



**STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT**

REPRODUCTION

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Brian S. Sigman, Board of Education and Services for the Blind
Patricia Wilson-Coker, Department of Social Services

Dear Commissioner:

I am pleased to inform you of the release of a new OPM policy for state-wide cost accounting standards. These standards represent a milestone in our continuing effort to establish uniform policies and procedures for the purchase of human services from private providers.

For the past year OPM has worked collaboratively on this effort with two individual work groups: (1) contract management and fiscal staff from six human service agencies and (2) representatives of the Connecticut Nonprofit Human Service Cabinet and the CT Society of Certified Public Accounts (CS-CPA). Our goal was to produce a clearly written document establishing uniform cost standards that are appropriate for the state, reasonable for providers and auditable.

The cost standards are now available on-line at
http://opm.state.ct.us/finance/pos_standards/coststandards.htm

The new standards define and enumerate allowable and unallowable costs, including Administrative and General (A&G) costs, and require documentation of all allowable administrative costs in a formal cost allocation plan. A key provision includes a comprehensive definition of A&G costs, i.e. those costs that are incurred for common or joint objectives and are not readily identifiable with a particular final cost objective. Outlining a hierarchy of costs methodology (direct, allocable as direct and A&G), the standards replace the varied and conflicting accounting practices of individual agencies that have been so burdensome to private providers who contract with multiple state agencies. The hierarchy of costs provision is a solid step toward more consistent budgeting and greater accountability.

These standards are effective January 1, 2007 and must be incorporated into the provisions of State human service contracts according to the following timeframe: (1) all new contracts effective on or after January 1, 2007; (2) all contract amendments modifying funding effective on or after January 1, 2007; and (3) all contracts in effect on or after July 1, 2007. The phased implementation schedule gives State agencies and private providers sufficient time to adjust their business practices and forms to the new policy.

On a related matter, I remind you that the 18% limit on A&G cost centers of private provider contracts is also effective January 1, 2007. OPM continues to hold that limiting support for A&G costs is good public policy. The cost standards will now enable agencies and providers to more accurately determine A&G costs and may lessen the financial impact of the cap on some providers. I trust that agencies continue to manage within current appropriations the six month delay implementing the 18% limit as outlined in my June 14, 2006 memo. Going forward, I expect State agencies and providers to adjust their budgets based on the new standards and the 18% limit on A&G costs. Our intent is that agencies will reduce funding to contracts that exceed the 18% standard and not reduce costs across the board.

We recognize that in the future OPM may need to clarify policy statements and make other adjustments to these standards. After careful consideration of issues that arise, we will make all necessary changes at an appropriate time. We will develop training opportunities and continue to work with agencies and provider representatives to ensure the timely and successful transition to this new policy. Any questions regarding the cost standards may be forwarded in writing to Gale Mattison, Executive Financial Officer.

Thank you for your assistance in developing these cost standards and for your continued cooperation as implementation begins.

Sincerely,

Robert L. Genuario
Secretary