant documentation.
- b) A signed authorization to release medical information and assignment of third party benefits.

2130.09 **Collections in Excess of Budget Estimate** - All collected fees must be used for carrying out the purpose of the program up to the amount stated in the most recently approved budget. When fee collections exceed or are expected to exceed that which is budgeted, the LHD may request to use those excess fees in the program by submitting a budget modification request. The Director of the appropriate program administration will either approve or deny that request in accordance with Section 2050, Budget Modification. When fee collections exceed the final approved budget, which may include one or more budget modifications, they may revert to the Department.

2140 **REAL PROPERTY**

2140.01 **Background** - The use of UFD funding may be used for the purchase, construction, renovation or repair and maintenance of real property, as these terms are defined in Section 1036 and Section 1037. These costs are controlled items and these types of costs should be incurred only when necessary to ensure that programmatic concerns are being met. (See 2050.03)

2140.02 **Repair and Maintenance** - Renovation costs are to be differentiated from Repair and Maintenance costs in all proposals, budgets, budget modifications, and other written submissions.

2140.03 **Conditions** - Funds requested for construction or renovation shall be identified in a budget as a separate line item. Requests shall include such documentation as to afford the Director a full and accurate understanding of the nature and scope of the proposed project.

2140.04 **Architectural Study** - Funding for an architectural study or a design project will be subject to the same requirements as a request for construction or renovation.

2140.05 **Review for Technical Merit and Reasonableness** - The Director, prior to approving funding for a project costing \$50,000 or more, may forward the proposal to the Chief of the Division of Engineering and Maintenance. The Director may not approve the project unless the Chief, Division of Engineering and Maintenance approves the project in writing with respect to technical feasibility and reasonableness of cost.

2140.06 **Conformity with Licenses and Other Standards** - The LHD must certify that the project does or will conform to the standards and licensing requirements specified by state law and regulations and must submit such documentation from the licensing/regulatory authority as will verify conformance.

2140.07 **Conditions for Approval** - The Director shall approve or disapprove, in writing, all requests to use UFD funds for purchase, construction, or renovation projects.

2141 **Funding of a Project in a State Facility**

2141.01 A renovation project located at a State facility may be funded directly with UFD funds. However, prior to the budget, encumbrance or expenditure of UFD funds, the LHD must ensure that said project has been reviewed and approved by DHMH under the process described below.

2141.02 **DHMH Review and Approval**
The Deputy Secretary for Public Health Services must approve all projects. The

Deputy Secretary's approval is contingent upon review and recommendation of (1) the Director, program administration funding the project, (2) the Chief, Engineering and Maintenance and (3) the Director, Office of Planning and Capital Financing (OPCF) for the proposed project at a DHMH facility or other State facility.

2141.03 **Responsibility for Project Consistency and Compatibility**

The LHD, in conjunction with the program administration funding the project and the State agency or DHMH program administration having jurisdiction over the facility, shall be responsible for ensuring that the project is consistent with the stated objectives of the project, and that the project and stated objectives are compatible with the facility.

2141.04 **Maryland Department of Planning Clearinghouse Requirements**

The LHD, in conjunction with the program administration funding the project and the State agency or DHMH program administration having jurisdiction over the facility, shall ensure that the project meets the Maryland Department of Planning Clearinghouse requirements for use and occupancy of a State facility or property. For any project proposed for a DHMH facility, the OPCF shall notify the Clearinghouse in conformance with Clearinghouse requirements.

2141.05 **Responsibility for Conformance with Construction Contract Procedures**

The LHD, in conjunction with the DHMH, Division of Engineering and Maintenance, shall conform with standard Maryland Department of General Services and other State procedures applicable to soliciting, awarding, inspecting and expending funds for a project at any State facility. The LHD shall ensure that all proper approvals are received prior to, during, and upon completion of the project.

2141.06 **Responsibility for Memorandum of Understanding for the Use and Occupancy of Space at a State Facility**

The LHD, in conjunction with the OPCF and Director of the DHMH facility or Director of the State facility, shall enter into a Memorandum of Understanding regarding the use and occupancy of space or property at the State facility.

2142 **Real Property Disclosure Requirements**

Each annual program narrative related to the renovation or lease of real property may, as required by the program administration, include:

- a.) a listing of every program service site and administrative site that is or will be supported in whole or in part by the funding requested,
- b.) the current rent (annual and monthly cost) for each site and,
- c.) the identification of other (non-DHMH) sources, including amounts of funding for rent costs.

