FEDERAL GRANTS COMPLIANCE
Grants Professional Training

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FEDERAL GRANTS COMPLIANCE
Grants Professional Training

I. Table of Contents

II. Presentation Slides
   A. Introduction
   B. Cost Principle Fundamentals
   C. Grants & Procurement
   D. OMB Circular A-133: The Basics
   E. Concluding Remarks

III. Exercises
   A. The Changing World of Grants
   B. Cost Accounting Principles: True or False
      • 2 CFR Part 225 Cost Principles for State, Local and Indian Tribal Governments
   C. Cost Accounting Terms
   D. Procurement @ Home (Part 1)
   E. Procurement @ Home (Part 2)
   F. Compliance Best Practices
   G. Audit: Past, Present and Future
   H. Top 5 Things I Learned
Federal Grants Compliance

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Schedule
9:00 Introduction
Mid-morning break

12:00 – 1:00 Lunch
Mid-afternoon break

4:00pm Adjourn
Training Road Map

Cost Principle Fundamentals

Grants and Procurement

OMB Circular A-133: The Basics

Introductions

Your Name
Your Department
Your #1 Grant Compliance Concern

“What I would like to learn, by the end of the workshop…”
Grants: It’s a Continuous Process

Pre-Award Post-Award

Project Definition Funding Analysis Application Approval Finalization Implementation Close Out

First Step to Compliance

- States, local governments, and Indian Tribes follow:
  - A-87 for cost principles, relocated to 2CFR225
  - A-102 for administrative requirements (common rule)
  - A-133 for audit requirements

- Educational Institutions follow:
  - A-21 for cost principles, relocated to 2CFR220
  - A-110 for administrative requirements, relocated to 2CFR215
  - A-133 for audit requirements

- Non-Profit Organizations follow:
  - A-122 for cost principles, relocated to 2CFR230
  - A-110 for administrative requirements, relocated to 2CFR215
  - A-133 for audit requirements
Training Road Map

Cost Principle Fundamentals

Grants and Procurement

OMB Circular A-133: The Basics

Cost Principle Fundamentals
Objectives

- Understand the basic requirements for cost accounting principles
- Learn about allowable and unallowable costs
- Understand how to calculate the indirect cost ratio
- Learn some of the challenges with indirect costs

Cost Principle Basics

- When receiving and administering Federal awards, recipients must adhere to appropriate Cost Principles
  - State, Local and Indian Tribal Governments: 2CFR225 (A-87)
  - Non-profit: 2CFR 230 (OMB A-122)
  - Universities: 2CFR220 (OMB A-21)
- Things to remember:
  - They are “guidance” to the agencies
  - They allow for some interpretation
  - Agencies each have their own implementation standards that may differ from each other
Objectives of Cost Principles

- Provide guidelines for organizations concerning reimbursement requirements
- Provide uniform standards of allowability
- Provide uniform standards of allocation
- Does not supersede limitations imposed by law
- Simplify intergovernmental relations
- Encourage consistency in treatment of costs

Composition of Total Costs

- The total cost of any grant program is composed of the ALLOWABLE DIRECT and ALLOCABLE INDIRECT COSTS less APPLICABLE CREDITS
Factors Affecting Allowability

- Reasonableness and allocability
- Conformance to any grant or contract limitations
- Consistent treatment
- Determined in accordance with GAAP
- Not included as cost or match in any other Federally-funded program
- Be adequately DOCUMENTED

EXERCISE: Cost Principles – True/False

Objective: Gain familiarity with Cost Principles.

- In your groups,
  - Determine whether the provided statements are true or false.
  - Provide justification by referencing the Cost Accounting Principles.

...
Allowable vs. Unallowable Costs

- Allowable based on cost principles
- Reasonable
- Allocable
- Consistently treated
- Conform to any limitations or exclusions by the agency

Generally Unallowable Costs

- Lobbying
- Fund-raising
- Bad debts
- Contingencies
- Fines and penalties
- Losses on other awards
- Unnecessary travel costs
- Contribution and donations
- Certain depreciation or use allowances
Which Principles Do I Use?

- Use principles established at time of proposal
- Review granting agency guidelines
- Determine at the beginning what is
  - Allowable
  - Reasonable
  - Allocable
  - Consistently treated
- Compliance with public policies

Best Practices

- Grant agreements and budgets, and OMB Circulars and sponsor guides are available to administrative staff
- Administrative staff have a list of allowable and unallowable expenditures
- Computations are checked for accuracy
- Administrative and implementation staff have adequate knowledge of general and specific requirements applicable to the project
- Budget-to-actual comparisons are monitored
- Administrative staff attend training sessions
Indirect Costs

- Costs associated with the expenses of doing business that are not directly linked to the grant, contract, project, etc.

- Costs are for “general operation” purposes
  - Examples:
    - Heating and Cooling Costs
    - Lights/Electricity
    - Accounting services
Challenge with Indirect Costs

- It is difficult to calculate
- Can you properly calculate how much light you are using?
  - How much time spent on the project in a day
  - Cost of light per day
  - Average hours per light bulb
  - Number of employees on-site that day

A Different View

Indirect costs are the “leftovers” or those costs which are not “direct”.
- Wages/Salaries of employees working on a specific objective of a grant
- Vacation/sick time, other absence or fringe benefit
- Consultant services for specific objectives
- Travel
- Materials, supplies or equipment purchased specifically to meet an objective of the grant
- Telephone costs
Indirect Cost Rate

“…represents the ratio between the total indirect costs and benefiting direct costs, after excluding and or reclassifying unallowable costs, and extraordinary or distorting expenditures (e.g. capital expenditures and major contracts and subgrants).”

Determining the Rate

Grantees submit an indirect cost proposal

Each Federal Agency approves the rate based on the information provided
Key Components of the Proposal

- Identify all activities completed by the department and their associated costs
- All activities, regardless of the fund source, must be included
- Incorporate costs allocated to departments through the central service cost allocation plan
- Classify the cost as direct or indirect
- Eliminate from indirect costs any capital expenditures, unallowable costs as listed in OMB circulars or program legislation

Compute Your Rate

\[
\text{Rate} = \frac{\text{total remaining indirect costs}}{\text{direct costs selected for distribution of the indirect costs}}
\]

The most frequently used base is the Modified Total Direct Costs (MTDC).
Make Your Compliance Job Easier

- Interact with grant writers before applications are submitted
- Provide or assist them with calculating indirect cost allocations before the application is submitted
- Consider if these are worth using – many organizations forgo indirect costs due to the reporting burden

EXERCISE

- In groups of 3-4, define the following terms:
  - Allowable
  - Allocable
  - Reasonable
  - Consistently Treated

- Post on flip chart and share with group to create uniform decisions
Summary

- Know the basic requirements for cost accounting principles
- Apply allowable and unallowable costs to your organization
- Identify best practices
- Understanding and calculating the indirect cost ratio
- Able to integrate the challenges of the indirect cost ratio into your organization

Training Road Map
Cost Principle Fundamentals
Grants and Procurement
OMB Circular A-133: The Basics
Grants and Procurement

Objectives

General grant information
Procurement guidance when managing a grant
Common procurement selection methods
Standard contract provisions
Common issues and findings
Best practices
Terms to Know

- **Grant**: Financial assistance from federal agency to benefit a public purpose as authorized by law
- **Procurement**: Securing a good or service for which the payment will be made after the good or service is procured
- **Grant Agreement**: A legally-binding agreement between grantor and grantee specifying rules, regulations, policies, terms and conditions for implementing funded program
- **Suspension & Debarment**: Administrative tool to address waste, fraud, abuse, poor performance, environmental noncompliance or other misconduct (Excluded Parties List System @ www.epis.gov)

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General Grant Information

- Each year, the United States Government awards nearly $450 billion dollars in Federal Assistance Agreements, most commonly in the form of grants that help to:
  1. Support national infrastructure programs in transportation, homeland security, criminal justice, agriculture, human health, and the environment.
  2. Fund scientific research, studies, and analyses.
  3. Further the social sciences, art, literature, and promote cultural enrichment.

- Unfortunately, grant dollars are susceptible to fraud, waste, and abuse.

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Your Responsibilities as Grantee

- Recipients of federal grants have been awarded funds to carry out the goals and objectives identified in the grant. These funds are subject to certain regulations, oversight, and audit.
  1. Grant recipients are stewards of federal funds.
  2. Grant dollars must be used for their intended purpose.
  3. Where applicable, grant recipients must account for costs and justify expenditures.
- Using federal grant dollars for unjust enrichment, personal gain, or other than their intended use of a form of theft, subject to criminal and civil prosecution under the laws of the United States.

Procurement vs. Grant

- A procurement is conducted to determine
  - What vendor (who) will have the right to provide/perform what is needed
  - How much that vendor will be paid
  - Possible particular aspects such as timeframe
- A grant already determines who and how much and generally what is to be done
  - This is why no procurement is needed
  - A grant is a means for agencies to award and sub-award funds to other entities
Procurement Guidance for Grantee

- Administrative Requirements
  - OMB Circular A-102, States, Local and Tribal Governments
  - 2 CFR 215 (previously OMB Circular A-110), Non-Profit Organizations, Institutions of Higher Education, and Commercial Organizations
  - A-133, Audits of States, Local Governments and Non-Profit Organizations
  - Federal awarding agency regulations
  - Grant award terms and conditions

When Conflicts Occur

- Grantee assumes full responsibility for managing their own procurement, including handling disputes, claims, protests of award, source evaluation, and other contractual matters.

- Rules of the grant prevail
- Not usually an issue for federal grants
- Federal rule is to follow the grant recipient's procurement policy unless the Federal requirements are more stringent
Impact on Grants

Determine which procurement methods will

- Satisfy the objective of the incoming grant
- Minimize the expenditure of time and effort
- Maximize the benefit of the received grant funds

Procurement Selection Methods

- Small purchases
- Sealed bids
- Competitive proposals
- Noncompetitive proposals
Procurement by Small Purchases

- Less formal methods
- Services, supplies or other expenses that are less than $100,000
- If grantee threshold is lower, the grantee must observe lower limit
- Must obtain price or rate quotations from an adequate number of qualified sources

Procurement by Sealed Bid

- Formal advertising
- Bids are publicly solicited and a firm fixed-price contract (lump sum or unit) is awarded to responsible bidder who conforms to all terms and conditions of invitation and most advantageous to grantee
Procurement by Competitive Proposals

- Fixed-price or cost reimbursement type contract
- Submissions will be reviewed and rated/ranked on established criteria
- Awards made to responsible firm whose proposal most advantageous to grantee, with price and others factors considered - firm’s previous experience, references, and ability to complete task

Procurement by Noncompetitive Proposal

- Used when award of contract not practical under small purchases, sealed bids or competitive proposal and one of following applies:
  - The items is available only from a single source
  - The need for the good or service will not permit the time required to engage in a competitive proposal process
  - The awarding agency authorizes noncompetitive proposals
  - After soliciting a number of sources, competition is determined to be inadequate

- Executive Order 11246, “Equal Employment Opportunity”
  - Nondiscrimination requirements

- Copeland “Anti-Kickback” Act
  - Contractor cannot induce any person on a project to give up any part of his or her just compensation

