

WORK ORDER CONTRACT NO. _____
UNDER SYSTEM AGENCY MASTER CONTRACT NO. 529-17-0117-00002

Pursuant to **HEALTH AND HUMAN SERVICES COMMISSION MASTER CONTRACT NO. 529-17-0117-00002** ("Master Contract") between **HEALTH AND HUMAN SERVICES COMMISSION ("HHSC" OR "SYSTEM AGENCY")** and **DK PARTNERS, PC** ("Contractor"), each a "Party" and collectively "the Parties," Contractor is authorized to perform the services including but not limited to the following, as more thoroughly discussed and defined below: (i) Scope of Services; (ii) Special Conditions; (iii) Tasks; (iv) Deliverables; (v) Deliverable Due Dates; (vi) Budget; and (vii) all other terms of the Work Order Request attached hereto as Attachment A ((i) through (vii) collectively, the "Project" and the "Work Order Contract"). This Work Order modifies and amends the Contract, all provisions of which not specifically amended herein shall remain in full force and effect.

SCOPE OF SERVICES

Contractor shall perform, or cause to be performed, the Project, which shall include Retrospective Cost Settlement (RCS) services statement of the Medicaid/CSHCN Services Program Claims/PCCM Administrator (MMIS), filed by the prime contractor (Accenture), for the thirteen-month period ended August 31, 2018. . Contractor shall perform all work in accordance with the following: (i) Contract and all attachments thereto; (ii) System Agency RFQ No. 52900-6-2000140069 ("Solicitation"); and (iii) this Work Order Contract and all attachments, including the Work Order Request, Contractor's Proposal dated February 11, 2019 and Contractor's Engagement Letter, attached hereto and incorporated herein for all purposes in their entirety as **Attachments A, B, C, respectively.**

SPECIAL CONDITIONS

Contractor is subject to the following Special Conditions:

Notwithstanding Article V, Contract Representatives of the Signature Document of the Master Contract, the following is the program point of contact for the management of the tasks under this Work Order Contract.

Rick Rupert,
Director of Contract Compliance
512-491-1126
Rick.Rupert@hhsc.state.tx.us

COMPENSATION

The total compensation due to Contractor for services performed or provided pursuant to this Work Order Contract is not to exceed **ONE HUNDRED SEVENTY-ONE THOUSAND THREE HUNDRED FORTY-FOUR DOLLARS (\$171,344.00)**. Expenditures shall conform to this Work Order Contract.

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PERFORMANCE PERIOD: Notwithstanding the date of the last signature below, the Parties hereto expressly agree this Work Order Contract shall be effective on execution of this Work Order Contract and shall terminate upon completion of the Project, in the sole determination of the System Agency, or on April 30, 2020, whichever occurs first (“Performance Period”).

TERMINATION OR INTERRUPTION OF WORK: The System Agency reserves the right to, at any time during the Performance Period, terminate, halt, or defer all or any portion of the work included in the Scope of Services of this Work Order Contract. If such an event occurs: (1) Contractor must follow all directions included in the System Agency’s notice; and (2) the Parties agree that this Work Order Contract may require revision by written amendment.

AMENDMENTS TO WORK ORDER: Material changes to this Work Order Contract may be made only by written amendment by the Parties. **Notwithstanding the preceding**, the System Agency’s Project Manager may approve extensions to Deliverable Due Dates within the confines of the Performance Period. Such approvals must be in writing, and may be delivered by regular mail, electronic mail, or facsimile transmission; and shall become part of the System Agency’s Project file.

SIGNATURE PAGE FOLLOWS

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SIGNATURE PAGE FOR WORK ORDER CONTRACT NO. _____
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SYSTEM AGENCY

DK PARTNERS, PC

DocuSigned by:
Dana L Collins
7686F69C7CE54BB...

DocuSigned by:
Steve Kangas
9A45D08F0BA847B...

Name: Dana L Collins

Name: Steve Kangas

Title: Director, Contract Administration and Provider / CEO / Managing Partner

Date of execution: August 27, 2019

Date of execution: August 27, 2019

ATTACHMENTS TO THIS WORK ORDER:

ATTACHMENT A- WORK ORDER REQUEST

ATTACHMENT B- CONTRACTOR'S PROPOSAL

ATTACHMENT C- CONTRACTOR'S ENGAGEMENT LETTER

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ATTACHMENT A- WORK ORDER REQUEST

RFQ No. 52900-6-2000140069 Medicaid/CHIP Multiple-Audit Pool Services
Contract #: _____