2143

LHD Documentation Requirements

When a LHD leases property, in whole or part with DHMH funds, a copy of the lease agreement must be retained in the LHD's records.

If the lease agreement is not available for review by Departmental representatives then all such costs will be considered undocumented and will be disallowed by DHMH.

2150 **PERSONAL PROPERTY**

2150.01 **Background** - The use of UFD funding for the purchase of personal property is an allowable cost.

2150.02 **Expenditure Categories** -Personal property expenditures fall into two major categories.

1. Consumable expenditures, like supplies, are **not** placed on the LHD’s inventory system and are treated as an expense.
2. Asset expenditures, like furniture, vehicles and computers are placed on the LHD’s inventory system.

For the purposes of recording inventory for other than sensitive items, any single item having a cost of \$500 or greater and a useful life of at least one (1) year is considered an asset. Items costing less than \$500 or having a useful life of less than one (1) year may be treated as a consumable expenditure. An exception to this would be if the purchase is governed by local government procurement. In that case, follow local government inventory recording standards.

Sensitive items must be recorded on the inventory records in accordance with the following guidance. Sensitive items are defined as items costing \$50 to \$499 that are prone to theft and easily concealable, such as in a briefcase, handbag, etc. If the purchase of a sensitive item is governed by local government procurement then the local government standard for classification of an item as a sensitive item can be followed.

2150.03 **Guidelines - Asset Recordkeeping** - Adequate records must be kept for all existing assets and all deleted assets. Inventory control numbers shall be attached to all assets as they are purchased and any previously purchased assets that do not have control numbers. Inventory information shall be maintained for all assets containing the following elements:

- a. date purchased,
- b. description of item, including method of disposal,
- c. vendor from whom purchased,
- d. cost,
- e. location,
- f. inventory control number and
- g. source of funds.

A master file should be prepared for all deleted assets stating:

- a. description of item,
- b. previous location,
- c. original cost and salvage value and
- d. date deleted.

2150.04

Reclamation of Personal Property Assets - Local Health Departments

The source of the funds used to purchase the personal property asset determines the manner and process for the reclamation of personal property assets. An asset purchased with funds received from DHMH or any allocable income source, other than local government funds, must be accounted for and disposed of in accordance with State policy. An asset purchased with local government funds should be accounted for and disposed of in accordance with the policies of the local funding agency.

2160

CONSULTANTS

- 2160.01** **Background** - The use of consultants is recognized as being necessary and appropriate, however certain considerations are essential; these are outlined below. (See Definition 1010 - Consultant)
- 2160.02** **Consultant Versus Employee** - The bonafide consultant relationship exists only in the absence of an employer-employee relationship. Guidance, such as the Internal Revenue Service's Publication 15, Circular E, Employer's Tax Guide can be useful in assisting in defining the employer - employee relationship.
- 2160.03** **LHD Responsibility** - Determination of the appropriate status of an individual is the sole responsibility of the LHD. For compliance with relevant laws, LHDs are advised to seek the advice of legal counsel. Claims and penalties resulting from improper designation of an employee as an independent contractor or consultant are the responsibility of the LHD.
- 2160.04** **Consultant's Fees** - Fees paid to a consultant are subject to review by the program administration. The Director may be guided by the relevant State Salary Plan when judging the reasonableness of consultant costs.
- 2160.05** **Conflict of Interest** – Retention of consultants must be consistent with the requirements and limitations of the Maryland Public Ethics Law (State Government Article, Title 15), particularly those provisions that limit relationships with their agency (§ 15-503 – employment and interest prohibitions) and those that restrict employees official duties in relationship to private individuals and entities (§§ 15-501 – nonparticipation, 15-506 – misuse of prestige of office, and 15-507 – misuse of official confidential information). In Montgomery County comparable County ethics provisions apply.

2170 **RECONCILIATION**

- 2170.01** **Background** - Reconciliation is a fiscal resolution of the UFD award, pending

audit and settlement, usually conducted at the end of the fiscal year. The reconciliation process encompasses budget review, compliance with Departmental fiscal policies, e.g., on indirect costs, and a determination of net balances and disposition of those balances. Reconciliation is based upon reported expenditures and income, subject to correction by the DPCA.