- Davis-Bacon Act
  - Prevailing wage law

- Clean Air Act of 1970
  - Contractors must not create significant air pollution at their plants or business sites

Standard Contract Provisions (CONTINUED)

- The Byrd Amendment
  - Contractor must file required certification that they will not and have not used federally appropriated funds to influence

- Executive Order 12549, “Debarment and Suspensions”
  - Must not contract with parties listed on Excluded Parties List System

- Reference grant award agreement and consult with grantor since other socio-economic and environmental policy provisions may apply to your specific grant
Common Issues and Findings

- Not having required and/or updated procurement policies and procedures
- Not following grantee agency written procurement procedures
- Not maintaining supporting documentation in procurement records
- Not obtaining prior approvals
- Not determining whether a cost was allowable prior to purchase
- Not providing open and free competition

Key Elements of Sound Procurement

- Follow own procurement standards and apply consistently
- Written code of conduct
- Match type of procurement and grant program
- Competition – full and open with no:
  - Unreasonable requirements
- Unnecessary experience or bonding
- Non-competitive awards to consultants on retainer
- Specifying "brand name"
- Arbitrary actions in procurement process
- Include appropriate grant requirements, such as MBE/WBE and "Buy America"
Key Elements of Sound Procurement

- Documentation:
  - Rationale for contract type
  - Selection of contract type
  - Contractor selection
  - Basis for price (analysis)
  - Use responsible contractors

- Contract administrative system; ensure contractor complies with terms and conditions of contract
  - Include protest procedures
  - Use the headline test
  - Offer cross-training

EXERCISE: Grants and Procurement

In small groups of 3-4:

- What methods of procurement have you used in the grant application period?
- What methods of procurement have you used during the grant implementation period?
- What were the pros and cons of each?

Report your findings to the class.
Summary

- Define common terms used with procurement
- Identify your responsibilities as grantee, as well as general guidance
- Understand procurement’s impact on grants
- Identify common procurement selection methods and common contract provisions
- Review typical procurement findings and best practices to minimize issues

Training Road Map

Cost Principle Fundamentals

Grants and Procurement

OMB Circular A-133: The Basics
OMB Circular A-133:
The Basics

Objectives

- Learn the basics of OMB Circular A-133
- Identify best approach to comply with each of the 14 compliance requirements
- Understand how the Federal Audit Clearinghouse relates to you
- Review typical audit findings and required documentation to minimize risk of noncompliance
History of Single Audit

- Each agency used to be responsible for its own audits
- Audits were not coordinated
- Inflated costs to Federal Government
- Undue burden on recipient

What is the Single Audit?

- One organization-wide audit
- Meets needs of the entity and the Federal agencies
- Audits obtained by recipient
- Coordinated approach
- Uniform objectives, standards and reporting
- Enhanced audit coverage
Single Audit Report

- Financial statements
- Schedule of expenditures of Federal awards
- Auditors' opinions on fair presentation of financial statements
- Schedule of expenditures of Federal awards

Single Audit Report CONTINUED

- Auditors' report on internal control & opinion on compliance
- Auditors' schedule of findings and questioned costs
- Auditees' corrective action plans; and
- A summary schedule of prior audit findings
A-133 Emphasis

- Sets standards for audit consistency and uniformity
- Identifies compliance requirements
- Establishes criteria for testing internal controls
- Tests for reasonable assurance that financial statements are accurate

Risk Based Approach

- Identify major programs based on expenditures in fiscal year
- Review previous audit findings
- Review new programs or those with regulatory changes
- Review personnel or system changes at institution
### Risk Assessment

- Focus is on high risk transactions
- Cost sharing
- Direct vs. F & A costs
- Shared use items
  - For example, a big order of program supplies - is the expense allocated on a reasonable basis?
- Related party transactions

### Circular Organization

- General
  - Gives the purpose of the circular and definitions of frequently used terms
- Audits
  - Specific information on audit requirements
Circular Organization CONTINUED

- Responsibilities defined for:
  - Auditees
  - Federal Agencies
  - Pass-Through Entities
  - Auditors

A-133 Subpart A: Purpose

- Sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of [local governments, etc.] expending Federal funds.
A-133 Subpart A: Definitions
CONTINUED

- **CFDA Number**
  
The number assigned to a Federal program in the Catalog of Federal Domestic Assistance (CFDA).
  
- **Examples:**
  - 59.037 SBDC
  - 47.076 Education/Human Resources

A-133 Subpart A: Definitions
CONTINUED

- **Internal Control**
  
  Process designed to provide reasonable assurance of achieving the following:
  
  - Effective & efficient operations
  - Reliable financial reporting
  - Compliance with laws & regulations
A-133 Subpart A: Definitions
CONTINUED

- **Federal award**
  - Federal financial assistance
  - Federal cost reimbursement contracts
  - Received directly or indirectly

- **Non-federal entity**
  - State, local and Indian tribal governments
  - Non-profit organizations (universities, hospitals and others)

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A-133 Subpart A: Definitions
CONTINUED

- **Pass-through Entity**
  A non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

- **Subrecipient**
  A non-Federal entity that expends Federal funds received from a pass-through entity to carry out a Federal program.
A-133 Subpart B: Audits

- Audit threshold
  - $500,000 or more
- Types of audits
  - Single organization wide audits
  - Program specific audits
- Subrecipient versus vendor determination
- Frequency of audits
  - Annually
- Audit period
  - Recipient's fiscal year
- Sanctions

Sub-recipient or Vendor?

- Sub-recipient
  - Performance measured against Federal program objectives
  - Programmatic decision making
  - Responsibility for adherence to applicable federal program compliance requirements
  - Carryout program of organization
Sub-recipient or Vendor?

- Vendor
- Provides the goods and services within normal business operations
- Provides similar goods or services to many different purchasers
- Operates in a competitive environment
- Provides goods or services that are ancillary to the project
- Not subject to compliance requirements

Sanctions

- Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- Withholding or disallowing overhead costs;
- Suspending Federal awards until the audit is conducted; or
- Terminating the Federal award.
## A-133 Subpart C: Auditee Responsibilities

- Identify federal awards received and expended
- Maintain internal controls
- Comply with laws, regulations and provisions of awards
- Prepare appropriate financial statements
- Prepare summary schedule of prior audit findings
- Select the auditor(s)
  - Follow procurement standards
  - Auditor selection restriction
- Follow up and take corrective action on audit findings (including the preparation of a corrective action plan)
- Identify contact person(s)
- Detail corrective action planned for each finding
- Indicate anticipated completion dates
A-133 Subpart C: Auditee Responsibilities CONTINUED

- Ensure complete and timely audit submission
  - Due date: the earlier of 30 days after receipt of the audit report or 9 months after the end of the audit period
  - Submission includes reporting package and data collection form

A-133 Subpart C: Auditee Responsibilities CONTINUED

- Reporting package includes
  - Financial Statements
  - Schedule of expenditures of federal awards
  - Summary schedule of prior audit findings
  - Auditor's report(s)
  - Corrective action plan
Audit Report Submission

- Number of copies
  - One data collection form (SF-SAC)
  - One reporting package for archiving and one for each Federal agency with an audit finding

- Mail to
  Federal Audit Clearinghouse
  Bureau of the Census
  1201 E. 10th Street
  Jeffersonville, IN 47132

A-133 Subpart D:
Pass-through Entities

Responsibilities:
- Identify CFDA # for each sub-recipient
- Advise sub-recipient of Federal requirements
- Monitor activities of sub-recipient
- Ensure that subs that spend more than $500,000 have single audit

- Make management decisions on all findings within 6 months of issuance
- Consider impact on own records of subs' findings
- Require subs to permit access to records
- Keep subs report submissions
A-133 Subpart E: Auditors

Scope of audit
Audit reporting
Audit findings
Audit working papers
Major program identification

NOT An Auditor!
An auditor is a person. Really!
Their job is to validate documentation. This means they look at documentation and make sure people are following the documentation.

OMB A-133 - Appendix A
Data Collection Form

♦ SF-SAC
♦ Data used to populate the government-wide audit database
♦ Auditee completes general information items under Part I
♦ Auditor completes summary information on the financial statement audit (Part II)
OMB A-133 - Appendix A
Data Collection Form CONTINUED

- Auditor completes summary information on the Federal programs audit (Part III)
- Lists each federal program, its related expenditures and findings
- Form must be signed and dated by both the auditee and auditor

OMB A-133 - Appendix B
Compliance Supplement CONTINUED

- Part 1 – Background, Purpose, Applicability
- Part 2 – Matrix of Compliance Requirements
  - Identifies Federal programs and corresponding compliance requirements
- Part 3 – Compliance Requirement
  - Audit objectives and suggested audit procedures for 14 compliance requirements
14 Compliance Requirements

A. Activities allowed or unallowed
B. Allowable costs/Cost principles
C. Cash management
D. Davis-Bacon Act
E. Eligibility
F. Equipment and real property management
G. Matching, level of effort, earmarking

H. Period of availability of federal funds
I. Procurement and suspension and debarment
J. Program income
K. Real property acquisition/relocation assistance
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
Internal Controls

- Sense of conducting operations ethically
- Positive responsiveness to questioned costs
- Staff knowledge of compliance requirements
- Training programs

Compliance Requirements

- Ensure that funds were used only for activities that further the objectives outlined in the award document
- 14 areas of review (A-N):
  - Emphasis on largest expenses
    - Employee compensation
    - F&A costs
    - Equipment
A. Activities Allowed or Unallowed

- Identify the types of activities allowed or prohibited
- Test for proper classification & accumulation
- Review Sub-awards to ensure activities are allowable

B. Allowable Costs/Cost Principles

- Reasonable, Necessary, Allowable
- Facilities & Administrative vs Direct
- Disclosure Statement
- Comparisons of budgets to actual costs
C. Cash Management

- Reimbursement of funds:
  - Program costs must be paid using entity funds prior to requesting reimbursement

- Advancement of funds:
  - Procedures need to be in place to minimize time between receipt of funds from U.S. Treasury and disbursement

- Interest
  - Interest earned on advances is required to be submitted promptly (but at least quarterly); $100 may be kept for administrative expenses

D. Davis-Bacon Act

- All laborers and mechanics employed to work on construction projects financed by the Federal government must be paid prevailing wage rates.
E. Eligibility

- Who can participate in a Federal program and the amounts for which they qualify
- Subrecipients are reviewed for eligibility

F. Equipment and Real Property Management

- Proper records & adequate safe guards
- Disposition of equipment
- Agency compensated if sold
- Property tags in place
G. Matching, Level of Effort, Earmarking

- Matching or cost sharing includes requirements to provide contributions of a specified amount or percentage to match Federal awards.
- Specify matching requirements are unique to each Federal program.
- Basic criteria:
  - Are verifiable from the non-Federal entity’s records.
  - Are not included as contributions for any other federally assisted program.
  - Are necessary and reasonable.
  - Are not paid by the Federal Government under another award.
  - Are for in approved budget.
  - Conform to all applicable provisions of the a-102 common rule, OMB Circular A-110, and the laws, regulations, and provisions of contract or grant agreements.
  - In-kinds.
  - Documented and valued on acceptable basis.