WORK ORDER REQUEST FOR AUDIT WORK NEEDED
AUDIT REQUEST NAME: TEXAS TMHP/MMIS RETRO COST SETTLEMENT RCS
EXAMINATIONS

A. AUDIT TIMELINE:

ANTICIPATED START DATE:	ANTICIPATED END DATE:
8/01/2019	3/01/2020

B. AUDIT ASSIGNMENT:

Audit Description
<p>The Vendor(s) shall provide auditing services to Health and Human Services Commission (HHSC) regarding per Yellow Book/Government Auditing Standards, an Examination should consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.</p> <p>HHSC Project Manager(s): Rick A. Rupert HHSC Contract Manager(s): Nicole Acclis and Kevin Tooley</p>

C. SCOPE OF SERVICES:

Audit Scope of Services
<p>I. To audit and reconcile the allowable costs submitted to HHSC from the Primary Contractor for Operational Contract Year (OCY) 1 (August 2017 – August 2018).</p> <p>II. To ensure that the allowable costs reported to HHSC for OCY 1 meet the contract requirements, state regulations, and federal regulations within the Contract Agreement 529-16-0007 between HHSC and the Primary Contractor.</p> <p>III. The sum of the Fee components described below will be referred to as the “Fee Ceiling”:</p> <ul style="list-style-type: none"> • The Fixed Fees; • The Variable Unit Fees; • The Variable Baseline Fees related to Additional Resource Charge/ Reduced Resource Credit (ARC/RRC); • Systems Maintenance and Modification Fees; • Additional Recurring Activity Charges; and

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- **RCS Pass-Through Expenses, which consist of:**
 - 1) All postage/delivery costs directly related to the operation of the Agreement;
 - 2) Office rent (including lease pass-through expenses);
 - 3) All printing costs including provider manuals, handbooks, bulletins, and similar;
 - 4) All telecommunication lines, including local lines, toll-free lines, electronic communications lines, fiber optic lines, cell phones, Internet connections, etc.; and
 - 5) Other Pass-Through Expenses agreed by the Parties.

The total maximum cost of the Services and Deliverables supplied by Vendor to HHSC during each Operational Contract Year 1 will not exceed the lesser of (a) the Vendor's Fees (Fee Ceiling) or (b) the sum of the Allowable Costs incurred by the Vendor plus the allowable administrative service fee during the subject Operational Contract Year 1.

Criteria

- Takeover Agreement (529-16-0007), Exhibit C-2 HHSC TMMIS Cost Principles Manual.

D. COMPENSATION METHOD:

AUDIT COMPENSATION METHOD

Auditor will be paid **25%** of the agreed upon fixed price upon submission of the Mid-point Status Report, **50%** for delivery to HHSC for the approved RCS Review engagement draft report, and the remaining **25%** will be paid for delivery to HHSC for the approved RCS Review engagement final report.

E. HUB SUBCONTRACTING PLAN:

Audit Subcontractor(s)

The HHSC HUB Program Office has determined that there is a probability for subcontracting and a HUB Subcontracting Plan is required.

<https://www.comptroller.texas.gov/purchasing/vendor/hub/forms.php>

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F. LIQUIDATED DAMAGES:

Audit Liquidated Damages

HHSC may assess up to \$1000 per calendar day for each day the RCS Review engagement final report is late. If the final report is received within the prescribed time frames but does not contain one or more of the prescribed elements or contains spelling or grammatical errors, the State may assess up to \$1000 per calendar day until all errors are corrected and all required elements are included in the report.

F. RESPONDENTS:

Audit Respondents

Each respondent should provide at a minimum:

- o An "About Us" section covering the history of the firm and areas of expertise. This should cover:
 - Executive, Partner, & Senior staff at the firm and their qualifications
 - History of working on projects similar to this one
 - Explain experience auditing Medicaid contracts and be as specific to Texas Medicaid as possible.
- o Provide staff resumes and experience for those designated to work on this project.
- o Provide a timeline with benchmarks for the project. These should be relative timelines showing time intervals for tasks/stages rather than specific dates.
- o Provide an overview of how the tasks detailed in the SOW will be accomplished.
 - Explain the proposed audit sampling method and factors used to determine sample sizes
 - Address key points in the SOW
 -
- o Any additional information believed to be of importance towards the consideration of the respondent.
- o A list of potential conflicts or a statement acknowledging that no conflict currently exists with respect to the performance of services solicited under this SOW.

