

TEXAS NATURAL RESOURCE CONSERVATION COMMISSION

ALLOWABLE EXPENDITURE GUIDELINES

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Preface

Background

At the Single Audit Managers' Forum (SAMF) committee meeting in October 1997, the SAMF agreed that a committee should be formed to address concerns with standard cost principles for expenditure of tax payer funds included in Uniform Grant Management Standards (UGMS) and Office of Management and Budget Circular A-87 (OMB-87) terms. Specifically, the concerns related to the ability of state agencies to provide clear and consistent guidance to those who receive funding under state contracts and to hold funded entities accountable. Where OMB A-87 and UGMS require "reasonable and necessary" costs, application by funding entities has been inconsistent.

To address this issue and consistent indirect cost plan review, two committees were formed comprising the following state agencies: Texas Natural Resource Conservation Commission, Texas Workforce Commission, Texas Council on Alcohol and Drug Abuse, Texas Department of Transportation, the Governor's Office, the State Auditor's Office, Texas Department of Aging, the Texas State Comptroller of Public Accounts, Texas Department of Mental Health and Mental Retardation, and the Texas Department of Housing and Community Affairs.

Development of Procedures and Guidelines

These state agencies have developed both a process for interagency review and approval of indirect cost plans as well as definitions of A-87's "reasonable and necessary" in an indirect cost environment. However, to further consistency and accountability, funding agencies should encourage all recipients to use these guidelines to the greatest extent possible for a direct cost purpose, as well.

These definitions are detailed in the following "Texas Natural Resource Conservation Commission Allowable Expenditure Guidelines." The guidelines provide a statewide definition of "reasonable and necessary" as used in OMB A-87 and as applied to state funds through the Uniform Grants Management Standards. They are intended to improve state-funded contract compliance by applying clearly defined "reasonable and necessary" criteria consistently among state agencies.

Guidelines for Cost Expenditures

"Reasonable and necessary" use of public funds is fairly well established by state expenditure guidelines. That is to say, that taxpayers have, over time, influenced the standards for use of taxpayer funds that are adhered to by state agencies and by the payment rules established by the Texas State Comptroller of Public Accounts. Therefore, entities who receive taxpayer funds through state agencies should also adhere to similar expenditure standards.

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These guidelines do not preempt any local government expenditure guidelines, for example, that is fairly consistent with state expenditure guidelines. However the goal of this effort is to define as clearly as possible, expectations for the expenditure of state funds. Nor do these guidelines make federal circulars or regulations related to cost allow ability more restrictive.

Applicability

These guidelines should be used for state funds, federal pass-through funds and the expenditures of contractors funded by either state or federal pass-through funds.

ATTACHMENT A - General Principles for Determining Allowable Costs

A. Purpose and Scope

1. Objectives. This attachment establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, contracts, [these principles apply to cost reimbursement as well as other type of payment agreements, "cost reimbursement" has been stricken only to avoid a possible interpretation limiting the types of contracts covered.] and other agreements with the federal and state government (collectively referred to in this Circular 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 and state 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 this Circular.
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 and state awards through the application of sound management practices.
 - (2) Governmental units assume responsibility for administering Federal and state funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal and state 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 and state awards.
 - b. Federal agencies should work with States or localities which wish to test alternative mechanisms for paying costs for administering Federal programs. The Office of Management and Budget (OMB) encourages Federal agencies to test fee-for-service alternatives as a replacement for current cost-reimbursement payment methods in response to the National Performance Review's (NPR) recommendation. The NPR recommended the fee-for-service approach to reduce the burden associated with maintaining systems for charging administrative costs to Federal programs and preparing and approving cost allocation plans. This approach should also increase incentives for administrative efficiencies and improve outcomes.

