

State Procurement Office
Chapter 103F, HRS
Procurement of Health and Human Services

Cost Principles

For Non-Accountants

When are Cost Principles Used

- Cost reimbursement
- Negotiated unit rate/price
- Financial reporting
- Fiscal monitoring
- Cost analysis
 - Inadequate response to an RFP

Federally Funded Contracts

To the extent that Federal cost principles conflict with these cost principles, the Federal requirements, if more restrictive, shall control.

Key Words you Should Know

- GAAP
- Allowability
- Allocability
- Direct and Indirect Costs

GAAP

Generally Accepted Accounting Principles

- Standards and Guidelines
- Promulgated by:
Financial Accounting Standards and
Government Accounting Standards Boards
- Direct how and when costs are recognized
on accounting records and financial
statements

Allowability of Costs

- Reasonable for the contract (and allocable)
- Conform to any limitations/exclusions in
these cost principles or in the contract as to
type or amount of cost items.
- In accordance with GAAP.
- Adequately documented.

Allocable Costs

- In accordance with the **relative benefits** received.
- Incurred specifically for the contract.
- Benefits both the contract and other work and can be **distributed in reasonable proportion** to the benefits received
- **Necessary** to the overall operation of the provider although a direct relationship to any particular cost objective cannot be shown.

Direct Costs

- Identified specifically with a particular award, service, project, service or other direct activity of an organization.
- Example: A van is purchased for an outreach program and is **only** going to be used for the outreach program.

Indirect Costs

Have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.
(Cannot be associated with one specific program...)

Negotiated Federal Indirect Cost Rate

- Indirect costs are equitably distributed to benefiting cost objectives by using current rate(s) negotiated with the federal government.
- To use the indirect cost rate, the rate has to be approved by the cognizant federal agency.

Methods of Allocation

- Used when there is no federally negotiated indirect cost rate.
- Various methods can be used.
- Unallowable bases for cost allocation:
 - Based on forecasts, revenues received, budgeted revenues, contract reimbursement.

Unallowable Costs Never Allowable- Partial List

- Lobbying
- Losses incurred under other contracts
- Perquisites (Perks)
- Gifts, contributions and donations
- Organization costs such as incorporation fees, broker's fees, fees to promoters, etc.
- Idle facilities, etc.

The Table

- Cost item
- Description (Definition)
- Allowable/Unallowable
- Remarks (special instructions, restrictions, documentation)
- Documentation is not required to be submitted unless the RFP asks for it.

Where are the Chapter 103F Cost Principles

- Cost Principles are on the SPO website.
- www.spo.hawaii.gov
- Click “Health and Human Services”
- Click “For State Agencies”
- It is also on the “For Private Providers” webpage.

Updating the Cost Principles

- Cost principles have been in effect since 1998. They need to be updated.
- We are open to your feedback.

Questions? Contact us:

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