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G. DELIVERABLES:

Audit Deliverables	Audit Deliverable Due Dates
1. Mid-point Status Report- This report, due at the mid-point of fieldwork, will include current status of the RCS Review, detail of potential findings, any issues affecting the RCS Review, and estimated date for submission of Draft Report.	TBD
2. Retrospective Cost Settlement (RCS) Review Draft Report	02/01/2020
3. RCS Review Final Report	13/01/2020
4. Monthly status update meetings, as set forth in this SOW, to discuss findings and issues affecting the engagements.	Monthly
5. Provide recommendations for changes to the RCS Review for subsequent engagements.	As Needed

H. DELIVERABLE BASED EXTENSIONS

Audit Deliverable Based Extensions
<p>Extensions will require an amendment to the executed Work Order Contract.</p> <p>Extensions for deliverables will be considered on a case by case basis and must be requested at least 45 calendar days prior to the date the deliverable is due to HHSC. Requests should include the reason(s) for the extension and recommended deliverable date for Program’s consideration. An Amended Engagement Letter is required for each Work Order Request Extension. All request(s) should be submitted via email to HHSC’s designated contact(s) in Section B.</p>

I. VENDOR TASK LIST AND SCHEDULE: (Add rows as necessary to list all tasks/timelines.)

Vendor Must Complete the Following Task Schedule		
Task	Assigned Staff	Timeline (Include deadlines, if determined)
1.		
2.		
3.		
4.		
5.		

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J. Please provide under separate coversheet your cost proposal. Please submit a fixed price proposal, including the hourly breakdown of the position types and the cost proposed inclusive of any other factors for consideration.

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ATTACHMENT B- CONTRACTOR'S PROPOSAL

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ATTACHMENT C- CONTRACTOR'S ENGAGEMENT LETTER



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I. General

A. Introduction

This Cost Principles Manual (“CPM”), contains principles establishing the allowability or unallowability of administrative expenses, subcontract expenses, and other expenses relative to the Agreement. The allowability or unallowability of expenses impact the actual Allowable cost reports per requirements FCS - 0033 and FCS - 0036. A cost is allowable if it is incurred specifically for the performance of the Services and Deliverables under this Agreement, and if the cost conforms to the policies, principles, and requirements of the Agreement.

All costs reported are subject to the cost allowability requirements under the Agreement. All Direct Costs, Subsidiary transactions, consultants and Subcontracts are subject to the allowability tests and requirements as set forth in the Agreement, except where HHSC specifically allows an exception as documented in this Agreement. In case of any conflicts between the Agreement and Generally Accepted Accounting Principles (GAAP), the Agreement prevails.

Pursuant to FCS - 0011, the Predetermined Rates are allowable and allocable under the Agreement, and will remain constant throughout the Term of the Agreement and the rates, and their component costs, will not be subject to Retrospective Cost Settlement reviews.

B. Federal disallowance/recoupment

If the federal government recoups money from the state for expenses or costs the federal government deems unallowable, the state then has the right to recoup payments made to the CONTRACTOR for these same expenses or costs. If the state did not previously disallow such expenses, the state shall: 1) make good faith efforts to challenge the federal government’s recoupment of funding for such expenses, subject to its obligations under applicable law, 2) promptly notify CONTRACTOR of any such state disallowance of an expense due to federal recoupment, and 3) cooperate with CONTRACTOR to execute an Amendment pursuant to Article 9 of the Agreement for the purpose of adjusting CONTRACTOR’S Services and Fees to avoid any ongoing obligation by CONTRACTOR to incur the costs disallowed by the state. Going forward, the state would deem any similar expenses or costs unallowable. If the state retroactively recoups money from the CONTRACTOR due to a federal disallowance, the state will recoup the entire amount paid to the CONTRACTOR for the federally disallowed expenses or costs, not just the federal portion. These costs will be unallowable under the terms of the Agreement.

C. Subsidiary Transactions and Cost Reporting

Inter-company profits and margins related to all transactions with any Subsidiary organization, including inter-company profits and margins related to all transactions of the CONTRACTOR or the CONTRACTOR’s Subsidiary are unallowable under the terms of the Agreement.

II. Definitions

Actual Allowable Cost Report means the actual allowable cost reports per requirements FCS - 0033 and FCS - 0036.



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Allocable Cost means a cost that is allocable to the Agreement if the direct goods or direct services involved are specifically chargeable or assignable to the Agreement in accordance with relative benefits received. Any cost allocable to the Agreement under the principles provided for in this document may not be charged to other Texas contracts, nor shall other contracts' costs be charged to this Agreement, either to overcome deficiencies or for other reasons. The term "other contracts" does not include subcontracts to the Agreement. No costs in violation of the Agreement will be allocable.

