

ADMISSIBLE / INADMISSIBLE EXPENDITURES (2012-13)

POLICY

This policy defines expenditures that are associated with the delivery of ministry-funded services as admissible or inadmissible for the purpose of ministry funding payments.

PURPOSE

Transfer Payment Service Providers/Delivery Agents incur a variety of expenses in delivering services and programs. The recording and accounting of these expenditures must conform to the ministry's standards under a modified accrual basis of accounting.

APPLICATION AND SCOPE

This policy applies to all Service Providers/Delivery Agents who provide one or more services funded by the Ministry and its Agencies, Boards and Commissions through an expenditure-based funding. This funding is normally provided through a Service Contract or Grant Letter.

It applies to all expenditures associated with the provision of ministry-funded services.

Where applicable, program specific policies/ processes/ procedures must be used.

This policy does not apply to the provision of major capital funding. Major capital is an investment in:

- Planning and design of a new site,
- The creation of a new real (capital) asset through purchase or new construction, and/or
- Major renovation of an existing real (capital) asset that significantly increases its service delivery capacity and/or fair market value.

MANDATORY REQUIREMENTS

Expenditures of Service Providers/Delivery Agents deemed reasonable and necessary for the provision of services subsidized by the ministry are admissible in the calculation of the operating funding. These expenditures must be:

- authorized in accordance with the policies of the Service Provider/Delivery Agent,
- approved by the ministry, and
- supported by acceptable documentary evidence.

All expenditures arising from transactions not conducted at arm's length from the Service Provider/Delivery Agent must receive prior ministry approval.

The following list of expenditures identifies their admissibility for ministry funding:

Administration Expenditures

Administration expenditures directly related to the service or program delivery including allocated central administration expenditures are admissible to the extent that administration expenditures were approved as part of the operating budget process and represent a reasonable allocation of actual expenditures (refer to Allocated Central Administration policy).

Administration expenditures (i.e. fees) incurred by the Service Provider/Delivery Agent are inadmissible when expressed solely in terms of a percentage of program expenditures. Only actual expenditures incurred for program administration can be an admissible expense.

Amortizations

Amortizations (tangibles and intangibles) are inadmissible expenditures under the ministry's modified accrual basis of accounting for operating funding (refer to Transfer Payment Operating Funds - Basis of Accounting policy).

Appropriations

Appropriations (i.e. charges to reserves or allowances) are inadmissible expenditures under the ministry's modified accrual basis of accounting for operating funding (refer to Transfer Payment Operating Funds - Basis of Accounting policy).

Bonuses, Gifts and Honoraria

Bonuses (including retiring bonuses), gifts and honoraria are admissible expenditures when paid to staff on the condition that the value is reported on the employee's annual T4.

Bonuses, gifts and honoraria are inadmissible expenditures when paid to Board members.

Capital Expenditures

Capital expenditures are inadmissible when expended for the acquisition of land or buildings. Refer to major capital funding/expenditure processes for the acquisition of land or buildings.

Capital Loans

Principal and interest on capital loans are admissible expenditures only in ministry approved debt retirement situations (i.e., the retiring or paying out of a mortgage). A Mortgage Funding Agreement must be executed in these cases.

Client Wages

(Community Participation Services and Supports under the Services and Supports to Promote the Social Inclusion of Persons with Developmental Disabilities Act, 2008)

Wages paid to clients receiving services under Community Participation Services and Supports are inadmissible expenditures because the service is education and training oriented.

Donations and Transfers

Donations and/or transfer of funds made by the Service Providers/Delivery Agents to other charitable institutions / organizations are inadmissible expenditures unless approved by the ministry.

Fund Raising

Fund raising expenditures are admissible if the revenue raised is used to offset costs eligible for ministry funding.

Incorporating or Restructuring Expenditures

Incorporating or restructuring expenditures are admissible to the extent that the expenditures qualify under Allocated Central Administration (refer to Allocated Central Administration policy).

Interest on Operating Loans

Interest on operating loans is an inadmissible expenditure unless approved by the ministry.

Transactions with non-arm's length organizations

Expenditures related to transactions with non-arm's length organizations (e.g. lease/rental, fee-for-service etc.) are admissible only on an exceptional basis and only with prior ministry approval. Approval for these expenses should be based on documented assessment of the specific circumstance related to each case. The assessment, conducted by the ministry staff, should address the following considerations:

- If the expenditures paid by the ministry service provider to a non-arm's length organization exceed the fair market amount, e.g. an amount of lease/rent that would be paid for the usage of a comparable property owned by an arm's-lengths organization;
- Prior history of the relationship between the ministry, and/or service provider, and/or non-arm's length organization that charges lease/rent/fee-for-service; and
- If the property for which the lease/rental expenses are being charged has been (or currently being) funded by the public funds from the province of Ontario or other levels of government.

Based on this assessment, the ministry may determine that only a portion of the total expenses paid to a non-arm's length organization is admissible.

Mortgage Financing

Principal and interest payments are admissible expenditures with prior ministry approval (refer to [Mortgage Funding Policy](#)).

Pension Expense and Pension Contribution

Pension expenses are an employer's expense (accruals) for the company's pension plan during a period. They are non-cash item hence are inadmissible, whereas, Pension Contributions are an employer's actual payments/obligations into a fund and hence are admissible.