H. Period of Availability of Federal Funds

- Only cost resulting from obligations incurred during the funding period may be charged to the award.
- Test transactions charged after the award expired.
- Mechanisms for identifying awards about to expire.
I. Procurement, Suspension & Debarment

- Purchases are made in compliance with applicable rules, regulations, contract and grant agreement
- Contracts are not made with entities or individuals that have been suspended or disbarred
- Existing codes of conduct

J. Program Income

- Gross income received that is directly generated by the federally funded project during the grant period
- Verify income is added to the budget
- Verify income was properly accounted for
Program Income Illustration

Approved Budget: $100,000
Federal Support: 80%
Grant Support: 20%
Program Income: $10,000

- $20,000 Matching Share
- $10,000 Program Income
- $80,000 Federal Share

Program Budget

- Deductive Alternative
- Additive Alternative
- Cost-Share Alternative

K. Real Property Acquisition & Relocation Assistance

- Equitable treatment if property is acquired
L. Reporting

- Financial: Recipients should use standard financial reporting forms
- Performance: At least annually must submit actual accomplishments compared to goals
- Special Reporting: As required by the agency

M. Sub-recipient Monitoring

- Ensure Compliance with Federal requirement
- Reasonable assurances that sub-recipients obtain required audits
EXERCISE: Compliance Best Practice

- In your groups, based upon discussions and experience,
  - Identify at least 1 example for each of the 14 compliance requirements.
  - Scribe responses.

- Report recommendations.

OMB A-133 - Appendix B Compliance Supplement CONTINUED

- Part 4 – Agency Program Requirements
  - Program objectives, procedures and special compliance requirements for 150+ federal programs

- Part 5 – Clusters of programs
  - Research & Development (R&D)
  - Student Financial Aid
OMB A-133 - Appendix B
Compliance Supplement CONTINUED

- Part 6 – Internal Control
- Part 7 – Guidance For Auditing Programs Not Included in the Supplement
- Appendices (9)
  - References
  - Contacts

OMB A-133 - Appendix D
Pass-Through Entities

- Use circulars appropriate to agency type
- Cognizant Agency should:
  - Provide technical audit advice and liaison to auditees
  - Consider auditee requests for extensions to the report and may grant extensions for good cause.
  - Coordinate, to the extent practical, audits or reviews made by or for Federal agencies that are in addition to this audit
  - Coordinate a management decision for audit findings that affect the Federal programs of more than one agency.
  - Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.
Federal Audit Clearinghouse (FAC)

- Executive agent for the Office of Management and Budget
- Designated the “National Clearinghouse for Single Audits” in 1985
- Central collection point for all OMB Circular A-133 submissions
- Federal Audit Clearinghouse Website
  - http://harvester.census.gov/fac

Role of the FAC

- Review Circular A-133 Submissions on accordance with OMB and Federal Agency guidelines
- Distributes reporting packages to Federal awarding agencies
- Maintains a government-wide database of SF-SAC data
- Maintains an archive of all A-133 submissions
- About 30,000 audits added to the database each year
FAC Options

- Single audit reference information
- OMB Circular A-133
- Compliance Supplement
- CFDA Catalog
- American Institute of Certified Public Accountants (AICPA) and Office of Inspector General (OIG) websites

- Data Collection Form Options
- Internet Data Entry System (IDES)
- PDF Versions

- Access Single Audit Data

Surviving an Audit

**QUESTION:**
When do you start preparing for an audit?

**ANSWER:**
The day you prepare a proposal.
Typical Audit Findings

- Untimely report submissions;
- Lack of documentation;
- Inadequate monitoring of sub-recipients;
- Inadequate time/effort reports;
- Inaccurate reports (financial status reports);
- Commingling of funds;
- Excess cash on hand;
- Unallowable costs;
- Inappropriate changes; and
- Conflicts of interest.

Possible Consequences for Noncompliance

- Corrective Actions
- Additional Special Award Terms and Conditions
- Loss of Expanded Authorities
- Cost Disallowance and Repayment
- Termination of Award
- Civil and/or Criminal Violations and Imposed Penalties
Documents Required for Audit

- Copy of Agreement
- Proof of Salary Approval
- Copies of ALL invoices paid on the account
  - Include P.O. if required for purchase
- Cost Sharing Documentation
  - Cost Sharing worksheet/account
  - Don't forget to include F&A on salaries/fringe benefits

Documents Required for Audit CONTINUED

- Effort Reports
  - Must match payroll charges – caution when preparing transfers

- Sub-Awards
  - Copy of award
  - Copy of report or deliverable from sub.
  - Copy of approved final invoice
Documents Required for Audit

CONTINUED

- Reconciliation Documentation
  - Proof that the charges were reviewed
  - Are charges valid
  - Are encumbrances correct
  - Have recipients been paid

Keys to a Successful Audit

- Organized Files
- Documentation for expenses
- Appropriate Approvals
- Audit Trails (i.e., documentation)
- Knowledge of policies and regulations
- If it's not documented, it didn't happen….
Auditor Management

- Don't assume the auditor has basic knowledge of regulations
- Understand all auditors questions
- If you are not sure - check it out
- Don't ramble or provide additional information
- Keep track of questions and responses
- Accompany the auditors when they speak program staff

EXERCISE:
Audit: Past, Present and Future

In small groups, discuss the following:
- What was the result of your recent audit?
- What challenges have you faced in completing the A-133?
- What solutions did you implement?
- What recommendations do you have for others?

...Report your results.
Summary

- Reviewed the basics of OMB Circular A-133
- Developed best practices to comply with 14 compliance requirements
- Identified how the Federal Audit Clearinghouse relates to you
- Reviewed typical audit findings and required documentation to minimize risk of noncompliance

Concluding Remarks
Summary
Cost Principle Fundamentals

Grants and Procurement

OMB Circular A-133: The Basics

Online Resources

- OMB Grants Management Circulars
  http://www.whitehouse.gov/omb/grants/grants_circulars.html
- GAO Government Auditing Standards 2007 Revision
  http://www.gao.gov/new.items/d07731g.pdf
- GAO Yellowbook
  http://www.gao.gov/govaud/ybk01.htm
Top 5 Things I Learned

- As a group.
- Identify the 5 most important things that you learned today.
- Rank 1 – 5.

Administrative Responsibility Is a Team Effort
Questions?
For Additional Information
Visit www.ecivis.com
Email info@ecivis.com
Call 877.232.4847
EXERCISES & HANDOUTS

Federal Grants Compliance

A. The Changing World of Grants  
   Page 1

B. Cost Accounting Principles: True or False  
   Page 2
   - 2 CFR Part 225 Cost Principles for State, Local and Indian Tribal Governments  
   Page 4

C. Cost Accounting Terms  
   Page 22

D. Procurement @ Home (Part 1)  
   Page 23

E. Procurement @ Home (Part 2)  
   Page 25

F. Compliance Best Practices  
   Page 26

G. Audit: Past, Present and Future  
   Page 28

H. Top 5 Things I Learned  
   Page 29
### GROUP DISCUSSION: The Changing World of Grants

In groups, identify 1 – 2 responses to each of the following:

- What do we know about the changing world of grants, specifically as it relates to compliance?
- How will the changes benefit us?
- What concerns us?

Share responses with class.

<table>
<thead>
<tr>
<th>What We Know (or What We’ve Heard)</th>
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<th>Our Concerns</th>
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EXERCISE: Cost Accounting Principles: True or False

Directions: In groups, answer each of the following True/False statements and identify where to locate the information within 2 CFR Part 225 (OMB Circular A-87).

1. “Award” means grants, cost reimbursement contracts and other agreements between a State, local and Indian tribal government and the Federal Government.
   - True or False: ______________
   - Justification: __________________

2. One criteria affecting allowability of costs is adequate documentation.
   - True or False: ______________
   - Justification: __________________

3. Typical direct costs chargeable to Federal awards include compensation of employees for the time devoted and identified specifically to the performance of those awards; Cost of materials acquired, consumed, or expended specifically for the purpose of those awards; Equipment and other approved capital expenditures; and Travel expenses incurred specifically to carry out the award.
   - True or False: ______________
   - Justification: __________________

4. The Circular has been revised to allow “light alcoholic” beverages.
   - True or False: ______________
   - Justification: __________________

5. The dollar threshold for capitalization of equipment under 2 CFR 225 (OMB Circular A-87) is $5,000 or an acquisition cost of which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes.
   - True or False: ______________
   - Justification: __________________

6. Public relations costs are allowable for the costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other events.
   - True or False: ______________
   - Justification: __________________

7. Cost of entertainment, including amusement, diversion, and social activities are allowable as long as the governmental unit has a “no smoking” policy.
   - True or False: ______________
   - Justification: __________________
8. The cost of organized fund-raising to save animals under the “Endangered Species Act” is allowable.
   - TRUE OR FALSE: _______________
   - Justification: __________________

9. Pre-award costs are allowable as indirect costs.
   - TRUE OR FALSE: _______________
   - Justification: __________________

10. If training costs are for employee development, they are allowable.
    - TRUE OR FALSE: _______________
    - Justification: __________________

11. Costs of preparing proposals for “potential” Federal award are unallowable because the costs are based on a contingency.
    - TRUE OR FALSE: _______________
    - Justification: __________________

******************************************************************************

ANSWERS:

1. True / Appendix A.B.2 / Page 51912 
2. True / Appendix A.C.1.j / Page 51912 
3. True / Appendix A.E.2.a-d / Page 51913 
4. False / Appendix B.3 / Page 51914  
5. True / Appendix B.15.a.(2) / Page 51917 
6. False / Appendix B.1.f.(2)(b) / Page 51914 
7. False / Appendix B.14 / Page 51917 
8. False / Appendix B.17.(a) / Page 51917 
9. False / Appendix B.31 -- Pre-award costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with written approval of the awarding agency / Page 51920 
10. True / Appendix B.42 / Page 51921 
11. False / Appendix B.33 / Page 51920
OFFICE OF MANAGEMENT AND BUDGET

2 CFR Part 225

Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A–87)

AGENCY: Office of Management and Budget

ACTION: Relocation of policy guidance to 2 CFR chapter II.

SUMMARY: The Office of Management and Budget (OMB) is relocating Circular A–87, “Cost Principles for State, Local, and Indian Tribal Governments,” to Title 2 in the Code of Federal Regulations (2 CFR). Subtitle A, Chapter II, part 225 as part of an initiative to provide the public with a central location for Federal government policies on grants and other financial assistance and nonprocurement agreements. Consolidating the OMB guidance and co-locating the agency regulations provides a good foundation for streamlining and simplifying the policy framework for grants and agreements as part of the efforts to implement the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106–107).

DATES: This document is effective August 31, 2005. This document republishes the existing OMB Circular A–87, which already is in effect.

FOR FURTHER INFORMATION CONTACT: Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202–355–2052 (direct) or 202–395–3993 (main office) and e-mail: Hai_M._Tran@omb.eop.gov.

SUPPLEMENTARY INFORMATION: On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106–107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A–87 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements.

Our relocation of OMB Circular A–87 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this notice relocates in 2 CFR the version of OMB Circular A–87 as revised by the May 10, 2004 notice.

List of Subjects in 2 CFR Part 225

Accounting, Grant administration, Grant programs, Reporting and recordkeeping requirements, State, local, and Indian tribal governments.