Allowable Cost are defined as costs that may be reported on the Actual Allowable Cost report. To be allowable, costs must:

1. Conform to the requirements of this Agreement which include being Reasonable and Allocable;
2. Be related to the Performance of this Agreement;
3. Be incurred during the specific Operational Contract Year for which they are charged;
4. Not be recovered or reimbursable from another source;
5. Be net of all applicable credits;
6. Be adequately documented;
7. Be authorized or not prohibited under state laws, state regulations or any provision included in this Agreement;
8. Be in conformity with any limitations or exclusions set forth in the Agreement, laws, or other regulations specifically governing HHSC Programs;
9. Except as otherwise provided for in the Agreement, be determined in accordance with Generally Accepted Accounting Principles;
10. Not be included as a reimbursable cost or used to meet cost sharing requirements of any other activity of the CONTRACTOR under a different agreement during the Term of the Agreement; and
11. Be consistent with the CONTRACTOR's normal treatment of the expense, regardless of how Subsidiaries may treat similar expenses. A cost may not be assigned to this Agreement as a Direct Cost if any other cost incurred by CONTRACTOR for the same purpose in like circumstances has been allocated to a different contract with the state as an Indirect Cost.

Direct Costs means those costs that can be identified specifically with and are readily assignable to the objectives of the Agreement. A particular type of cost may benefit one or more other activities of the CONTRACTOR, but a portion of such cost may be readily assignable to the Agreement and accordingly be treated as a Direct Cost. For example, a particular Employee may perform services that benefit more than one activity; however, if the time spent on each of the activities can be identified and distributed to those activities through a personnel activity report, the amount of the Employee's compensation distributed to each activity is a Direct Cost for that activity. Costs that can be specifically identified with and assigned to the activities under the Agreement are generally categorized as Direct Costs.

Directly Associated Cost is any cost that is generated solely as a result of incurring another cost, and that would not have been incurred had the other cost not been incurred. When an unallowable cost is incurred, its directly associated costs are also unallowable.

Fringe Benefits are allowances and services provided by employers to their employees as compensation



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in addition to regular salaries and wages. The following standards apply:

1. CONTRACTOR's fringe benefits include employer contributions or expenses for social security; payroll taxes; employee leave; employee life, health, unemployment, and worker's compensation insurance; pensions; bonuses; and other similar benefits. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable if the benefits are Reasonable and are required by law, the CONTRACTOR employee agreement, or an established policy of the CONTRACTOR.
2. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all of the related activities of the CONTRACTOR; and (c) the accrual basis of accounting utilized for costing each type of leave is consistently followed by the CONTRACTOR.
3. The accrual basis may be used only for those types of leave for which a liability as defined by Generally Accepted Accounting Principles ("GAAP") exists when the leave is earned. When the CONTRACTOR uses the accrual basis of accounting in accordance with GAAP and complies with the other provisions of this Article, leave costs are allowable.
4. The cost of fringe benefits in the form of employer contributions or expenses for social security; payroll taxes; employee life, health, unemployment, and worker's compensation insurance; pension plan costs; bonuses; and other similar benefits are allowable, provided these benefits are granted under established written policies. These benefits, whether treated as Indirect Costs or as Direct Costs, must be allocated to the Agreement and all other activities of the CONTRACTOR in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to the Agreement.
5. Fringe benefits costs are allowable in the Fringe Benefit rate as depicted in FCS - 0011.

Fringe Benefit Rate is the rate set forth in the Agreement and FCS - 0011.

Indirect Costs means those costs components that constitute the Indirect Rates. Without limiting Section I(A) of this CPM, these costs are incurred for a common or joint purpose benefiting the Agreement and one or more other activities of the CONTRACTOR and are not readily assignable to the activities specifically benefited, without effort disproportionate to the results achieved. To facilitate equitable distribution of Indirect Costs to the activities benefited, it may be necessary to establish a number of pools of Indirect Costs within the various departments of the CONTRACTOR. Indirect Cost pools should be distributed to activities benefited on bases that will produce an equitable result in consideration of relative benefits derived. For the purposes of distributing Indirect Cost pools to the Agreement, the CONTRACTOR is not allowed to include any Indirect Costs which do not benefit the objectives under the Agreement. For the purposes of this Agreement the Indirect Costs will be the following:

1. Common Support Overhead costs – these costs will include costs related to Employee payroll distribution, Employee security, data protection, and Employee technology services, such as enablement portals.
2. Indirect Costs (including Functional Overhead, Portfolio Overhead, and G&A) - These costs include corporate costs, such as training not required by the contract scope of services, career development, and compliance, that enable Employees to perform certain types of work, both from a functional



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perspective, such as a specific technology, and from an industry perspective, such as a specific state government service like Medicaid. These costs also include corporate administration functions that support corporate-level activities related to subcontracting and purchasing, like buyers, procurement systems, price negotiators, and corporate administrators. These costs also include corporate general and administrative costs to pay for individuals that support corporate controllership, tax, treasury, the c-suite, office staff, etc.