3. Application.

- a. These principles will be applied by all Federal and state agencies in determining costs incurred by governmental units under Federal and state awards (including subawards) except those with (1) Publicly-financed educational institutions subject to OMB Circular A-21, "Cost Principles for Educational Institutions," and (2) programs administered by publicly-owned hospitals and other providers of medical care that are subject to requirements promulgated by the sponsoring Federal agencies. However, this Circular does apply to all central service and department/agency costs that are allocated or billed to those educational institutions, hospitals, and other providers of medical care or services by other State and local government departments and agencies.
- b. All subawards are subject to those Federal cost principles applicable to the particular organization concerned. Thus, if a subaward is to a governmental unit (other than a college, university, or hospital), this Circular shall apply; if a subaward is to a commercial organization, the cost principles applicable to commercial organizations shall apply; if a subaward is to a college or university, Circular A-21 shall apply; if a subaward is to a hospital, the cost principles used by the Federal awarding agency for awards to hospitals shall apply, subject to the provisions of subsection A.3.a. of this Attachment; if a subaward is to some other non-profit organization, Circular A -122, "Cost Principles for Non-Profit Organizations," shall apply.
- 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 or state 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 or state grantor 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 OMB Circular A-87 requirements will be applied to other Federal or state awards. In all cases, only one set of records needs to be maintained by the governmental unit.

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 approval.

2. "Award" means grants, contracts, [these principles apply to cost reimbursement as well as other types of payment agreements; "cost reimbursement" has been stricken to avoid a possible interpretation limiting the type of contracts covered.] and other agreements between a State, local and Indian tribal government and the Federal or state government.
3. "Awarding agency" means (a) with respect to a grant, cooperative agreement, or contract, [these principles apply to cost reimbursement as well as other types of payment agreements; "cost reimbursement" has been stricken to avoid a possible interpretation limiting the type of contracts covered.], the Federal or state 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 or interpretation 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 or state awarding agency.
6. "Cognizant agency" means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this Circular on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies. [See "state single audit coordinating agency"]
7. "Common Rule" means the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule" originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles. Some federal agencies have guidelines that deviate from the common rule, either by statutory requirement or by special authorization from the Office of Management and Budget. In addition, some state agencies may have variances required by statute that apply to nonprofits and others.
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. Procurement contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 et seq. or by the Uniform Grant Management Standards.

9. "Cost" means an amount as determined on a cash, accrual, or other basis acceptable to the Federal or state awarding 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 are 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. "Documentation" means records that verify grant expenditure amounts and their appropriateness to grant funds. (See C. Basic Guidelines (l)(j) definition of "adequately documented")
13. "Federally-recognized Indian tribal government" means the governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat. 688) certified by the Secretary of the Interior as eligible for the special programs and services provided through the Bureau of Indian Affairs.
14. "Governmental unit" means the entire State, local, political subdivision, or federally recognized Indian tribal government, including any component thereof. Components of governmental units may function independently of the governmental unit in accordance with the term of the award. [Section 783.003(3) of the Texas Government Code specifically excludes school districts and other special purpose districts from UGMS. However, some state agencies have extended UGMS by rule to certain categories of recipients which are not specifically excluded by the statute.]
15. "Grant" means an award of financial assistance, including cooperative agreements, in the form of money, property in lieu of money, or other financial assistance paid or furnished by the state or federal government to carry out a program in accordance with rules, regulations and guidance provided by the grantor agency. The term does not include technical assistance which provide services instead of money, or assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or other direct

appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum award, for which the grantee is not required to account. See the State Single Audit Circular, sec. __210(b), (c) and (d) for guidance in differentiating between grants and procurement. Sec. __210(b) of that circular lists the following characteristics, which may be present in whole or part, of a grantee organization:

The receiving organization:

- (1) Determines who is eligible to receive what state or federal financial assistance;
- (2) Has its performance measured against whether the objectives of the state or federal program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable state or federal program compliance requirements; and
- (5) Uses the state or federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

Section __2.10(d) points out that "There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgement should be used in determining whether an entity is a subrecipient or a vendor."

16. "Grantee department or agency" means the component of a State, local, or federally recognized Indian tribal government which is responsible for the performance or administration of all or some part of a Federal or state award. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.
17. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate as described in Attachment E of the Circular.
18. "Local government" means a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under State law), any other regional or interstate government entity, or any agency or instrumentality of a local government. [Section 783.003(3) of the Texas Government Code specifically excludes

school districts and other special purpose districts from UGMS.]