- 2170.02** **Local Health Departments** – The DHMH 440 Annual Report is the standard means of reporting annual total income, expenditures and performance measures. With some exceptions, local health departments usually are reconciled on the basis of figures provided by the DHMH General Accounting Division via FMIS reports. If a LHD is reconciled using FMIS, the LHD must submit the DHMH 440A Performance Measures Report to DPCA. Any LHD has the option to file a DHMH 440 Annual Report. If this option is exercised, the submitted DHMH 440 takes precedence for fiscal reconciliation.
- 2170.03** **Annual Report Filing Deadline** - The DHMH 440 must be delivered to the DPCA by August 31 or by 60 days after the close of the funding period (See Section 2090.03). Exceptions to the use of departmental forms are listed in Section 2090.04. The DHMH 440 Annual Report must reflect the actual year to date expenses and receipts through the end of the fiscal year. Subsequent annual reports purported to be final or corrected may not be accepted by DPCA and/or the program administration.
- 2170.04** **Failure To File A Year-End Report** - If the Annual Report is not received in accordance with the provisions of Section 2090.03, or if a technically insufficient report is received, future payments may be suspended until compliance with the reporting requirement is achieved.
- 2170.05** **Correction of the Year-End Reports** - The UFD award will be reconciled using the figures supplied on the year-end report (DHMH FMIS reports or DHMH 440). In the case of an error or omission in the report, the DPCA may make corrections. A report may be rejected and returned to the LHD for a technical insufficiency, which cannot or should not be corrected by the DPCA and may result in suspension of future payments.
- 2170.06** **Unbudgeted Expenditures and Overexpenditures** - Unbudgeted expenditures and over expenditures in controlled line items are subject to non-recognition. The LHD may petition for recognition by submitting a Letter of Justification, which states the nature of and a rationale for the expenditure(s) (See Section 2090.03.01). The Letter of Justification shall be submitted with the Annual Report (DHMH 440). The submission of timely budget modifications is the preferred methodology to address unbudgeted expenditures and controlled line item over expenditures. However, the submission of the Letter of Justification and its approval, as indicated on the DHMH 440 or FMIS report, is acceptable for

reconciliation and audit purposes. It is recognized that the director of the program administration may disapprove any unauthorized expenditure.

- 2170.07** **Recognition of Expenditures Subject to Audit and Settlement** - All expenditures recognized for purposes of reconciliation, whether incurred in accordance with an approved budget or not, are subject to audit. (See Section 2180)
- 2170.08** **Disposition** – A reconciliation may result in a net balance due DHMH or the LHD, as set forth below.
- 2170.08.01** **No Balance Due** - No action required beyond notice per Section 2170.09.
- 2170.08.02** **Balance Due LHD** - An account payable will be authorized by the DPCA who will instruct the DHMH General Accounting Division to issue payment. If there is no delinquent (greater than 90 days) receivable for the LHD, a check will be issued. Otherwise, the amount due to the LHD will be applied to a delinquent account receivable.
- 2170.08.03** **Balance Due the Department** - The DPCA shall notify the LHD if it believes that a balance is due to the Department. As a result of that notification, the following will occur:
- a. **Account Receivable** - if the LHD has ceased to be a provider for the program which generated the balance, an account receivable will be established and the LHD billed. If the vendor fails to pay the Department, a referral may be made to the State's Central Collection Unit (CCU).
 - b. **Carryover** - if the LHD continues to deliver services under the program that generated the balance, the amount due will be considered a cash advance (payment) on the following year's award. This operation is referred to as carryover. Carryover is available only to local health departments receiving payments from DHMH.
- 2170.09** **Notice** - The DPCA will communicate reconciliation findings. A copy of the reporting document (FMIS or DHMH 440) showing the details of the reconciliation will accompany the notice.

Distribution of the notice is as follows:

- a. LHD,
- b. program administration,

- c. applicable UFD award file for the reconciled fiscal year,
- d. DHMH, General Accounting Division,
- e. applicable UFD award file for the fiscal year affected by carryover, when appropriate, and
- f. others as requested.

2180 AUDIT

2180.01 Background - The DHMH Audit Division will periodically audit or cause to be

audited all awards listed on the UFD. The purpose of this audit is to give the State assurance that funds were spent in accordance with the UFD and this Manual. The books, records and all other pertinent data of the LHD will be examined on site by the DHMH auditor. This material must be made available to the auditor upon request during usual business hours. Additional documentation may be requested of the LHD. The audit will address the fiscal aspects of the UFD awards and may also focus on the management/administration aspects of the program. The auditor establishes amounts due either to or from the LHD by comparing funds received with authorized expenditures less allocable revenue. The audit findings are the basis for making a final settlement of the UFD award. A draft audit report is completed and (usually) discussed at an audit exit conference; additional documentation may be taken into account at this time. A final audit report is then issued.