Provider Relations activities include face-to-face educational visits, educational phone calls, on-site training, webinars, recruiting of state health care program providers, speaking at provider association meetings and conferences, participating in THSteps experts forums, and disseminating program awareness materials. The costs of printing and distributing provider directories, provider manuals, and member handbooks are Pass-Through Expenses. The classification as Provider Relations prevails over a potential unallowable classification.

Reasonable as applied to any cost incurred by CONTRACTOR means a cost that, when considered in the totality of the circumstances in which it was incurred, is not fraudulent, manifestly inordinate, plainly unjustifiable, a violation of the public trust or incurred in bad faith. Determinations of whether a cost is Reasonable shall be based solely and exclusively on the foregoing standard, and without reference to customary usage, statutory definitions or common law interpretations of the word "reasonable". In no event shall the mere identification of comparable and available goods or services that would solely result in a lesser cost than a cost incurred by CONTRACTOR result in a determination that such CONTRACTOR cost is not Reasonable.

Costs incurred by CONTRACTOR shall be presumed to be Reasonable, and shall only be determined to not be Reasonable by clear and convincing evidence.

The assessment of Reasonableness, as defined herein, shall only apply to the RCS process set forth in Exhibit C. For the RCS, Reasonableness shall apply to the Direct Costs included on the Allowable Cost Report. The concept of Reasonableness as defined herein shall not apply outside of this context.

Factors to be considered in the determination of Reasonableness shall include, but not be limited to the following (in no order of priority):

1. The cost incurred is one that by its nature has previously been incurred by CONTRACTOR in the conduct of the TMMIS operations.
2. The cost incurred is not unwarranted in the historical context of CONTRACTOR's operations of the TMMIS given the circumstances presented to CONTRACTOR at the incurrence, even if not previously incurred by CONTRACTOR.
3. The cost incurred was disclosed in Exhibit D of predecessor contract #529-14-0125-0003 between the Parties, or for purposes of an Amendment or a Change Order, the cost was disclosed in the original pricing for such Amendment or Change Order.
4. Market prices for comparable (*e.g.*, quality, amount, duration, availability, etc.) goods or services for the geographic area at the time of incurrence.
5. The cost incurred is temporally consistent with, and/or necessary to achieve, the Mission and Objectives of the Agreement.
6. CONTRACTOR's established organizational practices.



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7. Third Party transactions with Subcontractors or suppliers are the result of negotiations and consistent with the ethical principles of the Agreement.
8. The cost incurred does not act to unjustifiably increase the Allowable Costs of the Agreement.

Subsidiary for purposes of this CPM means an entity which CONTRACTOR controls, whether in whole or part, and also means a relationship in which CONTRACTOR is controlled, whether in whole or part, by another entity. Subsidiary and affiliate are synonymous terms for purposes of this CPM. Any Subsidiary costs incurred by CONTRACTOR for the Agreement will be recorded into CONTRACTOR's accounting records for the Agreement without Subsidiary profit. Subsidiary costs will be recorded in the Direct Cost category as defined in FCS - 0024.



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III. Applicable Credits

Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce cost items allocable to the Agreement as Direct or Indirect Costs. Examples of these transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; insurance refunds or rebates; and adjustments of overpayments or erroneous charges. To the extent that these credits accruing to or received by the CONTRACTOR relate to Allowable Costs, they must be credited to this Agreement as a cost reduction in the Actual Allowable Cost Report. This Section III does not apply to Contingency Fees.

IV. Application of Indirect Rates

CONTRACTOR will apply indirect rates to the Actual Allowable Cost report as follows:

1. **Common Support Overhead Rate:** A rate of 10.47% will be applied to the total salaries and fringe benefits of all CONTRACTOR Employees. This 10.47% Common Support Overhead Rate represents all costs included in the Common Support and Overhead definition included in Section II of this document and that may be applied by the CONTRACTOR. This rate does not include any profit.
2. **Indirect Rate:** A rate of 32.50% will be applied to all salaries, fringe benefits, Subcontractors, consultants, travel, and other non-pass through expenses. This 32.50% Indirect Rate represents all costs included in the Indirect Costs definition included in Section II of this document and that may be applied by CONTRACTOR. This rate does not include any profit.