19. "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 Attachment D of this Circular.
20. "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.
21. "State single audit coordinating agency" means the state agency designated by the governor's office to coordinate single audits of state subrecipients required by the Uniform Grant Management Standards and the State of Texas Single Audit Circular. Generally, the state agency which provides the most funding is designated as the coordinating agency. The state single audit coordinating agency is responsible for assuring satisfactory and timely audit coverage, providing technical assistance and liaison, conducting desk reviews of audit reports, notifying other affected agencies of irregularities, advising a subrecipient if its audit does not meet single audit requirements, coordinating additional audits and following up on audit findings applicable to its own, but not other affected agencies', programs. A state single audit coordinating agency may, but is not required to, review and approve an assigned grantee's indirect cost plan. A detailed listing of the state single audit coordinating agency's responsibilities appears at sec. __400, State of Texas Single Audit Circular.
22. "Subcontractor" means a purveyor of goods or services engaged by a primary contractor to provide goods, services, or both through a procurement relationship generally available to any purchaser for a stated price. Although such goods or services may contribute to carrying out some portion of a scope of services for which grant funds are expended, they constitute procurement, and are not subject to the requirements set forth in these Standards for grantees and subgrantees (see State of Texas Single Audit Circular, sec. __.210 (c) and (d).

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal or state awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal or state awards. **A necessary cost is an expenditure that must be incurred by the grantee or recipient in order to achieve its stated objective.**
 - b. Be allocable to Federal or state awards under the provisions of this Circular.

- 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 or state laws, terms and conditions of the Federal or state 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 or state awards and other activities of the governmental unit.
 - f. Be accorded consistent treatment. A cost may not be assigned to a Federal or state award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal or state award as an indirect cost.
 - g. Except as otherwise provided for in this Circular, 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 or state award in either the current or a prior period, except as specifically provided by Federal or state law or regulation.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented. Documentation required may include, but is not limited to, travel records, time sheets, invoices, contracts, mileage records, billing records, telephone bills and other documentation that verifies the expenditure amount and appropriateness to the grant.
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 predominantly state or 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 or state award.
 - b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal or state 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 state or Federal Government.
- e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal or state 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. [For example, the fair market value of volunteer services contributed to a project need to be included in the allocation. Unallowable costs have to be included to ensure that the grantor agency does not pay a disproportionate share of project costs by having such costs "backed out" prior to allocating costs among funding sources.]
- c. Any cost allocable to a particular Federal or state award or cost objective under the principles provided for in this Circular may not be charged to other Federal or state awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal or state awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.
- d. Where an accumulation of indirect costs will ultimately result in charges to a Federal or state award, a cost allocation plan will be required as described in Attachments C, D, and E.

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 or state awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal or state award either as a cost reduction or cash refund, as appropriate.

- b. In some instances, the amounts received from the state or 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 or state awards. (See Attachment B, item 15, "Depreciation and use allowances," for areas of potential application in the matter of Federal or state financing of activities.)

D. Composition of Cost

1. Total cost. The total cost of Federal and state awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.
2. Classification of costs. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal or state award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal or state awards are provided in the sections that follow.

E. Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.
2. Application. Typical direct costs chargeable to Federal or state awards are:
 - a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
 - b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
 - c. Equipment and other approval capital expenditures.
 - d. Travel expenses incurred specifically to carry out the award.
3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is

consistently applied to all cost objectives.

F. Indirect Costs

1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within an entity or in other agencies providing services to an entity. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.
2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Attachments C, D, and E.
3. Limitation on indirect or administrative costs.
 - a. In addition to restrictions contained in this Circular, 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 or state award may not be shifted to another Federal or state award, unless specifically authorized by Federal or state 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 Attachment C.

H. Required Certifications

Each cost allocation plan or indirect cost rate proposal required by Attachments C and E 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, state single audit coordinating agency or other agency designated by the governor's office 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 Attachments C and E. The certificate must be signed on behalf of the governmental unit by an individual at a level no 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, state single audit coordinating agency or other agency designated by the governor's office, 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 grantee has not submitted a certified proposal for establishing such a plan or rate in accordance with the requirements, the Federal Government, state single audit coordinating agency or other agency designated by the governor's office 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, state single audit coordinating agency or other agency designated by the governor's office 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, state single audit coordinating agency or other agency designated by the governor's office because of failure of the grantee to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

ATTACHMENT B - Selected Items of Cost

Sections 1 through 44 provide principles to be applied in establishing the allow ability 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 or state reimbursement only to the extent of benefits received by Federal or state awards and its conformance with the general policies and principles stated in Attachment A, of the Uniform Grant Management Standards, Cost Principles Section. Failure to mention a particular item of cost in these sections is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

1. Accounting. The cost of establishing and maintaining accounting and other information systems is allowable.
2. Advertising and public relations costs.
 - a. The term "advertising costs" means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.
 - b. The term "public relations" includes community relations and means those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.
 - c. Advertising costs are allowable only when incurred for the recruitment of personnel, the procurement of goods and services, the disposal of surplus materials, and any other specific purposes directly related to the purpose(s) of the program receiving grant assistance necessary to meet the requirements of the Federal or state award. Advertising costs associated with the disposal of surplus materials are not allowable where all disposal costs are reimbursed based on a standard rate as specified in the grants management common rule.