Dated: August 8, 2005.

Joshua B. Bolten, Director.

Authority and Issuance

For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, Chapter II, by adding a part 225 as set forth below.

PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A–87)

Sec.

225.5 Purpose.

225.10 Authority.

225.15 Background.

225.20 Policy.

225.30 OMB responsibilities.

225.35 Federal agency responsibilities.

225.40 Effective date of changes.

225.45 Relationship to previous issuance.

225.50 Policy review date.

225.55 Information Contact.

Appendix A to Part 225—General Principles for Determining Allowable Costs

Appendix B to Part 225—Selected Items of Cost

Appendix C to Part 225—State/Local-Wide Central Service Cost Allocation Plans

Appendix D to Part 225—Public Assistance Cost Allocation Plans

Appendix E to Part 225—State and Local Indirect Cost Rate Proposals


§ 225.5 Purpose.

This part establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).

§ 225.10 Authority.

This part is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; the Chief Financial Officers Act of 1990; Reorganization Plan No. 2 of 1970; and Executive Order No. 11541 ("Prescribing the Duties of the Office of Management and Budget and the Domestic Policy Council in the Executive Office of the President").
A–87. Appendix A to this part contains the guidance that was in Attachment A (general principles) to the OMB circular; Appendix B contains the guidance that was in Attachment B (selected items of cost); Appendix C contains the information that was in Attachment C (state/local-wide central service cost allocation plans); Appendix D contains the guidance that was in Attachment D (public assistance cost allocation plans); and Appendix E contains the guidance that was in Attachment E (state and local indirect cost rate proposals).


§ 225.50 Policy review date.

This part will have a policy review three years from the date of issuance.

§ 225.55 Information contact.


Appendix A to Part 225—General Principles for Determining Allowable Costs

Table of Contents

A. Purpose and Scope

1. Objectives

2. Policy guides

3. Application

B. Definitions

1. Approval or authorization of the

a. awarding or cognizant Federal agency

b. Award

c. Awarding agency

2. Central service cost allocation plan

3. Claim

4. Cognizant agency

5. Common rule

6. Contract

C. Basic Guidelines

1. Factors affecting allowable costs

2. Reasonable costs

3. Allocable costs

4. Applicable credits

D. Composition of Cost

1. Total cost

2. Classification of costs

E. Direct Costs

1. General

2. Application

F. Indirect Costs

1. General

2. Cost allocation plans and indirect cost proposals

3. Limitation on indirect or administrative costs

G. Interagency Services

H. Required Certifications

General Principles for Determining Allowable Costs

A. Purpose and Scope

1. Objectives. This Appendix establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, cost reimbursement contracts, and other agreements with the Federal Government (collectively referred to in this appendix and other appendices to 2 CFR part 225 as “Federal awards”). The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. Provision for profit or other increment above cost is outside the scope of 2 CFR part 225.

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

(1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

b. Federal agencies should work with States or localities which wish to test Federal awards through the application of appropriate advance agreement on how the governmental unit will comply with applicable CAS requirements when estimating, accumulating and reporting costs under CAS-covered contracts. The agreement shall indicate that 2 CFR part 225 (OMB Circular A–21) requirements will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the governmental unit.

c. These principles shall be used as a guide in the pricing of fixed price arrangements where costs are used in determining the appropriate price.

d. Where a Federal contract awarded to a governmental unit incorporates a Cost Accounting Standards (CAS) clause, the requirements of that clause shall apply. In such cases, the governmental unit and the cognizant Federal agency shall establish an appropriate advance agreement on how the governmental unit will comply with applicable CAS requirements when estimating, accumulating and reporting costs under CAS-covered contracts. The agreement shall indicate that 2 CFR part 225 (OMB Circular A–21) requirements will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the governmental unit.

e. Conditional exemptions.

(1) OMB authorizes conditional exemption from OMB administrative requirements and cost principles for certain Federal programs with statutorily-authorized consolidated planning and consolidated administrative funding, that are identified by a Federal agency and approved by the head of the Executive department or establishment. A Federal agency shall consult with OMB during its consideration of whether to grant such an exemption.

(2) To promote efficiency in State and local program administration, when Federal non-entitlement programs with common purposes have specific statutory requirements, the Federal agencies may exempt these covered State-administered, non-entitlement grant programs from certain OMB grants management requirements. The
exemptions would be from all but the allocability of costs provisions of Appendix A subsection C.3 of 2 CFR part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A–87); Appendix A, Section C.4 of 2 CFR 220, Cost Principles for Educational Institutions (Circular A–21); Appendix A, subsection A.4 of 2 CFR 230 Cost Principles for Non-Profit Organizations (Circular A–122); and from all of the administrative requirements provisions of 2 CFR part 215, Uniform Administrative Requirements for Grants and Cooperative Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (Circular A–110), and the agencies’ grants management common rule. (3) When a Federal agency provides this flexibility, as a prerequisite to a State’s exercising this option, a State must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of 2 CFR part 225 (OMB Circular A–87), and policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: Funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not used for general expenses required to carry out other responsibilities of a State or its subrecipients.

B. Definitions

1. “Approval or authorization of the awarding or cognizant Federal agency” means documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a State/local-wide cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval.

2. “Award” means grants, cost reimbursement contracts and other agreements between a State, local and Indian tribal government and the Federal Government.

3. “Awarding agency” means (a) with respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, and (b) with respect to a subaward, the party that awarded the subaward.

4. “Central service cost allocation plan” means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

5. “Claim” means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency.

6. “Cognizant agency” means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2 CFR part 230 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies.

7. “Common Rule” means the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” originally issued at 53 FR 8034–8103 (March 11, 1988). Other common rules will be referred to by their specific titles.

8. “Contract” means a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to): Awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and, bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 et seq.

9. “Cost” means an amount as determined on a cash, accrual, or other basis acceptable to the Federal award or cognizant agency. It does not include transfers to a general or similar fund.

10. “Cost allocation plan” means central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. Each of these terms is further defined in this section.

11. “Cost objective” means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

12. “Federal government” means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

13. “Federal award” means grants, cooperative agreements, or any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

14. “Franked” means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency.

15. “Franked” means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency.

16. “Franked” means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency.

17. “Public assistance cost allocation plan” means a narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies as described in Appendix D of 2 CFR part 225.

18. “State” means any of the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

C. Basic Guidelines

1. Factors affecting allocability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

   a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
   
   b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
   
   c. Be authorized or not prohibited under State or local laws or regulations.
   
   d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
   
   e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
   
   f. Be adequately and consistently. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award.
   
   g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.
   
   h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
   
   i. Be the net of all applicable credits.
   
   j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

   a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
b. The restraints or requirements imposed by such factors as: Sound business practices; arm’s-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

c. Market prices for comparable goods or services.

d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award’s cost.

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

b. All activities which benefit from the governmental unit’s indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.

4. Applicable credits.

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates, allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

b. In some instances, the amounts received from the Federal Government to finance activities or service operations of the governmental unit should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to Federal awards. (See Appendix B to this part, item 11, “Depreciation and use allowances,” for areas of potential application in the matter of Federal financing of activities.)

5. Composition of Cost

a. In addition to restrictions contained in 2 CFR part 225, there may be laws that further limit the amount of administrative or indirect cost allowed.

b. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

G. Interagency Services. The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rate share of indirect costs. A standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Appendix C to this part.

H. Required Certifications. Each cost allocation plan or indirect cost rate proposal required by Appendices C and E to this part must comply with the following:

1. No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices C and E to this part. The certificate must be signed on behalf of the governmental unit by an individual at a level not lower than chief financial officer of the governmental unit that submits the proposal or component covered by the proposal.

2. No cost allocation plan or indirect cost rate shall be approved by the Federal Government unless the plan or rate proposal has been certified. Where it is necessary to establish a cost allocation plan or an indirect cost rate and the governmental unit has not submitted a certified proposal for establishing such a plan or rate in accordance with the requirements, the Federal Government may either disallow all indirect costs or unilaterally establish such a plan or rate. Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant Federal agency and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal Government because of failure of the governmental unit to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

Appendix B to Part 225—Selected Items of Cost

Table of Contents

1. Advertising and public relations costs
2. Advisory councils
3. Alcoholic beverages
4. Audit costs and related services
5. Bad debts
6. Bonding costs
7. Communication costs
8. Compensation for personal services
9. Contingency provisions
10. Defense and prosecution of criminal and civil proceedings, and claims
11. Depreciation and use allowances
12. Donations and contributions
13. Employee morale, health, and welfare costs
14. Entertainment costs
15. Equipment and other capital expenditures
16. Fines and penalties
17. Fund raising and investment management costs
18. Gains and losses on disposition of depreciable property and other capital
assets and substantial relocation of Federal programs
19. General government expenses
20. Goods or services for personal use
21. Idle facilities and idle capacity
22. Insurance and indemnification
23. Interagency and intergovernmental costs
24. Lobbying
25. Maintenance, operations, and repairs
26. Materials and supplies costs
27. Meetings and conferences
28. Memberships, subscriptions, and professional activity costs
29. Patent costs
30. Plant and homeland security costs
31. Pre-award costs
32. Professional service costs
33. Proposal costs
34. Publication and printing costs
35. Rearrangement and alteration costs
36. Reconversion costs
37. Rental costs of building and equipment
38. Royalties and other costs for the use of patents
39. Selling and marketing
40. Taxes
41. Termination costs applicable to sponsored agreements
42. Travel costs
43. Training costs

Sections 1 through 43 provide principles to be applied in establishing the allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. A cost is allowable for Federal reimbursement only to the extent that such activities are limited to maintaining the image of the governmental unit, are allowable to the extent that the principles in Appendix A to this part, sections E. ("Direct Costs") and F. ("Indirect Costs") are observed. Also see 31 U.S.C. 7505(b) and section 230 (d) of Circular A–133, section 230 ("Audit Costs") of Circular A–133.

(1) Costs specifically required by the Federal award;
(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of Federal awards (these costs are considered necessary as part of the outreach effort for the Federal award); or
(3) Costs of conducting general liaison with news media and government public relations offices, to the extent that such activities are limited to communication and liaison necessary as part of the public concern, such as notices of Federal contract/grant awards, financial matters, etc.

b. Costs identified in subsections c and d if incurred for more than one Federal award or for both sponsored work and other work of the governmental unit, are allowable to the extent that the principles in Appendix A to this part, sections E. ("Direct Costs") and F. ("Indirect Costs") are observed.

f. Unallowable advertising and public relations costs, the following:
(1) All advertising and public relations costs other than as specified in subsections c, d, and e of this appendix;
(2) Costs of meetings, conventions, convocations, or other events related to other activities of the governmental unit, including:
(a) Costs of displays, demonstrations, and exhibits;
(b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events;
(c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;
(d) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;
(4) Costs of advertising and public relations designed solely to promote the governmental unit.

b. Advisory councils.
Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allocable to Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits.

7. Communication costs. Costs incurred for services rendered during the period of performance under Federal awards, including but not necessarily limited to telephone calls, telegrams, postage, messenger, electronic or computer, transmittal services and the like are allowable.