CONTRACTOR agrees that these rates, as applicable, will be effective for any and all Amendments executed during the Term of the Agreement. CONTRACTOR further acknowledges and agrees that these rates will be calculated as depicted above for the Term of the Agreement.

V. Cost Categories

1. **Accounting.** The cost of establishing and maintaining accounting and other information systems is allowable.
2. **Add-on Fees.** Amounts paid to a Subsidiary that are in excess of actual costs incurred by the Subsidiary, or that do not represent a pass-through of the actual costs of the Subsidiary, are unallowable for cost-reporting on the Actual Allowable Cost Report. This includes profit, margin, or mark-ups added to, or included in, Subsidiary costs.
3. **Administrative Assessments.** Any administrative services fees paid to, or assessed by, a Subsidiary are unallowable for cost-reporting on the Actual Allowable Cost Report.
4. **Advertising Costs.** Cost incurred for advertising of the CONTRACTOR or any Subcontractor products or services is unallowable, except when required specifically by Exhibit B or if used specifically for help-wanted advertising of FTEs with the requirement that such help wanted advertising is for a position or class of positions directly related to this Agreement.
5. **Advisory Councils.** Costs incurred by advisory councils or committees are unallowable.
6. **Alcoholic Beverages.** Costs of alcoholic beverages are unallowable.



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7. **Audit Services.** The costs of audits are unallowable, except for the following items in support of the scope of services:
 - a. Desk Review Audits, reviewing provider cost reports to ensure the providers are paid the correct amounts as well as the calculation of their rates
 - b. Field audits, performing annual audits on children's hospitals
 - c. External Audit Liaison, acting as the external audit liaison between external groups auditing TMHP
 - d. FQHC and RHC Rate Determination, determining the rates for FQHC and RHC providers
 - e. Monthly Cost Settlement Information, providing a monthly report to HHSC detailing information about all cost settlements fiscal year to date
8. **Automatic Electronic Data Processing.** The cost of data processing services directly related to the performance of this Agreement is allowable.
9. **Bad Debts.** Any losses arising from uncollectible accounts and other claims, and associated costs such as collections costs and legal costs, are unallowable.
10. **Bonding Costs.** Costs of bonding Employees and officials are unallowable.
11. **Bond issuance cost amortization.** Amortization of the costs involved in issuing bonds is unallowable. Similarly, bond discounts and other costs of financing are also unallowable.
12. **Capital expenditures.** Expenditures for capital equipment as defined in the Agreement are allowable as Pass-Through Expenses. Improvements or repairs that materially increase the value or useful life of buildings or equipment are unallowable except as expressly agreed to by HHSC.
13. **Communications.** Costs of telephone, mail, courier service, and similar communication services are allowable.
14. **Compensation for Accenture Federal Services employees.** Costs for work performed by employees of CONTRACTOR'S United States federal government business affiliate, Accenture Federal Services, LLC, are unallowable.
15. **Compensation for Personnel Services.**
 - a. **General.** Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the Agreement, including wages, salaries, and fringe benefits. The costs of compensation are allowable if they satisfy the specific requirements of the Agreement, and the total compensation for individual Employees:
 - i. Is Reasonable for the services rendered and conforms to the established policy of CONTRACTOR consistently applied to all of its activities; and
 - ii. Is determined and supported as provided in this CPM.
 - b. **Unallowable Costs.** Costs that are unallowable under other sections of the Agreement will not be allowable under this CPM solely on the basis that they constitute personnel compensation
 - c. Fringe benefits costs are allowable in the Fringe Benefit Rate as depicted in FCS - 0011.
 - d. Employee bonuses or incentive payments outside of the base calculation of the Fringe Benefit Rate are unallowable.
16. **Contingencies.** Contributions to a contingency reserve or any similar provision, which is created to