Professional Organization Fees

Fees paid on behalf of staff for membership in professional organizations as a condition of employment are inadmissible expenditures.

Property Taxes

Property taxes are admissible expenditures with ministry approval.

Provisions for Unused Vacation/Sick Leave, Wage Settlements

Provisions or reserve funds for unused vacation/sick leave, wage settlements are inadmissible expenditures. The costs become an admissible expenditure when the actual payments are made (refer to TP Operating Funds - Basis of Accounting policy).

Provisions for Repairs or Replacements

Provisions for repairs or replacements are inadmissible expenditures.

Provisions for Bad Debts

The provision for bad debts is an inadmissible expenditure (refer to Transfer Payment Operating Funds - Basis of Accounting policy).

Replacement Expenditures

Expenditures for the replacement of furniture, equipment or vehicles are admissible expenditures only with prior ministry approval and if the full trade-in value of the replaced item is recorded or if the asset records provide satisfactory evidence of the manner in which the item was disposed.

Retainer Fees

Fees paid as a retainer to have legal or other professional services available on a stand-by basis are inadmissible expenditures. Reasonable fees for services rendered are admissible expenditures.

Travel Expenses

Travel Expenses are admissible expenditures where the expenditure represents a reimbursement of actual travel expenses incurred in conducting business related to services and programs subsidized by the ministry. Service Providers/Delivery Agents should refer to the ministry and Ontario policies on travel expenditures as a guide.

The following is an **EXCEPTION** to Admissible/Inadmissible Expenditures:

For **Dedicated Supportive Housing**, the following items are admissible expenditures:

- appropriations (i.e. charges to reserves or allowances)
- capital expenditures
- provisions for unused vacation/sick leave, wage settlements
- provisions for bad debts
- amortization

Unrealized loss (or gain)

Unrealized loss or gain such as changes in value of financial securities held as investments and recorded as expense/revenue are non-cash items and therefore are inadmissible.

REFERENCES

- Allocated Central Administration Policy (2012-13)
- Mortgage Funding Policy (2012-13)
- Retainable and Non-Retainable Revenue (2012-13)
- Transfer Payment Operating Funds - Basis of Accounting (2012-13)

KEY CONTACT

For further information on this policy please contact your ministry Regional Office.

EFFECTIVE DATE: January 1, 1997

REVISED: May 2013

DEFINITIONS

The following definitions are applicable to all programs, except as indicated:

Adjusted Operating Costs

Adjusted Operating Costs apply only to Dedicated Supportive Housing. These costs include:

- Maintenance, salaries, wages and benefits
- Maintenance materials and services
- Utilities
- Administration
- Insurance
- Bad debts

Adjusted operating costs do not include the Capital Reserve Fund, municipal taxes, mortgage costs and amounts transferred from other funds.

Expenditure-based Funding

Funding is based on a Service Provider/Delivery Agent's expenditures to deliver a ministry-funded service, within the context of a Service Contract.

Expenditures

Payments made or liabilities incurred by a Service Provider/Delivery Agent associated with the delivery of ministry-funded services, pursuant to the modified accrual basis of accounting (refer to Transfer Payment Operating Funds – Basis of Accounting Policy)

Fiscal Period

The fiscal period for a Service Provider/Delivery Agent is the budget year (or portion) specified in the budget schedule of the Service Contract (e.g., January 1st to December 31st; April 1st to March 31st).

Arm's length

Arm's length parties have independent interests, are able to act independently of each other and are able to negotiate on equal footing with each other.

Non-Arm's Length

Non-Arm's length would describe relationships that are unequal in power, that have one party dependent on or controlled by the other party, or that are actually united in their interest or objective, with no separate interests.

Operating Deficit

The amount by which a Service Provider/Delivery Agent's total admissible expenditures exceed their total revenue including ministry funding within a given fiscal period.

Operating Surplus

The amount by which a Service Provider/Delivery Agent's revenue including ministry funding exceeds its admissible expenditures in the delivery of approved services within a given fiscal period. This amount is identified as a recoverable funding.

Overpayment

An overpayment of a funding can occur when funds paid exceed the funding approved by the ministry.

Performance-based Funding

Funding is based on the achievement of measurable results or outcomes by the Service Provider/Delivery Agent in delivering ministry-funded services within the context of a Service Contract.

Recoverable Funding

The amount of funding to be recovered by the ministry is identified through the Service Provider/Delivery Agent's year-to-date (quarterly) and/or year-end reconciliation process. This amount includes any operating surplus and unearned funding, accumulated over one or more fiscal periods.

The Dedicated Supportive Housing recoverable funding does not include the Capital Reserve Fund or a surplus from the Adjusted Operating Costs.

Service Contract

A legally binding signed agreement between a Service Provider/Delivery Agent and the ministry, outlining the terms and conditions for which the parties are accountable.

Service Provider/Delivery Agent

An organization that provides one or more approved services funded by the ministry and includes municipalities (CMSMs/DSSABs) and First Nations.

Service Target

An agreed upon unit of service or level of service as found in the service data schedule.

Unearned Funding

The amount of funding advanced by the ministry which exceeds a Service Provider/Delivery Agent's achievement in delivering an approved service at the agreed upon unit cost or unit price. Unearned funding is identified as a recoverable funding.