8. Compensation for personal services.

b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

(1) Is determined and supported as provided in subsection h.
(2) Is supported by documentation which shows the labor market in which the employees are operating.
(3) Is determined and supported as provided in subsection h.

a. Bonding costs.
Bonding costs arise when the Federal Government requires assurance against financial loss to itself or others by reason of the act or default of the governmental unit. They arise also in instances where the governmental unit requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.
employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensations 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: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker’s compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar costs, are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities 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 such Federal awards and other activities.

e. Pension plan costs. Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

(1) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

(2) Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursement and the governmental unit’s contribution to the pension fund. Fringe benefits are post-retirement benefits may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the pension fund.

(3) Amounts funded by the governmental unit in excess of the actuarially determined amount for a fiscal year may be used as the governmental unit’s contribution in future periods.

(4) When a governmental unit converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion shall be allowable if amortized over a period of years in accordance with GAAP.

(5) The Federal Government shall receive an equitable share of any previously allowable pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

g. Severance pay.

(1) Payments in addition to regular salaries and wages for which employment is being terminated are allowable to the extent that, in each case, they are required by law, employer-employee agreement, or established written policy.

(2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.

(3) Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award for the period, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.
Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee.
(b) They must account for the total activity for which each employee is compensated.
(c) They must be prepared at least monthly and must coincide with one or more pay periods, and
(d) They must be signed by the employee.

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

(b) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(i) The governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed;
(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the substitute systems are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

6. Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:
(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.6(c) of this appendix;
(ii) The entire time period involved must be covered by the sample; and
(iii) The results must be statistically valid and applied to the period being sampled.
(b) Allocating charges for the sampled employees’ supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.
(c) Less than full compliance with the statistical sampling standards noted in subsection 8.h.6(a) of this appendix may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.
(d) Salaries and wages of employees used for the government-wide financial statements counted as allowable costs under Federal awards.
(i) Donated services.
(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the provisions of the Circular.
(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit’s indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.
(i) The governmental unit’s system for estimating the value of donated services must be subject to audit by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

7. Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.

b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. The value of an asset donated to the governmental unit by an unrelated third party shall be its fair market value at the time of donation. Governmental or quasi-governmental organizations located within the same State shall not be considered unrelated third parties for this purpose.

8. The computation of depreciation or use allowances will exclude:
(1) The cost of land;
(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and
(3) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.

d. Where the depreciation method is followed, the following general criteria apply:
(1) The period of useful service (useful life) established in each case for useful capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used.
(2) Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

11. Depreciation and use allowances.
(a) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the provisions of the Circular.
(b) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit’s indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.
(i) The governmental unit’s system for estimating the value of donated services must be subject to audit by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

When the depreciation method is used for buildings, a building’s shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component depreciated over its estimated useful life, or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

Where the use allowance method is followed, the following general criteria apply:
(1) The use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs.
(2) The use allowance for equipment will be computed at an annual rate not exceeding 6% percent of acquisition cost.

(3) When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building’s components (heating system, air conditioning, etc.) cannot be segregated from the building’s shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations for or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the 6% percent equipment use allowance limitation.

A reasonable use allowance may be negotiated for any assets that are considered to be fully depreciated, after taking into consideration the amount of depreciation previously charged to the government, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges, decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

b. Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

12. Donations and contributions.

a. Contributions or donations rendered. Contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable.

b. Donated services received:

(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the Federal Grants Management Common Rule.

(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit’s direct costs. A rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.

(3) To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.

13. Employee morale, health, and welfare costs.

a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit’s established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.

b. Such costs will be equitably apportioned to all activities of the governmental unit. Income generated from any of these activities will be offset against expenses.

14. 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.

15. Equipment and other capital expenditures.

a. For purposes of this subsection 15, the following definitions apply:

(1) “Capital Expenditures” means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit’s regular accounting practices.

(2) “Equipment” means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or $5000.

(3) “Special purpose equipment” means equipment which is used only for research, medical, scientific or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

(4) “General purpose equipment” means equipment, which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motors and parts.

b. The following rules of allowability shall apply to equipment and other capital expenditures:

(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of $5000 or more have the prior approval of the awarding agency.

(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

(4) When approved as a direct charge pursuant to section 15.h(1), (2), and (3) of this appendix, capital expenditures shall be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized at their option to waive or delegate the prior approval requirement.

(5) Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of this appendix. Depreciation and use allowances, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see section 37 of this appendix. Rental costs, concerning the allowability of rental costs for land, buildings, and equipment.

(6) The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable use allowances or depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

(7) When replacing equipment purchased in whole or in part with Federal funds, the governmental unit may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

16. Fines and penalties. Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

17. Fund raising and investment management costs.

a. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.

b. Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable. However, such costs associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this and other appendices of 2 CFR part 225 are allowable.

c. Fund raising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in subsection C.3.b. of Appendix A to this part.

(18) Gains and losses on disposition of depreciable property and other capital assets.
and substantial relocation of Federal programs.

a. (1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the applicable program in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate cost grouping(s) shall be the difference between the amount realized on the property and the unadjusted basis of the property.

b. If gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

(a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under sections 11 and 15 of this appendix.

(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.

(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in subsection 22.d of this appendix.

(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.

b. Substantial relocation of Federal awards from a facility where the Federal Government participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.

c. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection 18.a. of this section is a credit or included in the fair market value used in any adjustment resulting from a relocation of Federal awards covered in subsection b. shall be excluded in computing Federal award costs.


a. The general costs of government are unallowable (except as provided in section 43 of this appendix, Travel costs). These include:

(1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally-recognized Indian tribal government;

(2) Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction;

(3) Costs of the judiciary branch of a government;

(4) Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by program statute or regulation (however, this does not preclude the allowability of other legal activities of the Attorney General); and

(5) Costs of other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.

b. For federally-recognized Indian tribal governments and Councils Of Governments (COGs), the portion of salaries and expenses directly attributable managing and operating Federal programs by the chief executive and his staff is allowable.

20. Goods or services for personal use.

a. Costs of goods or services for personal use of the governmental unit's executive and his staff is allowable.

b. Substantial relocation of Federal awards from a facility where the Federal Government participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.

c. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection 18.a. of this section is a credit or included in the fair market value used in any adjustment resulting from a relocation of Federal awards covered in subsection b. shall be excluded in computing Federal award costs.

d. Contributions to a reserve for certain self-insurance programs including workers compensation, unemployment compensation, and severance pay are allowable subject to the following provisions:

(1) The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the governmental unit’s settlement rate for those liabilities and its investment rate of return.

(2) Earnings or investment income on reserves must be credited to those reserves.

(3) Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims submitted and adjudicated but not paid, submitted but not adjudicated, and incurred but not submitted. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan in the indirect cost rate proposal.

(4) Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the governmental unit. If individual departments or agencies of the governmental
unit experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.

(5) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer.

a. Actual claims paid to or on behalf of employees or former employees for workers’ compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection 8.f. for post retirement health benefits), are allowable in the year of payment provided the governmental unit follows a consistent costing policy and they are allocated as a general administrative expense to all activities of the governmental unit.

b. Insurance refunds shall be credited against insurance costs in the year the refund is received.

g. Indemnification includes securing the governmental unit against liabilities to third persons and other losses not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the governmental unit only to the extent expressly provided for in the Federal award, except as provided in subsection 22.d of this appendix.

h. Costs of commercial insurance that protects against the costs of the contractor for correction of the contractor’s own defects in materials or workmanship are unallowable.

23. Interest.

a. Costs incurred for interest on borrowed capital or the use of a governmental unit’s own funds, however represented, are unallowable except as specifically provided in subsection b. or authorized by Federal legislation.

b. Financing costs (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconversion of facilities completed on or after October 1, 1980 is allowable subject to the conditions in section 23.b.(1) through (4) of this appendix. Financing costs (including interest) paid or incurred on or after September 1, 1995 for land or associated with otherwise allowable costs of equipment is allowable subject to the conditions in section 23.b. (1) through (4) of this appendix.

(1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the governmental unit;

(2) The assets are used in support of Federal awards;

(3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period’s cost or the capitalized interest of an appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.

(4) For debt arrangements over $1 million, unless the governmental unit makes an initial equity contribution to the asset purchase of 25 percent or more, the governmental unit shall reduce claims for interest cost by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-Federal entities shall prepare a cumulative (from the inception of the project) report of monthly cash inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest cost. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (i.e., usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the pro rata share attributable to the unallowable costs of land) and interest payments. Where cumulative inflows exceed cumulative outflows, interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest cost. The rate of interest to be used to compute earnings on excess cash flows shall be the three-month Treasury bill closing rate as of the last business day of that month.

(5) Interest attributable to fully depreciated assets is unallowable.

24. Lobbying.

a. General. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans shall be governed by the common rule, “New Restrictions on Lobbying” (see on section 2 CFR part 220), including definitions, and the Office of Management and Budget “Government-wide Guidance for New Restrictions on Lobbying” and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively.

b. Executive lobbying costs. Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the Executive Branch of the Federal Government, or to influence a congressional decision or to act regarding a sponsored agreement or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a federally-sponsored agreement or a regulatory matter on any basis other than the merits of the matter.

25. Maintenance, operations, and repairs.

a. 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 to the extent that they: keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, do not add to the permanent value of property or appreciably prolong its intended life, and are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 11 and 15 of this appendix).

26. Materials and supplies costs.

a. Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

b. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs.

c. Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs.

d. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

27. Meetings and conferences. Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals and lodging, transportation of facilities, speakers’ fees, and other items incidental to such meetings or conferences. But see section 14, Entertainment costs, of this appendix.

28. Memberships, subscriptions, and professional activity costs.

a. Costs of the governmental unit’s memberships in business, technical, and professional organizations are allowable.

b. Costs of the governmental unit’s subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.

d. Costs of membership in organizations substantially engaged in lobbying are unallowable.


a. The following costs relating to patent and copyright matters are allowable: cost of preparing disclosures, obtaining documents required by the Federal award and of searching the art to the extent necessary to make such disclosures; cost of preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government; and general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements (but see sections 32, Professional service costs, and 38, Royalties and other costs for use of patents and copyrights, of this appendix).

b. The following costs relating to patent and copyright matter are unallowable: Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures not required by the award; costs in connection with filing and prosecution of any foreign patent application; or any United States patent application, where the Federal award does not require conveying title or a royalty-free license to the Federal Government (but see section 38, Royalties and other costs for use of patents and copyrights, of this appendix).
30. Plant and homeland security costs. Necessary and reasonable expenses incurred for routine and homeland security to protect facilities, personnel, and work products are allowable. Such costs include, but are not limited to, wages and uniforms of personnel engaged in activities; equipment; barriers; contractual security services; consultants; etc. Capital expenditures for homeland and plant security purposes are subject to section 15, Equipment and other capital expenditures, of this appendix.

31. Proposal service costs. Proposal service costs are incurred prior to the effective date of the award. Necessary and reasonable expenses incurred in contemplation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

32. Professional service costs. a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the governmental unit are allowable, subject to subparagraphs b and c when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. In addition, legal and related services are limited under section 10 of this appendix.

b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

(1) The nature and scope of the service rendered in relation to the service required.

(2) The necessity of contracting for the service, considering the governmental unit’s capability in the particular area.