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- cover the costs of events or occurrences that cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening, are unallowable.
17. Contributions and Donations. Contributions and donations, including cash, property, and services, regardless of the recipient, are unallowable.
 18. Cost of capital. Costs representing the cost of capital in any manner are unallowable. For avoidance of doubt, this provision does not waive CONTRACTOR's rights under the Prompt Payment Act.
 19. Defense and Prosecution costs and attorney's fees of criminal, civil, and administrative proceedings for CONTRACTOR's purposes are unallowable.
 20. Depreciation and Amortization. Depreciation and amortization are unallowable under the terms of this Agreement.
 21. Dispute Resolution and Arbitration. Dispute resolution and arbitration costs are unallowable. For avoidance of doubt, this provision does not waive CONTRACTOR's rights to seek actual damages as permitted by law or under the Agreement.
 22. Economic Planning. Costs for general long-range management planning that is concerned with the future overall development of the CONTRACTOR's business and that may take into account the eventual possibility of economic dislocations or fundamental alterations in those markets in which the CONTRACTOR currently does business are unallowable.
 23. Employee Morale. All costs for Employee morale are unallowable, except costs for voluntary Employee participation in company-sponsored events designed to improve Employee engagement, team work, and retention up to one (1) hour per quarter per Employee, as actually incurred.
 24. Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.
 25. Fines and Penalties. Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the unit to comply with, federal, state, or local laws and regulations assessed against CONTRACTOR or Subcontractors, are unallowable.
 26. Gains and Losses from Asset Impairment. Cost related to gains or losses from the sale, retirement, or other disposition of depreciable property is unallowable.
 27. Goodwill. Any costs for amortization, expensing, write-off, or write-down of goodwill (however represented) are unallowable.
 28. Income taxes. Federal, state, and local taxes on CONTRACTOR income are unallowable. This includes excess profit taxes; corporate income taxes paid by a Subsidiary; and other income taxes paid by a Subsidiary.
 29. Investment Management Costs. Costs of investment counsel and staff and similar costs incurred to enhance income from investments are unallowable.
 30. Liquidated Damages. Liquidated Damages are unallowable.
 31. Idle Facilities and Idle Capacity.
 - a. As used in this Section the following terms have the meanings set forth below:
 - i. Facilities means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or



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leased by the CONTRACTOR.

- ii. Idle facilities means completely unused facilities that are excess to the CONTRACTOR's current needs.
 - iii. Idle capacity means the unused capacity of partially used facilities. It is the difference between (a) that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and (b) the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.
 - iv. Cost of idle facilities or idle capacity means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, and depreciation or use allowances.
- b. The costs of idle facilities and idle capacity are unallowable, unless:
- i. specifically approved by HHSC, or resulting from changes in requirements of the Agreement that result in idle facilities or idle capacity;
 - ii. such costs, as anticipated in the A-3 Operations Pricing Schedules, are Pass-Through Expenses; or
 - iii. they result from other causes which were not as a result of CONTRACTOR negligence or breach of the Agreement.

Nothing in the foregoing limits CONTRACTOR's duty to minimize idle facilities and idle capacity.

- 32. Insurance. Costs related to insurance are unallowable except as specifically allowed in the Agreement.
- 33. Interest. Interest expense is unallowable. This includes interest expense incurred by a Subsidiary. Costs incurred for interest on borrowed capital or the use of the CONTRACTOR 's own funds, however represented, are unallowable.
- 34. Lobbying. The cost of activities associated directly or indirectly with influencing local state or federal legislation is unallowable.
- 35. Maintenance, Operations, and Repairs. Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable either as incurred as part of a rental agreement or as incurred as part of a separate vendor service agreement, but costs for duplicative services for the same period are unallowable.
- 36. Marketing Costs. Cost incurred for marketing of CONTRACTOR or any Subcontractor products or services is unallowable.
- 37. Materials and Supplies. The cost of materials and supplies is allowable. Purchases should be charged at their actual prices after deducting all Allocable cash discounts, trade discounts, rebates, and allowances received on a pro rata basis.
- 38. Memberships, Subscriptions, and Professional Activities.
 - a. Costs of the CONTRACTOR's memberships in business, technical, and professional