Advertising required by programs may be allowable as direct costs, depending on the program contractual agreement, availability of funds or laws.

- d. Public relations costs are allowable when:
 - (1) Specifically required by the Federal or state award and then only as direct cost;
 - (2) Incurred to communicate with the public and press pertaining to specific activities or accomplishments that result from performance of the Federal or state award and then

only as a direct cost; or

- (3) Necessary to conduct general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of Federal or state contract/grant awards, financial matters, etc.

e. Unallowable advertising and public relations costs include the following:

- (1) All advertising and public relations costs other than as specified in subsections c. and d.;
- (2) Except as otherwise permitted by these cost principles, costs of conventions, meetings, 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; and
 - (c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;
- (3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs; and
- (4) Costs of advertising and public relations designed solely to promote the governmental unit.
- (5) Costs of publicizing or directing attention to any individual official or employee of any agency of the state government (Article IX, Sec. 6, General Appropriations Act 1995).
- (6) Costs associated with influencing the outcome of any election, or the passage or defeat of any legislative measure.

3. Advisory councils. Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal or state awarding agency or as indirect cost where allocable to Federal or state awards. Article 6252-33, VTCS, contains detailed provisions relating to state agency advisory committees. State agencies should review these provisions as well as check appropriation's act riders and general provisions to ensure they meet the statutory requirements and that expenditures for advisory committees are authorized prior to making such expenditures.

4. Alcoholic beverages. Costs of alcoholic beverages are unallowable. **Travel expense must not include any alcoholic beverage costs.**

5. Audit services. The costs of audits are allowable provided that the audits were performed in accordance with the Single Audit Act, as implemented by Circular A-133, "Audits of State and Local Governments" and the State of Texas Single Audit Circular for state funds. Generally, the percentage derived by dividing Federal or state funds expended by total funds expended by the recipient or subrecipient (including program matching funds) during the fiscal year. The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs.

Other audit costs are allowable if specifically approved by the awarding or cognizant agency as a direct cost to an award or included as an indirect cost in a cost allocation plan or rate. **As with any professional services, procurement of audit services must comply with state procurement procedures.**

6. Automatic electronic data processing. The cost of data processing services is allowable (but see section 20, equipment and other capital expenditures, for additional guidelines).

7. Bad debts. Any losses (**whether actual or estimated**) arising from uncollectible accounts and other claims, and related costs (**such as collection and legal costs**), are unallowable unless provided for in Federal or state program award regulations.

8. Bonding costs. Costs of bonding employees and officials are allowable to the extent that such bonding is in accordance with sound business practice **and the rates and premiums are comparable to similar organization in similar circumstances.**

9. Budgeting. Costs incurred for the development, preparation, presentation, and execution of budgets are allowable.

10. Communications. Costs of telephone, mail, messenger, and similar communication services are allowable. **Allocation of communication costs must be based on actual costs or benefit received, properly documented, and consistently applied.**

11. Compensation for personnel services.

- a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal or state awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of the Circular, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the

governmental unit consistently applied to both Federal and non-Federal activities;

(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal or state law, where applicable; and

(3) Is determined and supported as provided in subsection h.

b. Reasonableness. Compensation for employees engaged in work on Federal or state awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities or the governmental unit. In cases where the kinds of employees required for Federal or state 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.

c. Unallowable costs. Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation.

d. Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their 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 compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal or state awards; and, (c) 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 used only for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When 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 26, Insurance and indemnification); pension plan costs (See subsection e.); and other similar benefits 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 or state 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 or state awards and other activities.

e. Pension plan costs. Pension plan costs are allowable for bona fide plans established under state or federal law. 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. **Such policies must meet the test of reasonableness as compared with those of like entities and fall within Internal Revenue Service approved guidelines.**

- (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, state single audit coordinating agency or other agency designated by the governor's office 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 or state government and related Federal or state reimbursement and the governmental unit's contribution to the pension fund.

Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government or state government for the time value of Federal or state 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 and state grantor agencies will receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.
- f. Post-retirement health benefits. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection e. for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay-as-you-go method to an acceptable actuarial cost method in accordance with established mitten policies of the governmental unit.
- (1) For PRHB financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.
 - (2) PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable 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, state single audit coordinating agency or other agency designated by the governor's office 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 or state government and related Federal or state reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current years' PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund.
 - (3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.
 - (4) When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP , and, if no such GAAP period exists, over a period negotiated with the cognizant agency.

- (5) To be allowable in the current year, the PRHB costs must be paid either to:
- (a) An insurer or other benefit provider as current year costs or premiums, or
 - (b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.
- (6) The Federal Government or the state grantor agency shall receive an equitable share of any amounts of previously allowed post-retirement benefit 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 made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer-employee agreement, or (c) written policy **established prior to the separation.**
- (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 or state grantor 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 or state 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 or state award or cost objective, 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 semiannually 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 (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency or state awarding agency. Such documentary support will be required where employees work on:
- (a) More than one Federal or state award,
 - (b) A Federal award and a non-Federal award, including a state award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different location bases,
or
 - (e) An unallowable activity and a direct or indirect cost activity.
- (5) 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 and the supervisory official having first hand knowledge of the work performed by the employee. The employee's signature is not required in the event the employee cannot be reached due to termination of employment, lack of forwarding address, death or other documented reason.
 - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal or state awards but may be used for interim accounting purposes, provided that:
 - (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 monthly activity reports are made. Costs charged to Federal or

state awards to reflect adjustments made as a result of the activity 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 or state awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency, state single audit coordinating agency or other agency designated by the governor's office. 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 Aid to Families with Dependent Children (AFDC), 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 (c);

(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 (a) may be accepted by the cognizant agency or state single audit coordinating agency or other agency designated by the governor's office 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 or state awards than a system which complies with the standards.

(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal or state awards must be supported in the same manner as those claimed as allowable costs under Federal or state 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 Common Rule. The value placed on donated services must be documented to the satisfaction of the awarding agency prior to being accepted as match or for other financial purposes, and must be reasonable.

Donated services shall be considered reasonable to the extent they are consistent with the value placed on similar work or in other activities of the grantee or sub-recipient. In cases where the kinds of services required to carry out a state award are not found in the other activities of the grantee or subrecipient, 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 grantee or subrecipient competes for the kind of services involved. Surveys providing data representative of the services involved will be an acceptable basis for evaluating reasonableness.

- (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.
- (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.

12. Construction. No construction is allowed without the prior written approval of the awarding agency.

13. Contingencies. Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance if their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see subsection 26.c.), pension plan reserves (see subsection 11.e.), post-retirement health and other benefits reserves (see subsection 11.f.) computed using ten acceptable actuarial cost methods, and such other funds as may be required or permitted in writing by the awarding agency.

14. Contributions and donations. Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable.

15. Defense and prosecution of criminal and civil proceedings, and claims.

- a. The following costs are unallowable for contracts covered by 10 U.S.C. 2324(k),

" Allowable costs under defense contracts."

(1) Costs incurred in defense of any civil or criminal fraud proceeding or similar proceeding (including filing of false certification brought by the United States where the contractor is found liable or has pleaded *nolo contendere* to a charge of fraud or similar proceeding including filing of a false certification).

(2) Costs incurred by a contractor in connection with any criminal, civil or administrative proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2324(k).

b. Legal expenses required in the administration of Federal or state programs are allowable. Legal expenses for prosecution of claims against the Federal Government are unallowable.

16. Depreciation and use allowances.

a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.) except as provided in subsection g. Except for enterprise funds and internal service funds that are included as part of a State/local cost allocation plan, classes of assets shall be determined on the same basis used for the government-wide financial statements.

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.

c. 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 or state 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 use allowance method is followed, 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. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent (6 and $\frac{2}{3}$) of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, 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 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 and $\frac{2}{3}$ percent equipment use allowance limitations. **This is equivalent to a 15-year useful life depreciation schedule.**
- e. Where the depreciation method is followed, the period of useful service (useful life) established in each case for usable 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. Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency, state single audit coordinating agency or other agency designated by the governor's office for indirect cost plans or state awarding agency for bilateral financial assistance relationships. 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.
- f. 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 use life. **Adequate depreciation records**

indicating the amount of depreciation taken each period must also be maintained.