(3) The past pattern of such costs, particularly in the years prior to Federal awards.

(4) The impact of Federal awards on the governmental unit’s business (i.e., what new problems have arisen).

(5) Whether the promotion of Federal work to the governmental unit’s total business is such as to influence the governmental unit in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.

(6) Whether the service can be performed more economically by direct employment rather than contracting.

(7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Federal awards.

(8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

c. In addition to the factors in subparagraph b, retainers fees to be allowable must be supported by available or rendered evidence of bona fide services available or rendered.

33. Proposal costs. Costs of preparing proposals for potential Federal awards are allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal awarding agency.

34. Publication and printing costs. a. Publication costs include the costs of printing (including the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling. Publication costs also include page charges in professional publications.

b. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the governmental unit.

c. Page charges for professional journal publications are allowable as a necessary part of research costs where:

(1) The research papers report work supported by the Federal Government; and

(2) The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.

35. Rearrangement and alteration costs. Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable. Special arrangements and alterations costs incurred specifically for a Federal award are allowable with the prior approval of the Federal awarding agency.

36. Residential costs. Costs incurred in the restoration or rehabilitation of the governmental unit’s facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.

37. Rental costs of buildings and equipment. a. Subject to the limitations described in subsections b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

b. Rental costs under “sale and lease back” arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.

c. Rental costs under “less-than-arm’s-length” leases are allowable only to the amount (as explained in section 37.b of this appendix) that would have been allowed had title to the property vested in the governmental unit. For this purpose, a less-than-arm’s-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between divisions of a governmental unit; governmental units under common control through common officers, directors, or members; and a governmental unit and a director, trustee, officer, or key employee of the governmental unit or his immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, a governmental unit may establish a separate corporation for the sole purpose of owning property and leasing it back to the governmental unit.

d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount (as explained in subsection 37.b of this appendix) that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. The provisions of Financial Accounting Standards Board Statement 13, Accounting for Leases, shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 23 of this appendix. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the governmental unit purchased the facility.

38. Royalties and other costs for the use of patents. a. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the award are allowable unless:

(1) The Federal Government has a license or the right to free use of the patent or copyright.

(2) The patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid.

(3) The patent or copyright is considered to be unenforceable.

(4) The patent or copyright is expired.

b. Special care should be exercised in determining reasonableness where the royalties may have been arrived at as a result of less-than-arm’s-length bargaining, e.g.:

(1) Royalties paid to persons, including corporations, affiliated with the governmental unit.

(2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Federal award would be made.

(3) Royalties paid under an agreement entered into after an award is made to a governmental unit.

c. In any case involving a patent or copyright formerly owned by the governmental unit, the amount of royalty allowed should not exceed the cost which would have been allowed had the governmental unit retained title thereto.

39. Selling and marketing. Costs of selling and marketing any products or services of the governmental unit are unallowable (unless allowed under section 33. of this appendix as allowable public relations costs or under section 33. of this appendix as allowable proposal costs).

40. Taxes. a. Taxes that a governmental unit is legally required to pay are allowable, except for self-
assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs. This provision is applicable to taxes paid during the governmental unit’s first fiscal year that begins on or after January 1, 1996. It applies thereafter.

b. Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal Government are allowable.

c. This provision does not restrict the authority of Federal agencies to identify taxes where Federal participation is inappropriate. Where the identification of the amount of unallowable taxes would require an inordinate amount of effort, the cognizant agency may accept a reasonable approximation thereof.

41. Termination costs applicable to sponsored agreements. Termination of awards generally gives rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the Federal award not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this appendix in termination situations.

a. The cost of items reasonably usable on the governmental unit’s other work shall not be allowable unless the governmental unit submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the governmental unit, the awarding agency should consider the governmental unit’s plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the governmental unit shall be regarded as evidence that such items are reasonably usable on the governmental unit’s other work. Any acceptance of common items as allocable to the terminated portion of the Federal award shall be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

b. If in a particular case, despite all reasonable efforts by the governmental unit, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this and other appendices of 2 CFR part 225, except that any such costs continuing after termination due to the negligent or willful failure of the governmental unit to discontinue such costs shall be unallowable.

c. Loss of useful value of special tooling, machinery, and equipment is generally allowable if:

(1) Such special tooling, special machinery, or equipment is not reasonably capable of use in the other work of the governmental unit.

(2) The portion of the Federal Government is protected by transfer of title or by other means deemed appropriate by the awarding agency, and

(3) The loss of useful value for any one terminated Federal award is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the Federal award bears to the entire terminated Federal award and other Federal awards for which the special tooling, machinery, or equipment was acquired.

d. Rental costs under unaforeseen leases are generally allocable where clearly shown to have been reasonably necessary for the performance of the terminated Federal award less the residual value of such leases, if:

(1) The amount of such rental claimed does not exceed the reasonable use value of the property reasonably allocable for the period of the Federal award and such further period as may be reasonable, and

(2) The governmental unit makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the Federal award, and of reasonable restoration required by the provisions of the lease.

e. Federal agencies may include the following costs not generally allowable:

(1) Accounting, legal, clerical, and similar costs reasonably necessary for:

(a) The preparation and presentation to the awarding agency of settlement claims and supporting data with respect to the terminated portion of the Federal award, unless the termination is for default (see Subpart _44 of the Grants Management Common Rule (see § 215.5) implementing OMB Circular A–102); and

(b) The termination and settlement of subawards.

(2) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced for the Federal award, except when grantees or contractors are reimbursed for disposals at a predetermined amount in accordance with Subparts _31 and _32 of the Grants Management Common Rule (see § 215.5) implementing OMB Circular A–102.

f. Claims under subawards, including the allocable portion of claims which are common to the Federal award, and to other work of the governmental unit are generally allowable. An appropriate share of the governmental unit’s indirect expense may be allocated to the amount of settlements with subcontractors and/or subgrantees, provided that the amount allocated is otherwise consistent with the basic guidelines contained in Appendix A to this part. The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.

42. Training costs. The cost of training provided for employee development is allowable.

43. Travel costs.

a. General. Travel costs are the expenses for transportation, lodging, subsistence, and related items for employees who are in travel status on official business of the governmental unit. 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 not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit’s non-federally-sponsored activities. Notwithstanding the provisions of section 19 of this appendix, General government expenses, travel costs of officials covered by the provision are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards.

b. Lodging and subsistence. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit’s written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code (“Travel and Subsistence Expenses; Mileage Allowances”), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205–46(a)).

c. Commercial air travel.

(1) Airfare costs in excess of the customary standard commercial airline (coach or equivalent), Federal Government contract airfare (where authorized and available), or the lowest commercial discount airfare are unallowable except when such accommodations would:

(a) Require circuitous routing;

(b) Require travel during unreasonable hours;

(c) Excessively prolong travel;

(d) Result in additional costs that would offset the transportation savings;

(e) Offer accommodations not reasonably adequate for the traveler’s medical needs.

The governmental unit must justify and document these conditions on a case-by-case basis in order for the use of first-class airfare to be allowable in such cases.

(2) Unless a pattern of avoidance is detected, the Federal Government will generally not question a governmental unit’s determinations that customary standard airfare or other discount airfare is unavailable for specific trips if the governmental unit can demonstrate either of the following:

(aa) That such airfare was not available in the specific case; or

(bb) That it is the governmental unit’s overall practice to make routine use of such airfare.

d. Air travel by other than commercial carrier. Costs of travel by governmental unit-owned, -leased, or -chartered aircraft include the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. The portion of such costs that exceeds the cost of allowable commercial air travel, as provided for in subsection 43.c. of this appendix, is unallowable.

e. Foreign travel. Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip
must receive such approval. For purposes of this provision, “foreign travel” includes any travel outside Canada, Mexico, the United States, and any United States territories and possessions. However, the term “foreign travel” for a governmental unit located in a foreign country means travel outside that country.

Appendix C to Part 225—State/Local-Wide Central Service Cost Allocation Plans

Table of Contents
A. General
B. Definitions
1. Billed central services
2. Allocated central services
3. Agency or operating agency
C. Scope of the Central Service Cost Allocation Plans
D. Submission Requirements
E. Documentation Requirements for Submitted Plans
F. Negotiation and Approval of Central Service Plans
G. Other Policies
1. Billed central service activities
2. Working capital reserves
3. Carry-forward adjustments of allocated central service costs
4. Adjustments of billed central services
5. Records retention
6. Appeals
7. OMB assistance State/Local-Wide Central Service Cost Allocation Plans
A. General
1. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

B. Definitions.
1. “Billed central services” means central services that are billed to benefitted agencies and/or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits. Items marked with an asterisk (*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.
2. “Allocated central services” means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.
3. “Agency or operating agency” means an organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of awards or activities of the governmental unit.
4. “Scope of the Central Service Cost Allocation Plans.” The central service cost allocation plan will include all central service costs that will be claimed (either as a billed cost or an allocated cost) on awards and will be documented as described in section E. Costs of central services omitted from the plan will not be reimbursed.
5. “Submission Requirements.”
1. Each State will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include a projection of the next year’s allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and a reconciliation of actual allocated central service costs to the estimated costs used for either the most recently completed year or the year immediately preceding the most recently completed year.
2. Each local government that has been designated as a “major local government” by the Office of Management and Budget (OMB) is also required to submit a plan to its cognizant agency annually. OMB periodically lists major local governments in the Federal Register.
3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this appendix and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient’s plan.
4. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency on a case-by-case basis.

E. Documentation Requirements for Submitted Plans. The documentation requirements described in this section may be modified, expanded, or reduced by the cognizant agency on a case-by-case basis. For example, the requirements may be reduced for those central services which have little or no impact on Federal awards. Conversely, if a review of a plan indicates that certain additional information is needed, and will likely be needed in future years, it may be routinely requested in future plan submissions. Items marked with an asterisk (*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.
1. General. All proposed plans must be accompanied by the following: An organization chart sufficiently detailed to show operations including the central service activities of the State/local government whether or not they are shown as being supported by central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification (see subsection 4.) that the plan was prepared in accordance with this and other appendices to this part, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.
2. Allocated central services. For each allocated central service, the plan must also include the following: A brief description of the service*, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. shall also be included.
3. Billed services.
   a. General. The information described below shall be provided for all billed central services, including internal service funds, self-insurance funds, and fringe benefit funds.
   b. Internal service funds.
   (1) For each internal service fund or similar activity with an operating budget of $5 million or more, the plan shall include: A brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit’s accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.; a listing of all non-operating transfers (as defined by Generally Accepted Accounting Principles (GAAP)) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this and other appendices of this part, with an explanation of how variances will be handled.
(2) Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users shall be provided. Expenses shall be broken out by object cost categories (e.g., salaries, supplies, etc.).

b. Self-insurance funds. For each self-insurance fund, the plan shall include: The fund balance sheet; a statement of revenue and expenses including a summary of claims and claims paid by agency; a listing of all non-operating transfers into and out of the fund; the type(s) of risk(s) covered by the fund (e.g., automobile liability, workers’ compensation, etc.); an explanation of how the level of fund contributions are determined, including a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis; and, a description of the procedures used to charge or allocate fund contributions to benefitted activities. Reserve levels in excess of claims submitted and adjudicated but not paid, submitted but not adjudicated, and incurred but not submitted must be identified and explained.

d. Fringe benefits. For fringe benefit costs, the plan shall include: A listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies; and procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information shall be provided: the governmental unit’s funding policies, e.g., legislative bills, trust agreements, or State-mandated contribution rules, if different from actuarially determined rates; the pension plan’s costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee’s report; and, a schedule from the activity along with any assumptions used) if the contributions are made on an actuarial basis; and, a description of the procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information shall be provided: the governmental unit’s funding policies, e.g., legislative bills, trust agreements, or State-mandated contribution rules, if different from actuarially determined rates; the pension plan’s costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee’s report; and, a schedule from the activity showing the value of the interest cost allocable to Federal awards on the allocation plan.