2180.02 **Responsibility** - The Chief, Audit Division, is responsible for auditing or causing to be audited all DHMH awards. The Chief has the discretion to waive the requirement that an award be audited. The Chief reserves the right to audit a LHD, when it is in the best interest of the State to do so. The Chief, Audit Division shall audit or cause to be audited the records of a LHD in accordance with the UFD, this Manual and generally accepted auditing standards.

2180.03 **Availability of Records** - The LHD shall provide full disclosure of all financial statements, books, and records as needed and/or requested by the Chief, Audit Division or his/her designee.

2180.04 **Subvendors** - Each LHD, shall audit or cause to be audited each human service contract sub-vendor (See Definition 1038) in accordance with the DHMH Human Service Agreements Manual or the LHDFS Manual, the DHMH Audit Division's Subvendor Audit Policy and generally accepted auditing standards. The Chief, Audit Division may audit a subvendor, notwithstanding the responsibility of the LHD to audit the subvendor, when it is in the best interest of the State to do so. The Chief, Audit Division, if he/she elects to audit a subvendor shall inform the LHD, in writing, that the LHD is absolved of the responsibility to audit the subvendor.

2180.05 **Draft Audit Report and Exit Conference** - The Chief, Audit Division will issue a draft audit report and distribute it to:

- a.) the vendor and subvendor, if applicable,
- b.) the Chief, Division of Program Cost and Analysis,
- c.) the director of the program administration,
- d.) the Director of the Community Health Administration, and
- e.) other persons as appropriate.

The draft report cover letter will include a date by which the LHD may request or decline an exit conference. The exit conference will not be scheduled less than thirty (30) days from the issuance date of the draft report unless agreed to by the LHD.

2180.06 **LHD Right of Rebuttal** - The LHD must forward documentation intended to refute or mitigate findings in the draft audit report to the Chief, Audit Division, no later than twenty (20) calendar days after the date of the exit conference.

2180.07 **Final Report** - The Chief, Audit Division will issue a final audit report after examining or evaluating any evidence submitted by the LHD in accordance with Section 2180.06 subsequent to the publication of the draft audit report. Distribution will be to the same parties who received the draft report. The Chief, Audit Division in the draft and final audit report shall:

- a.) address and explain each audit exception,
- b.) specify amounts due, and
- c.) comment upon any other issue that warrants attention.

2180.08 **Timing of Audit** - The Chief, Audit Division performs an audit of each UFD award as soon as practicable and in accordance with Audit Division policy.

2190 **POST AUDIT SETTLEMENT**

2190.01 **Background** - The settlement of a UFD award is a process of resolving post-audit issues and of closing the settlement file. The settlement process starts when the audit process terminates. The resolution of the audit is based on the final audit report. The DPCA coordinates the settlement process.

2190.02 **Settlement Process** - The resolution of audit settlement issues will result in one of the following:

- 1.) DHMH and LHD agree on amount owed.
 - a.) Money Due the LHD - The Chief, DPCA shall inform the LHD, in writing, that the Department owes the LHD a specific amount of money and shall authorize payment and forward instructions to the Chief, General Accounting Division, to issue a check.
 - b.) Money Due the Department - The Chief, DPCA shall inform the LHD, in writing, that the LHD owes the Department a specific amount of money. The Chief, General Accounting Division, shall issue an invoice to the LHD for the amount of money owed to the Department. Such invoice is used to establish an account receivable, which is considered delinquent if not paid in thirty (30) days.
- 2.) DHMH and LHD disagree on whether an amount is owed either party or the extent of such amount. The LHD can appeal the amount owed to the program administration and solicit for abatement, in whole or part, of the audit debt. Such appeals are filed with the DPCA, who is responsible for administering the audit appeal process. The time frame for filing audit debt appeals is as follows.
 - a.) The LHD has thirty (30) days from the date of the final audit report to notify the Chief, DPCA of a request for abatement of specific audit exceptions. The DPCA shall forward the abatement request to the program administration. The audit appeal abatement request filed with the DPCA must include the plan of correction for the LHD with copies for the DHMH Audit Division, the Community Health Administration and the relevant program administration.
 - b.) The program administration will have thirty (30) days to review the request and notify DPCA of their decision on the support of the abatement request. If the appeal is denied by the program administration then refer to (1.) above. If the program administration approves the appeal, the following process is used. (See Section 2190.03)