In the case of the buildings, the basis shall be the acquisition cost plus the cost of any capital improvements. Capital improvements to the building in years subsequent to the building's original purchase year shall be capitalized and depreciated separately.

The basis, or value for depreciation purposes, shall be the acquisition cost of the equipment. The acquisition cost of the equipment shall not include interest or any other charges that do not impact the cost of the asset. Shipping, installation, setup fees and other costs necessary to get an asset "up and running" may be added to the basis of the asset for allowable depreciation purposes. Capital improvements are material renovations (or improvements) that have a useful life greater than one year and have not been expended or charged to a grant. Capital improvements for assets other than buildings, shall be capitalized and depreciated separately.

The depreciable life of these capital improvements shall be that of the remaining life of the building or the actual life of the improvement, whichever is greater.

It shall be the responsibility of the recipient to verify the cost, depreciable basis, and year of purchase, identification number, and to maintain documentation of the same for monitoring and/or audit verification.

1. Depreciable lives for indirect cost pool purposes

In addition to the requirements established by the Uniform Grant Management Standards stated above, the following guidelines addressing depreciable lives should be considered. These additional guidelines are intended to further consistency among organizations.

→ If only one class of assets (other than real property) is recorded on the financial statements, then the useful life of the assets will be actual average life, but not less than 15 years.

→ If the assets are classified as separate classes on the financial statement, then the useful lives shall be established as actual lives of the assets, but not less than the useful lives indicated on the table below.

Useful Life

Property Includes:

5 Year Property Automobiles, Buses and Trucks, Computers and Peripheral Equipment, and Property used in research and experimentation

15 Year Property

Office Furniture and Fixtures

15 Year Property

Office Equipment (other than computers)

10 Year Property

Water Transportation Equipment
(including boats, barges, tugs, etc.)

Useful Life

Property Includes:

Best Estimate of Useful
Life

Non-residential Real Property, Office
Buildings, and Schools

g. 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.

h. 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.

17. Disbursing service. The cost of disbursing funds by the treasurer or other designated officer is allowable.

18. Employee morale, health, and welfare costs. The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications, and any related expenses incurred in accordance with a governmental unit's policy are allowable. Income generated from any of these activities will be offset against expenses.

a. This costs must be incurred in accordance with the governmental unit's policy and provide the above benefits to all employees. In addition, the objective of this type of costs is to improve working conditions, employer-employee relations, employee moral, employee performance and health.

b. Acceptable recreational facilities are those facilities intended to promote health maintenance. Facilities that require a restricted membership and/or their main objective is to provide social activities among the members, such as social clubs,

country clubs, are not allowable costs.

c. Incidental costs incurred in acceptable recreational facilities such as: beverages, food, clothing, or late charges are not allowed.

d. Cost is equitably apportioned to all activities of the organization. Income generated from any of these activities will be offset against the cost.

19. Entertainment. Costs of entertainment, including amusement, diversion, social activities, and **banquets**, and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable, unless such costs are incurred for components of a program approved by the grantor agency and are directly related to the program's purpose. **In that case, the cost must be charged as direct costs.**

Cost of food, beverage, or food service provided in the subrecipients office is unallowable.

20. Equipment and other capital expenditures:

a. As used in this section the following terms have the meanings as set forth below:

(1) "Capital expenditure" means the cost of the asset including the cost to put it in place. Capital expenditure for equipment 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, capital expenditure 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 the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$1,000.

(3) "Other capital assets" mean buildings, land, and improvements to buildings or land that materially increases their value or useful life.

b. Capital expenditures which are not charged directly to a Federal or state award may be recovered through use allowances or depreciation in buildings, capital improvements, and equipment (see section 16). See also section 38 for allow ability of rental costs for buildings and equipment.

- c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency.

Federal and state awarding agencies are authorized at their option to waive or delegate this approval requirement.

- d. Items of equipment with an acquisition cost of less than \$1,000 (or subsequent threshold established by state law) are considered to be supplies and are allowable as direct costs of Federal pass-through or state awards without specific awarding agency approval.
- e. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by (1) continuing to claim the otherwise allowable use allowances or depreciation charges on the equipment or by (2) amortizing the amount to be written off over a period of years negotiated with the cognizant agency.
- f. When replacing equipment purchased in whole or in part with Federal or state 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. In addition, subject to the prior written approval of the state awarding agency, a capitalization fund may be established to fund the acquisition of replacement or improved equipment.