4. Required certification. Each central service cost allocation plan will be accompanied by a certification in the following form:

Certificate of Cost Allocation Plan

This is to certify that I have reviewed the cost allocation plan submitted hereunder and to the best of my knowledge and belief:
(1) All costs included in this proposal (identify date) to establish cost allocations or billings for (identify period covered by plan) are allowable in accordance with the requirements of 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87), and the Federal award(s) to which they apply.
Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as direct costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.
1. Declare that the foregoing is true and correct.

Governmental Unit: Signature:
Title:
Date of Execution:
F. Negotiation and Approval of Central Service Plans.
1. All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the Federal cognizant agency on a timely basis. The cognizant agency will review the proposal within six months of receipt of the proposal and either negotiate/approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposal or the changes required to make the proposal acceptable. Once an agreement with the governmental unit has been reached, the agreement will be accepted and used by all Federal agencies, unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special consideration, the funding agency will, prior to the time the plans are negotiated, notify the cognizant agency.
2. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to reopening if the agreement is subsequently found to violate a statute or the information upon which it was based is later found to be materially incomplete or inaccurate. The results of the negotiation shall be made available to all Federal agencies for their use.
3. Negotiated cost allocation plans based on a proposal to have included costs that: Are unallowable as specified by law or regulation, as identified in Appendix B of this part, or by the terms and conditions of Federal awards, or are unallowable because they are clearly not allocable to Federal awards, shall be adjusted, or a refund shall be made at the option of the Federal cognizant agency. These adjustments or refunds are designed to correct the plans and do not constitute a reopening of the negotiation.
G. Other Policies.
1. Billed central service activities. Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss.
2. Working capital reserves. Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.
3. Carry-forward adjustments of allocated central service costs. Allocated central service costs are usually negotiated and approved for a future fiscal year on a “fixed with carry-forward” basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This “carry-forward” procedure applies to all central services whose costs were fixed in the approved plan. However, a carry-forward adjustment is not permitted, for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.
4. Adjustments of billed central services. Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: A cash refund to the Federal Government for the Federal share of the adjustment, credits to the amounts charged to the individual programs, adjustments to future billing rates, or adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds $500,000.
5. Records retention. All central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in the Common Rule.
6. Appeals. If a dispute arises in the negotiation of a plan between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.
7. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.
 Appendix D to Part 225—Public Assistance Cost Allocation Plans

Table of Contents
A. General
B. Definitions
1. State public assistance agency
2. State public assistance agency costs
C. Policy
D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans
E. Review of Implementation of Approved Plans
F. Unallowable Costs

A. General. Federally-financed programs administered by State public assistance agencies are funded predominately by the Department of Health and Human Services (HHS). In support of its stewardship requirements, HHS has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR part 95. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the public assistance cost allocation plan. This appendix extends these requirements to all Federal agencies whose programs are administered by a State public assistance agency. Major federally-financed programs typically administered by State public assistance agencies include: Temporary Assistance to Needy Families (TANF), Medicaid, Food Stamps, Child Support Enforcement, Adoption Assistance and Foster Care, and Social Services Block Grant.

B. Definitions
1. “State public assistance agency” means a State agency administering or supervising the administration of one or more public assistance programs operated by the State as identified in Subpart E of 45 CFR part 95. For the purpose of this appendix, these programs include all programs administered by the State public assistance agency. Major federally-financed programs typically administered by State public assistance agencies include: Temporary Assistance to Needy Families (TANF), Medicaid, Food Stamps, Child Support Enforcement, Adoption Assistance and Foster Care, and Social Services Block Grant.

2. “State public assistance agency costs” means all costs incurred by, or allocable to, the State public assistance agency, except expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.

C. Policy. State public assistance agencies will develop, document and implement, and the Federal Government will review, negotiate, and approve, public assistance cost allocation plans in accordance with Subpart E of 45 CFR part 95. The plan will include all programs administered by the State public assistance agency. Where a letter of approval or disapproval is transmitted to a State public assistance agency in accordance with Subpart E, the letter will apply to all Federal agencies and programs. The remaining sections of this appendix (except for the requirement for certification) summarize the provisions of Subpart E of 45 CFR part 95.

D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans.
1. State public assistance agencies are required to promptly submit amendments to the cost allocation plan to HHS for review and approval.

2. Under the coordination process outlined in subsection E, affected Federal agencies will review all new plans and plan amendments and provide comments, as appropriate, to HHS. The effective date of the plan or plan amendment will be the first day of the quarter following the submission of the plan or amendment, unless another date is specifically approved by HHS. HHS, as the cognizant agency acting on behalf of all affected Federal agencies, will, as necessary, conduct negotiations with the State public assistance agency and will inform the State agency of the action taken on the plan or plan amendment.

E. Review of Implementation of Approved Plans
1. Since public assistance cost allocation plans are of a narrative nature, the review during the plan approval process consists of evaluating the appropriateness of the proposed groupings of costs (cost centers) and the related allocation bases. As such, the Federal Government needs some assurance that the cost allocation plan has been implemented as approved. This is accomplished by reviews by the funding agencies, single audits, or audits conducted by the cognizant audit agency.

2. Where inappropriate charges affecting more than one funding agency are identified, the cognizant HHS cost negotiation office will be advised and will take the lead in resolving the issue(s) as provided for in Subpart E of 45 CFR part 95.

3. If a dispute arises in the negotiation of a plan or from a disallowance involving two or more funding agencies, the dispute shall be resolved in accordance with the appeals procedures set out in 45 CFR part 75.

F. Unallowable Costs

A. General. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

B. Indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and the costs of central governmental services distributed through the central service cost allocation plan (as described in Appendix C to this part) and not otherwise treated as direct costs.

C. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled “A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government.” A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20401.

4. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain State/local-wide central service costs, general administration of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation
or use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc.

5. This appendix does not apply to State public assistance agencies. These agencies should refer instead to Appendix D to this part.

B. Definitions.

1. “Indirect cost rate proposal” means the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.

2. “Indirect cost rate” is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

3. “Indirect cost pool” is the accumulated costs that jointly benefit two or more programs or other cost objectives.

4. “Base” means the accumulated direct costs (normally either total direct salaries and wages, or another base which results in an equitable distribution) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

5. “Predetermined rate” means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit’s fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect cost pools of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.

6. “Fixed rate” means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

7. “Provisional rate” means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a “final” rate.

8. “Final rate” means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.

9. “Base period” for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit’s fiscal year, but in any event, shall be so selected as to avoid inequities in the allocation of costs.

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates.

1. General.

a. Where a governmental unit’s department or agency has only one major function, or where all the major functions benefit from the indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures as described in subsection 2 of this appendix.

b. Where a governmental unit’s department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).

c. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in subsections 2, 3 and 4 of this appendix.

2. Simplified Allocation Methods.

a. In some instances, a single indirect cost rate may be calculated and applied to all costs allocable to the indirect cost pool even though the nature of the activities results in the indirect costs being incurred and applicable to different cost objectives. A single rate may be determined for purposes of cost reimbursement, or, if the nature of the work does not allow the separation of indirect costs, a single rate may be appropriate to avoid duplicating reimbursements.

b. Another approach is to allocate the indirect costs to approximately the same degree, where all its major functions benefit from the common pool shall then be distributed to the benefitted functions as a percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where a governmental unit’s department or agency has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to that department or agency is relatively small.

b. Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

c. The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution.

3. Multiple allocation base method.

a. Where a grantee agency’s indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate cost groupings. Each grouping shall then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.

b. The cost groupings should be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.

c. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitted functions. When an allocation can be made by assignment of a cost directly to the function benefitted, the allocation shall be made in that manner. Where the expenses are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the Federal Government and the governmental unit. In general, any cost element or related factor associated with the governmental unit’s activities is potentially adaptable for use as an allocation base provided that: it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like), and it is common to the benefitted functions during the fiscal period.

4. Special indirect cost rates.

a. In some instances, a single indirect cost rate for all activities of a grantee department or agency or for each major function of the agency may not be appropriate. It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs. The factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources.
employed, the organizational arrangements used, or any combination thereof. When a particular award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that award. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided that the rate differs significantly from the rate which would have been developed under subsections 2. and 3. of this appendix, and the award to which the rate would apply is material in amount.

b. Although 2 CFR part 225 adopts the concept of the full allocation of indirect costs, there are some Federal statutes which restrict the reimbursement of certain indirect costs. Where such restrictions exist, it may be necessary to develop a special rate for the affected award. Where a “restricted rate” is required, the procedure for developing a non-restricted rate is used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.

D. Submission and Documentation of Proposals.

1. Submission of indirect cost rate proposals.
   a. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.
   b. A governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency. The Office of Management and Budget (OMB) will periodically publish lists of governmental units identifying the appropriate Federal cognizant agencies. The cognizant agency (or all governmental units or agencies not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds. In these cases, a governmental unit must develop an indirect cost proposal in accordance with the requirements of 2 CFR 225 and maintain the proposal and related supporting documentation for audit. These governmental units are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub-recipient’s plan.
   c. Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant Federal agency).
   d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit’s fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally-approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

2. Documentation of proposals. The following shall be included with each indirect cost proposal:
   a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b of this appendix. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency and is available to the funding agency.
   b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based.
   c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.
   d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

3. Required certification. Each indirect cost rate proposal shall be accompanied by a certification in the following form:

Certificate of Indirect Costs
This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal (identify date) to establish billing or final indirect costs rates for (identify period covered by rate) are allowable in accordance with the requirements of the Federal award(s) to which they apply and 2 CFR part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87). Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit:
Signature:
Name of Official:
Title:
Date of Execution:

E. Negotiation and Approval of Rates.

1. Indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant Federal agency.

2. The use of predetermined rates, if allowed, is encouraged where the cognizant agency has reasonable assurance based on past experience and reliable projection of the grantees’ agency’s costs, that the rate is not likely to exceed a rate based on actual costs. Long-term agreements utilizing predetermined rates extending over two or more years are encouraged, where appropriate.

3. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to reopening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be available to all Federal agencies for their use.

4. Refunds shall be made if proposals are later found to have included costs that are unallowable as specified by law or regulation, as identified in Appendix B to this part, or by the terms and conditions of Federal awards, or are unallowable because they are clearly not allocable to Federal awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

F. Other Policies.

1. Fringe benefit rates. If overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process. In these cases, a proposed fringe benefit rate computation should accompany the indirect cost proposal. If fringe benefit rates are not used at the grantee agency level (i.e., the agency specifically identifies fringe benefit costs to individual employees), the governmental unit should advise the cognizant agency.