2190.03 **Audit Debt Appeal and Abatement Process -Local Health Department**

As described above in Section 2190.02, a LHD may request the abatement of an amount due to the Department as a result of audit exceptions. The DPCA is responsible for coordinating requests for abatement and is the Department liaison for all dealings with the State's Central Collection Unit (CCU) in these matters. The procedure listed below shall be followed for processing requests for abatement:

- a) A LHD has thirty (30) days from the date of the final audit report to notify the Chief, DPCA of a request for abatement of specific audit exceptions. The audit appeal abatement request filed with the DPCA must include the plan of correction for the LHD with copies for the DHMH Audit Division, the Community Health Administration and the relevant program administration.
- b) The DPCA shall forward the abatement request and the aforementioned plan of correction to the program administration. The program administration will have thirty (30) days to review the request and notify DPCA of their decision on the support of the abatement request.
- c) The DPCA shall forward the audit exceptions and the actions recommended by the program administration to the Deputy Secretary for Operations and/or the Deputy Secretary for Public Health Services or the Deputy Secretary for Health Care Policy, Financing and Regulation. The appropriate Deputy Secretary will review the funding administration's recommendations and render a decision on support of the abatement request and inform the DPCA of that decision within thirty (30) days. If the decision is to abate the LHD debt in whole or part, the Department can not abate such debt but only can recommend abatement to the State's CCU. The CCU is not obligated to follow the Department's recommendations on such referrals.
- d) The DPCA will notify the DHMH Division of General Accounting of the total amount of the audit bill, including items recommended for abatement. General Accounting will bill the LHD every thirty (30) days for the total amount of the audit bill.
- e) After 90 days and the third bill, the amount endorsed for abatement by the Deputy Secretaries, and any unpaid balance, shall be forwarded to the CCU by the Division of General Accounting. The CCU will review the abatement recommendations and advise DHMH of its decision. Any unpaid balance will be subject to any collection fees imposed by the CCU.

2190.04 **Settlement Without Audit** - If the Chief, Audit Division, informs the Chief,

DPCA that a UFD award is not scheduled for audit due to the employment of certain sampling techniques, lack of resources or other reason, the Chief, DPCA will coordinate the settlement of such file in lieu of an audit. The settlement will be based on the final approved reconciliation (See Section 2170).

2190.04.01 **Method** - Coordination of settlement in lieu of audit will contain the following elements.

- 1.) The DPCA will send a confirmation to the Director of the program administration that the UFD award is subject to closure in the absence of being selected for audit.
- 2.) The Director of the program administration must respond in writing to DPCA if:
 - (a) an audit is desired, stating the reason for the request, or
 - (b) a settlement process in lieu of audit should be conducted.
- 3.) If no additional action is required, the Chief, DPCA will close the file.
- 4.) If additional action is required per instructions from #2 above, the Chief, DPCA will take appropriate action to implement the Director's instructions.

2200 **CORE SERVICE AGENCY (CSA)**

2200.01 **Applicability**

The requirements delineated in this section of the Manual represent what is

unique to the operation and funding of core service agencies. Core service agencies are governed by the relevant sections of the DHMH Human Service Agreements Manual for those topics not mentioned specifically in this section.

2200.02 **Roll - Over Fund Policies and Implementation Procedures for Mental Health Core Service Agencies**

The 1991 legislation which formally authorized the establishment of Core Service Agencies (CSA) in Maryland included a provision (10-1203 (C) (3)) that the Secretary shall “develop a mechanism whereby any unexpended funds remaining at the end of the year shall remain with the core service agencies or the community providers”.

The establishment of such a mechanism requires accounting and reporting procedures that will allow CSAs to comply with the legislative requirement while continuing to meet the goals of the Mental Hygiene Administration (MHA). The Department of Health and Mental Hygiene (DHMH) Form 440 has been revised to report these unspent funds once they have been identified at the end of the fiscal year.

2200.02.01 **Policy**

- A. No later than October 15th of each fiscal year, the CSA will report to the MHA, in a format designed by MHA, unspent General funds of the previous fiscal year and a plan for spending these funds in the current fiscal year.
- B. Decisions about the retention of these funds by the CSA will be influenced by the extent to which the prior fiscal year's program goals and objectives were met. Unspent funds, which are allowed to remain with the CSA, rolled-over into the next fiscal year, are to be placed in a separate project. The CSA may:
 - 1) Allow any unspent funds to be retained by the provider of the services,
 - 2) redirect the unspent funds to another provider,
 - 3) utilize the unspent funds for a program conducted directly by the CSA,
 - 4) allow unspent funds to be retained by the CSA; or
 - 5) any combination of the above.
- C. The unspent funds may be utilized in the next fiscal year only for one-time-only expenditures.
- D. The proposed spending plan must be approved by the Director of MHA or designee. Any agreement for the use of these funds by the CSA does not in itself further commit the department to continue that support in subsequent years.