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- organizations are allowable.
- b. Costs of the CONTRACTOR's subscriptions to business, professional, and technical periodicals are allowable.
 - c. Costs of meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are allowable, subject to the limitations of this CPM.
 - d. Costs of membership in civic and community social organizations are unallowable.
 - e. Costs of membership in organizations substantially engaged in lobbying are unallowable.
39. Organization Costs. Cost for CONTRACTOR or any Subcontractor to reorganize their corporate or proprietary organizations for any reason are unallowable.
 40. Other Contract Losses. An excess of costs over income under any other contract is unallowable.
 41. Pre-implementation Costs. Pre-implementation costs are certain costs incurred prior to the Effective Date of the Agreement. Pre-implementation costs are unallowable. Costs incurred prior to the notification of the award, either in anticipation of this award, or in connection with contract negotiations, bid preparation, or RFP submission, etc., are unallowable. This does not include HHSC approved Transition Costs or the Amendments set forth in Exhibit D.
 42. Professional Service Costs. Costs of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill, whether or not officers, are professional services costs. Cost of professional and consultant services rendered by persons or organizations who are not officers or Employees of the CONTRACTOR are allowable.
 43. Proposal Costs. Costs of preparing proposals are unallowable, except for the cost of preparing Change Orders or Amendments to address HHSC priorities pursuant to Article 9 of the Agreement.
 44. Provider Relation Costs. The costs are allowable.
 45. Public Relations Costs. These costs are unallowable (including ownership or shareholder meetings), except when specifically required by the Agreement; or if responding to inquiries on company policies and activities specifically related to the Agreement; or if communicating with the public, press specifically related to the Agreement; or conducting general liaison with news media and Government public relations officers on Agreement-related matters; or participating in community service activities.
 46. Publication and Printing Costs. Publication costs, including the costs of printing (including the processes of composition, plate-making, presswork, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.
 47. Rebates and Profit Sharing. Unless specifically allowed by the Agreement any profit sharing or rebate arrangement between the CONTRACTOR and a Subcontractor is unallowable. Likewise, any fees or assessments between an operating subsidiary and an affiliate company, which are not tied to specifically identified services that directly benefit the Agreement, such that the fee is effectively a form of profit payment or rebate to the affiliate, are unallowable unless specifically allowed by the Agreement.
 48. Relocation Costs. Unless specifically approved by HHSC, relocation costs, which are costs resulting from the permanent change of assigned work location of an existing Employee or new Employee, are unallowable. A request by HHSC to remove personnel pursuant to Section 8.10 of the Agreement



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will not be construed as approval of associated Relocation Costs.

49. **Rental Costs.** Rental costs are allowable provided:
- a. rates are Reasonable compared to the market;
 - b. costs are limited in a sale and leaseback arrangement to the same costs that would have been incurred if the title had been retained;
 - c. renting is not between Subsidiaries or divisions of the same organization; and
 - d. that costs do not exceed the normal cost of ownership.
50. **Royalties.** Costs related to royalties on a patent or amortization of the cost of purchasing a patent or patent rights necessary for the performance of the Agreement and applicable to Agreement products or processes are allowable unless the State has a license or the right to a free use of the patent, the patent has been deemed to be invalid, the patent is considered to be unenforceable or the patent is expired.
51. **Selling Costs.** Selling costs are unallowable.
52. **Service and Maintenance Costs.** Costs arising from fulfillment of any contractual obligation of CONTRACTOR or any of its Subcontractor to provide services such as installation, maintenance, enhancements, and training are allowable.
53. **Warranty Costs.** Cost incurred by CONTRACTOR in accordance with Section 12.03 of the Agreement above and beyond the costs for resources performing Service and Maintenance Costs, as described in Item #52, are unallowable.
54. **Taxes.** Local and State taxes paid by CONTRACTOR or Subcontractors to local or state governments outside of Texas (other than hotel, airline and sales taxes expended specifically for the Agreement) are unallowable. In addition, CONTRACTOR's Federal taxes (other than hotel, airline and sales taxes expended specifically for the Agreement) are unallowable.
55. **Training.** The cost of training for CONTRACTOR Employees and Subcontractors to fulfill the requirements of the Agreement are allowable.
56. **Travel costs.**
- a. **General.** Travel costs are allowable only as a Direct Cost for expenses for transportation, lodging, subsistence, and related items incurred by Employees traveling on official business specifically related to the Agreement. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in all other activities of the CONTRACTOR.
 - b. **Lodging and subsistence.** Costs incurred by Employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, will be allowable to the extent the costs do not exceed charges normally allowed by the CONTRACTOR in its regular operations as a result of the CONTRACTOR's policy as described in Attachment 3 to Exhibit C. In the absence of a written policy regarding travel costs, the rates and amounts of travel will be allowed only as part of a plan reviewed in advance by HHSC and subject to audit.
 - c. **Commercial air travel.** Airfare costs in excess of the customary standard (coach or equivalent) airfare are unallowable unless approved by CONTRACTOR leadership with appropriate documentation of an exception.



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- d. Air travel by other than commercial carrier. Cost of travel by the CONTRACTOR-owned, - leased, or -chartered aircraft, as used in this CPM, includes the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, interest, insurance, and other related costs. Costs of travel via the CONTRACTOR-owned, - leased, or -chartered aircraft are unallowable to the extent they exceed the cost of allowable commercial air travel.

VI. Other Costs

Any other costs incurred by the CONTRACTOR or any of its Subcontractors, which are not included in this CPM, for the completion of any contractual requirement will not be allowed unless they are approved in advance by HHSC and meet the criteria for Allowable Costs as defined in this CPM. Any legal commitments by CONTRACTOR to make any payments to other parties (or any actual payments made to other parties) will not overrule the requirements of this CPM.