Recipients must adhere to the state procurement requirements established in the Uniform Grant Management Standards, Grant Administration Section, Subpart C (36) Procurement, during the acquisition process to ensure reasonable cost.

21. 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 or state award or written instructions by the awarding agency authorizing in advance such payments.

22. 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 or state

participation allowed by this Circular 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 Attachment A.

23. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal or state 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 asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

- (2) 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 16 and 20.

- (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 26.d.

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

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

- c. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection a., e.g., land or included in the fair market value used in any adjustment resulting from a relocation of Federal or state awards covered in subsection b. shall be excluded in computing Federal or state award costs.

24. General government expenses.

a. The general costs of government are unallowable (except as provided in section 43).

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 executives of federally-recognized Indian tribal governments;
- (2) Salaries and other expenses of State legislatures, tribal councils, or similar local governmental bodies, such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction;
- (3) Cost of the judiciary branch of a government;
- (4) Cost of prosecutorial activities unless treated as a direct cost to a specific program when authorized by program regulations (however, this does not preclude the allowability of other legal activities of the Attorney General); and
- (5) Other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost in program regulations.

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

25. Idle facilities and idle capacity.

a. As used in this section the following terms have the meanings set forth below:

- (1) "Facilities" means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the governmental unit.
- (2) "Idle facilities" means completely unused facilities that are excess to the governmental unit's current needs.
- (3) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between (a) that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays and (b) the extent to which the facility was actually used to meet demands during the accounting

period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.

- (4) "Cost of idle facilities or idle capacity" means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, and depreciation or use allowances.

b. The costs of idle facilities are unallowable except to the extent that:

- (1) They are necessary to meet fluctuations in workload; or
- (2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have reasonably been foreseen. Under the exception stated in this subsection, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities. **If the recipient anticipates incurring costs of idle facilities for more than six months, the recipient must include this cost in the indirect cost plan showing an explanation of the actions taken to minimize or eliminate the idle facility costs.**

c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal or state awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices.

Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.

26. Insurance and indemnification.

- a. Costs of insurance required or approved and maintained, pursuant to the Federal or state award, are allowable.
- b. Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:
 - (1) Types and extent and cost of coverage are in accordance with the governmental unit's policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government or state property are unallowable except to the extent that the awarding agency has specifically required or approved such costs.

c. Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal or state award or as described below. However, the Federal Government will participate in actual losses of a self insurance fund that are in excess of reserves.

Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable. However, if such losses result in an aggregate loss of \$1,000 or more within a twelve month period, the grantee or subrecipient may be required to reimburse the grantor agency.

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 taken into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) 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 or 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 or state for its share of funds transferred, including earned or imputed interest from the date of transfer.

(6) All transactions must comply with state law.

e. 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 11.f. for post retirement health benefits), are allowable in the year of payment provided (1) the governmental unit follows a consistent costing policy and (2) they are allocated as a general administrative expense to all activities of the governmental unit. The state awarding agency may require that copies of claims paid be submitted for review prior to allowing recovery of costs.

f. 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 or state is obligated to indemnify the governmental unit only to the extent expressly provided for in the Federal or state award, except as provided in subsection d.

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.

i. Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are unallowable if the organization is named as the beneficiary.

27. 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 or state legislation.

b. Financing costs (including interest) paid or incurred on or after the effective date of the Circular associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October

1, 1980 is allowable, subject to the conditions in (1)-(4). Financing costs (including interest) paid or incurred on or after the effective date of this Circular associated with otherwise allowable costs of equipment is allowable, subject to the conditions in (1)-(4).

- (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 or state 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, as appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excusable.
- (4) Governmental units will negotiate the amount of allowable interest whenever cash payments (interest, depreciation, use allowances, and contributions) exceed the governmental unit's cash payments and other contributions attributable to that portion of real property used for Federal or state awards.