- E. Each year's roll-over funds must be expended or obligated by the end of the fiscal year in which the expenditure of these funds is approved.

2200.02.02 Procedure

- A. No later than October 15th of each fiscal year, the CSA will report unspent funds of the previous fiscal year in the form of a spending plan to the MHA. If the CSA has received an approved 440, the amount of the roll-over plan must equal the amount shown on the approved 440. If after the submission of a spending plan, an approved 440 has been received and the amount of unspent funds on the approved 440 differs from the amount of unspent funds reported in the spending plan, a revised spending plan must be submitted within two weeks of the receipt of the approved 440.
- B. Roll-over funds will be established as a separate project (a separate project number will be assigned by the MHA), which allows for a clear audit trail to verify expenditures of roll-over funds during the fiscal year for which the funds were approved. If roll-over funds are deposited in a bank account that also includes current year funds, all interest credited to that account must be shown in the grant budget for the current fiscal year.
- C. Any fees or receipts generated by the expenditure of these funds must also be shown in the grant budget for the current fiscal year.
- D. The MHA will notify the CSA in writing regarding the approval or disapproval of the CSA's Plan.
- E. All CSAs will use Form DHMH 440 for reporting roll-over funds.
- F. At the end of the year in which the roll-over funds are to be used, the CSA will send two Form 440s to the DPCA; one for the regular budget and one for the roll-over funds.
- G. Requests for revision to the approved plan for spending roll-over funds can be submitted until April 15th of the fiscal year in which the original spending plan was submitted. The MHA will not consider revision requests, which are submitted after that date.
- H. The CSA will be billed by DPCA for the amount of any roll-over funds remaining unexpended at the end of the fiscal year in which they are approved

2200.03 CSA Requirements of Vendors

Core Service Agencies may impose reasonable reporting requirements or

operating standards on sub-vendors that are more demanding or restrictive than those that may be imposed on CSAs by MHA unless the sub-vendor(s) demonstrate to the CSA or MHA the requirements or standards are unreasonable.

2200.04

Close Out Procedures for Mental Health Core Service Agency Providers

- A. Each CSA will collect fiscal year end annual reports from each of their providers. The CSA may redirect unspent funds as of June 30th among providers before submitting the DHMH Form 440 annual report based on the information contained in the providers' annual reports. Unspent funds can be redirected to a provider who has adequately met the fiscal year's program goals and objectives, and has reported a deficit on the annual report. The following are some examples:
 - The deficit was unforeseen and reasonable.
 - The CSA was unable to award additional funding to providers before the close of the fiscal year.

- B. The CSA will include information regarding redirected funds with the DHMH Form 440.

- C. The CSA'S submission to DHMH of its year-end DHMH 440 report must include all subvendor year end fiscal reports (expenditure/revenue summary sheet only, not entire package).

2210

MISCELLANEOUS PROVISIONS

2211

Records - Title and Retention

2211.01 **Title** – Records held by the LHD funded by the UFD are considered records of DHMH. The Department has the right to use such records, reports, studies and data as the LHD may compile or have compiled.

2211.02 **Retention** - All records must be maintained for five years and until all audit requirements are met, unless a longer retention period is required by federal, state or local requirements and then destroy if no longer needed.

2212 **AFFIRMATIVE ACTION PLAN**

2212.01 **Development** - The LHD must develop an Affirmative Action Plan to ensure compliance with equal opportunity laws.

2212.02 **Submittal** – As requested, the current Affirmative Action Plan should be sent to:

DEPARTMENT OF HEALTH AND MENTAL HYGIENE
Director
Office of Community Relations
O'Conor Building - Room 517
201 West Preston Street
Baltimore, Maryland 21201

A schedule for future plan submittals will be determined by the Office of Community Relations.

2212.03 **Compliance Review** - The office named in Section 2212.02 above, will review the Plan in accordance with relevant state and federal laws and will approve or disapprove the Plan and issue notice of its decision. Requests for assistance in developing a Plan or for clarification of the LHD's obligations under the relevant statutes should be directed to the Executive Director, Office of Community Relations at (410) 767-6600.