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ADMISSIBLE AND INADMISSIBLE EXPENDITURES

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PREAMBLE

MCCSS is required to comply with financial management directives and policies as enacted by the government and enforced by Treasury Board.

These directives and policies include (but may not be limited to) the Transfer Payment Accountability Directive, and the Transfer Payment Operational Policy.

Where applicable, these directives and policies inform and constrain MCCSS-specific financial policies. A description of relevant directives and policies can be found in Appendix A at the end of this document.

All ministry-specific and Treasury Board financial management policies are subject to Public Sector Accounting Standards.

1. PURPOSE

Transfer Payment Recipients (TPRs) incur expenditures in the delivery of services and programs. The recording and accounting of these expenditures must comply with the ministry's requirements under the modified accrual basis of accounting (refer to Transfer Payment Operating Funds Basis of Accounting Policy).

The purpose of the policy is to define both eligible expenditures that are admissible and ineligible expenditures that are inadmissible for the ministry funding.

2. APPLICATION AND SCOPE

This policy applies to all TPRs who provide services funded by the ministry through expenditure-based funding, including Consolidated Municipal Service Managers (CMSMs), District Social Service Administration Boards (DSSABs) and First Nations. This funding is normally provided through a Service Contract, *Child, Youth and Family Services Act* (CYFSA) Approval or Grant Letter.

This policy applies to all expenditures associated with the provision of ministry-funded services. Where applicable, admissible expenditure must also comply with program specific policies, processes and/or procedures.

This policy does not apply to 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.

3. MANDATORY REQUIREMENTS

Admissible expenditures incurred by TPRs must be deemed reasonable and necessary for the provision of services funded by the ministry. To be deemed reasonable and necessary, expenditures must be:

- Authorized in accordance with the policies of the TPR,
- Approved by the ministry,
- In compliance with ministry policies and government directives, and
- Supported by acceptable documentary evidence.

All expenditures arising from transactions not conducted at arm’s length from the TPR must receive prior ministry approval.

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

3.1 Administration Expenditures

Administration expenditures directly related to service or program delivery including allocated central administration expenditures are admissible provided 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 TPR 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.

3.2 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).

3.3 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).

3.4 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 Statement of Remuneration Paid (slip).

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

3.5 Capital Expenditures

Capital expenditures are inadmissible when expended for the acquisition of land or buildings. Refer to the Ministry’s Eligible Capital Expenditures policy for capital expenditures.

3.6 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, lease-purchase payments, or other capital debt financing for the acquisition of real estate and/or major renovations). A Mortgage Funding Agreement must be executed in these cases.

The only exception to the requirement to execute a Mortgage Funding Agreement is where operating funding for the program is flowed through a time-limited contract (i.e., the Ministry is not providing annual funding for the program).

Refer to the Ministry’s Mortgage Funding policy for further details.

3.7 Donations and Transfers

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

3.8 Foundations

Expenditures to establish and/or operate foundations are inadmissible expenditures.

3.9 Fundraising

Fundraising expenditures are admissible if the revenue raised is used to offset costs eligible for ministry funding. Ministry funding cannot be used to support the fundraising activities of other charitable institutions or organizations.

3.10 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).

3.11 Interest on Operating Loans

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

3.12 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 a documented assessment of the specific circumstance related to each case. The assessment 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
- Prior history of the relationship between the ministry and/or TPR 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 is 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 the portion of the total expenses paid to a non-arm's length organization that is admissible.

3.13 Mortgage Financing

Principal and interest payments are admissible expenditures only with prior ministry approval. Please refer to Mortgage Funding Policy for more information.

3.14 Pension Expense and Pension Contribution

Pension expense is an employer's expense (accruals) for the pension plan during a period. Pension expense is inadmissible as it is a non-cash transaction.

Pension contributions are to be treated as an admissible expenditure as they representant employer’s required payment into a pension fund.

3.15 Professional Organization Fees

A Professional Organization Fee is a fee paid by staff trained in specific fields that require membership dues to maintain a professional designation or certification.

Fees paid on behalf of staff for membership in professional organizations are inadmissible expenditures.

3.16 Property Taxes

Property taxes are admissible expenditures with ministry approval.

3.17 Provisions for Unused Vacation/Sick Leave, Wage Settlements

Provisions or reserves for unused vacation, sick leave and wage settlements are inadmissible expenditures. The costs become an admissible expenditure when the actual payments are made (refer to Transfer Payment Operating Funds Basis of Accounting Policy).

3.18 Provisions for Repairs or Replacements

Provisions for repairs or replacements are inadmissible expenditures.

3.19 Provisions for Bad Debts

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

3.20 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.

3.21 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.

3.22 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. TPRs should refer to the ministry and Ontario policies on travel expenditures as a guide.

3.23 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.

APPENDIX A

Transfer Payment Accountability Directive (TPAD)

The *Transfer Payment Accountability Directive* (TPAD) establishes the principles, requirements and responsibilities for ministries and provincial agencies when overseeing transfer payment activities. It is essential the TPAD is consulted to understand governance and oversight requirements.

Transfer Payment Operational Policy (TPOP)

This policy is established under the authority of TPAD. The purpose of the TPOP is to set out operational requirements and best practices that support a consistent approach for effective and proportional oversight of transfer payment activities and productive relationships with transfer payment recipients.