2. Billed services provided by the grantee agency. In some cases, governmental units provide and bill for services similar to those covered by central service cost allocation plans (e.g., computer centers). Where this

**DATES:** Part 230 is effective August 31, 2005. This document republishes the existing OMB Circular A–122, which already is in effect.

**FOR FURTHER INFORMATION CONTACT:** Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202–395–3052 (direct) or 202–395–3993 (main office) and e-mail: Hai_M._Tran@omb.eop.gov.

**SUPPLEMENTARY INFORMATION:** On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106–107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A–122 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements. Our relocation of OMB Circular A–122 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this document relocates in 2 CFR the version of OMB Circular A–122 as revised by the May 10, 2004 notice.

**List of Subjects in 2 CFR Part 230**

Accounting, Grant programs, Grants administration, Non-profit organizations, Reporting and recordkeeping requirements.

Dated: August 8, 2005.

Joshua B. Bolten,
Director.

**Authority and Issuance**

For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, chapter II, by adding a part 230 as set forth below.

**PART 230—COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A–122)**

Sec. 230.5 Purpose.
230.10 Scope.
230.15 Policy.
230.20 Applicability.
230.25 Definitions.
230.30 OMB responsibilities.
230.35 Federal agency responsibilities.
230.40 Effective date of changes.

**OFFICE OF MANAGEMENT AND BUDGET**

2 CFR Part 230

Cost Principles for Non-Profit Organizations (OMB Circular A–122)

**AGENCY:** Office of Management and Budget.

**ACTION:** Relocation of policy guidance to 2 CFR chapter II.

**SUMMARY:** The Office of Management and Budget (OMB) is relocating Circular A–122, “Cost Principles for Non-Profit Organizations,” to Title 2 in the Code of Federal Regulations (CFR), subtitle A, chapter II, part 230. This relocation is part of our broader initiative to create 2 CFR as a single location where the public can find both OMB guidance for grants and agreements and the associated Federal agency implementing regulations. The broader initiative provides a good foundation for streamlining and simplifying the policy framework for grants and agreements, one objective of OMB and Federal agency efforts to implement the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106–107).

**DATES:** Part 230 is effective August 31, 2005. This document republishes the existing OMB Circular A–122, which already is in effect.

**FOR FURTHER INFORMATION CONTACT:** Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202–395–3052 (direct) or 202–395–3993 (main office) and e-mail: Hai_M._Tran@omb.eop.gov.

**SUPPLEMENTARY INFORMATION:** On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106–107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A–122 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements. Our relocation of OMB Circular A–122 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this document relocates in 2 CFR the version of OMB Circular A–122 as revised by the May 10, 2004 notice.

**List of Subjects in 2 CFR Part 230**

Accounting, Grant programs, Grants administration, Non-profit organizations, Reporting and recordkeeping requirements.

Dated: August 8, 2005.

Joshua B. Bolten,
Director.

**Authority and Issuance**

For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, chapter II, by adding a part 230 as set forth below.

**PART 230—COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A–122)**

Sec. 230.5 Purpose.
230.10 Scope.
230.15 Policy.
230.20 Applicability.
230.25 Definitions.
230.30 OMB responsibilities.
230.35 Federal agency responsibilities.
230.40 Effective date of changes.

**OFFICE OF MANAGEMENT AND BUDGET**

2 CFR Part 230

Cost Principles for Non-Profit Organizations (OMB Circular A–122)

**AGENCY:** Office of Management and Budget.

**ACTION:** Relocation of policy guidance to 2 CFR chapter II.

**SUMMARY:** The Office of Management and Budget (OMB) is relocating Circular A–122, “Cost Principles for Non-Profit Organizations,” to Title 2 in the Code of Federal Regulations (CFR), subtitle A, chapter II, part 230. This relocation is part of our broader initiative to create 2 CFR as a single location where the public can find both OMB guidance for grants and agreements and the associated Federal agency implementing regulations. The broader initiative provides a good foundation for streamlining and simplifying the policy framework for grants and agreements, one objective of OMB and Federal agency efforts to implement the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106–107).

**DATES:** Part 230 is effective August 31, 2005. This document republishes the existing OMB Circular A–122, which already is in effect.

**FOR FURTHER INFORMATION CONTACT:** Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202–395–3052 (direct) or 202–395–3993 (main office) and e-mail: Hai_M._Tran@omb.eop.gov.

**SUPPLEMENTARY INFORMATION:** On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106–107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A–122 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements. Our relocation of OMB Circular A–122 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this document relocates in 2 CFR the version of OMB Circular A–122 as revised by the May 10, 2004 notice.

**List of Subjects in 2 CFR Part 230**

Accounting, Grant programs, Grants administration, Non-profit organizations, Reporting and recordkeeping requirements.

Dated: August 8, 2005.

Joshua B. Bolten,
Director.

**Authority and Issuance**

For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, chapter II, by adding a part 230 as set forth below.

**PART 230—COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A–122)**

Sec. 230.5 Purpose.
230.10 Scope.
230.15 Policy.
230.20 Applicability.
230.25 Definitions.
230.30 OMB responsibilities.
230.35 Federal agency responsibilities.
230.40 Effective date of changes.
**EXERCISE: Cost Accounting Terms**

Within your department, grant responsibilities span across the organization. Your supervisor requests that you prepare an overview of the federal cost accounting terms as a part of employee training to ensure that everyone has a basic understanding.

In groups of 3 – 4, define and provide an example of the following terms:

- Allowable
- Allocable
- Reasonable
- Consistently Treated

Post on flip chart and share with group to create uniform decisions.

<table>
<thead>
<tr>
<th>Term</th>
<th>Simplified Definition</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reasonable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistently Treated</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
EXERCISE: Grants and Procurement (Part 1)

In small groups of 3-4:

- What methods of procurement have you used in the **grant application** period?
- What methods of procurement have you used during the **grant implementation** period?
- What were the pros and cons of each?

Report your findings to the class.

<table>
<thead>
<tr>
<th></th>
<th>Procurement Method</th>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐ Grant Application</td>
<td>☐ Grant Implementation</td>
<td></td>
<td></td>
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<tr>
<td>☐ Grant Application</td>
<td>☐ Grant Implementation</td>
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<td>☐ Grant Application</td>
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<tr>
<td>☐ Grant Application</td>
<td>☐ Grant Implementation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
“What Your Peers Have Said (Regarding Their Procurement Practices)"

<table>
<thead>
<tr>
<th>Procurement Method</th>
<th>PRO*</th>
<th>CON*</th>
</tr>
</thead>
<tbody>
<tr>
<td>☒ Grant Application</td>
<td>Good faith effort submitted with application (MBE / WBE)</td>
<td>Action Plan</td>
</tr>
<tr>
<td>☐ Grant Implementation</td>
<td>Proposal includes info on vendor</td>
<td>Saves time</td>
</tr>
<tr>
<td>☒ Grant Implementation</td>
<td>Standard bid process</td>
<td>Variety to choose</td>
</tr>
<tr>
<td>☐ Grant Implementation</td>
<td>Sole Source</td>
<td>Saves time and money</td>
</tr>
</tbody>
</table>

*Responses are based upon experiences of specific local government organizations and their programs.*
EXERCISE: Grants and Procurement (Part 2)

Translating knowledge to action

In your group, based upon your own experience and the session discussion, what type of action would you recommend to minimize the following procurement findings:

<table>
<thead>
<tr>
<th>FINDING</th>
<th>RECOMMENDED ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Required Cost/Price Analysis Lacking</td>
<td></td>
</tr>
<tr>
<td>2. Policies and Procedures Not Evident</td>
<td></td>
</tr>
<tr>
<td>3. Justification/Documentation for Non-Competitive Award Lacking</td>
<td></td>
</tr>
<tr>
<td>4. Required Clauses Missing</td>
<td></td>
</tr>
<tr>
<td>5. No Contract Administration System</td>
<td></td>
</tr>
<tr>
<td>6. Lacking Full and Open Competition</td>
<td></td>
</tr>
<tr>
<td>7. No Record of Procurement History</td>
<td></td>
</tr>
</tbody>
</table>
**EXERCISE: Compliance Best Practices**

In your groups, based upon discussions and your/group experience, identify at least 1 Best Practice for each of the 14 compliance requirements. An example is provided for guidance.

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>Best Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Activities allowed or unallowed</td>
<td>✓  EXAMPLE: Grant agreements and budgets, and administrative/cost requirements and grantor guides are available to administrative staff.</td>
</tr>
<tr>
<td>2. Allowable Costs/Cost Principles</td>
<td>✓  EXAMPLE: Grant agreements and budgets, and administrative/cost requirements and grantor guides are available to administrative staff.</td>
</tr>
<tr>
<td>4. Davis-Bacon Act</td>
<td>✓  EXAMPLE: During a pre-bid conference, emphasize that Federal dollars are being utilized in addition to reference with the bid documents.</td>
</tr>
<tr>
<td>5. Eligibility</td>
<td>✓  EXAMPLE: Ensure completion of beneficiary forms with appropriate support documentation.</td>
</tr>
<tr>
<td>6. Equipment and real property management</td>
<td>✓  EXAMPLE: Affix property tags to equipment.</td>
</tr>
<tr>
<td>7. Matching, level of effort, earmarking</td>
<td>✓  EXAMPLE: Ensure arms-length valuation of costs for donated services and supplies with supporting documentation.</td>
</tr>
</tbody>
</table>
8. Period of availability of federal funds
   EXAMPLE: Set-up automated notification for budget and project periods ending within 90 days.

9. Procurement and suspension and debarment
   EXAMPLE: For ALL grant-funded contracts, conduct contractor reference @ http://www.epis.gov/ (Excluded Parties List System).

10. Program Income
    EXAMPLE: Maintain a list of projects that have the potential to generate program income.

11. Real property acquisition/relocation assistance
    EXAMPLE: During final project close-out, ensure notation is made within master database that grants funds were utilized for project.

12. Reporting
    EXAMPLE: Upon receipt of grant award agreement, set-up automated notification for all progress and financial reports with deadlines, required action and responsible personnel.

13. Subrecipient monitoring
    EXAMPLE: Develop guidance to assist subrecipients in establishing reporting systems as well as accounting and auditing standards.

14. Special tests and provisions
    EXAMPLE: Review grant award agreement and clarify any unclear items with granting agency.

OTHER BEST PRACTICE EXAMPLES:
- Use team approach to training with emphasis on entire grant process from pre-award to post-award.
- Maintain a checklist of circumstances that require grantor prior approval to determine if any of those circumstances exist for the action being reviewed. For example,
  - Extend award period
  - Budget revision
  - Pre-award costs within 90 days of the beginning of the award date
  - Change in project activities that effect scope
  - Change in key personnel
EXERCISE: Audit: Past, Present and Future

In small groups of 3-4 answer the following questions:

- What was the result of your most recent audit?
- What challenges have you faced in complying with the A-133?
- What solutions did you implement?
- What recommendations do you have for others?

Report your results.
**EXERCISE: Top 5 Things I Learned**

In your groups,

1. Identify the 5 most important things that you learned today.
2. Rank 1 – 5.

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