28. Lobbying. 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" published at 55 FR 6736 (February 26, 1990), 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 FR 1772 (January 15, 1992), respectively.

a. Costs paid from grant funds associated with the following activities are unallowable:

- 1. Attempts to influence the outcomes of any federal, state, or local election, referendum, legislation, initiative, or similar procedure, through in kind or cash contributions, endowments, publicity, or similar activity. Personnel travel or other costs of employees or board members for this type of activity is also unallowable;**
- 2. Establishing, administrating, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization influencing the outcomes of elections;**

a. Any attempt to influence:

- 1. The introduction of federal or state legislation, or**

2. **The enactment or modification of any pending federal or state legislation through communication with any member/employee or Congress/state legislature, or with any government official/employee in connection with a decision to sign or veto enrolled legislation, by preparing, distributing, or using publicity/propaganda, or by urging members of the general public or any segment thereof to contribute to or to participate in any mass demonstration, march, rally, fund-raising drive, lobbying campaign or letter writing or telephone campaign, or**
3. **Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, coordinating the communication of board members and other organization members with a member/employee of the Congress/state legislature, and analyzing the effects of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.**

29. Maintenance, operations, and repairs. Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they: (1) keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, (2) do not add to the permanent value of property or appreciably prolong its intended life, and (3) 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 16 and 20).

30. Materials and supplies. The cost of materials and supplies is allowable. Purchases should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing, consistently applied. Incoming transportation charges are a proper part of materials and supply costs.

31. Memberships, subscriptions, and professional activities.

- a. Costs of the governmental unit's memberships in business, technical, and professional organizations are allowable. **However, the following limitations shall be followed to ensure the membership costs are consistent with other organizations, are reasonable, and allowable:**

1. **Recipients must select the lowest level of membership available to obtain the necessary benefits. Benefits of the membership as it relates to all or specific programs must be identified and documented.**

2. **Additional charges, such as special assessments and initiatives, must be**

direct billed if program specific or included in indirect costs if they benefit all programs.

3. Costs of membership in organizations substantially engaged in lobbying are unallowable. Except as authorized by law no funds shall be expended in payment of membership dues to an organization on behalf of the recipient or an employee of an recipient if the organization pays all or part of the salary of a person required to register under Chapter 305, Government Code.

- b. Costs of the governmental unit's subscriptions to business, professional and technical periodicals are allowable.
- c. Costs of meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are allowable. **These costs must meet the general tests of allowability and the applicable travel cost regulations .**
- d. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal or state awarding agency.
- e. Costs of membership in organizations substantially engaged in lobbying are unallowable.

32. Motor pools. The costs of a service organization which provides automobiles to user governmental units at a mileage or fixed rate and/or provides vehicle maintenance, inspection, and repair services are allowable.

33. Pre-award costs. Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the propped 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 written approval of the awarding agency. **The approval shall specify the period allowed for incurring costs and the type of costs allowed.**

34. Professional and consultant service costs.

- a. Cost of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill, whether or not officers or employees of the governmental unit, are allowable, subject to section 15 when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. State agencies should see Chapter 2254, Texas Government Code, for detailed provisions related to selection of consultants and professional services.

b. Retainer fees supported by evidence of bona fide services available or rendered are allowable.

In determining the allowability of professional service costs, 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 qualifications of the individual or concern rendering the service;**
- (3) The necessity of contracting for the service considering the organization's capability in the particular areas;**
- (4) The past pattern of such costs; particularly in the years prior to receiving state awards;**
- (5) Whether the services can be performed more economically by direct employment rather than contracting; and**
- (6) To ensure reasonable costs, the contractual and consultant services must be procured following the state procurement guidelines requirements established in the Uniform Grant Management Standards, Grant Administration Section, Subpart C (36) Procurement.**

In addition, the signed contract controls how payments are made. For example, if consultants are budgeted on an hourly rate, documentation of time and effort shall include that rate structure. To simply describe the services or products delivered at the end of the contract period is not sufficient. If the intent is to cost the final product, the budget line-item and the consultant agreement shall be structured to reflect that intent. In addition, costs of retainer fees to the allowable professional service provider must be supported by evidence of bona fide services available or rendered.

Costs of hiring non-employee accountants, consultants, and lawyers to dispute funding agency audits, reviews or monitoring reports shall require approval from the funding program or oversight agency. Such costs shall be considered direct costs and are not allowable as indirect costs.

35. Proposal costs. Costs of preparing proposals for potential Federal or state 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 or state awards with the prior approval of the Federal or state awarding agency.

36. Publication and printing costs. Publication costs, including the costs of printing (including the processes of composition, plate-making, press work, and binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.

37. Rearrangements and alterations. Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable.

Special arrangements and alterations costs incurred specifically for some Federal or state awards are allowable with the prior approval of the Federal or state awarding agency.

38. Reconversion 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 or state awards, less costs related to normal wear and tear, are allowable subject to prior approval of the awarding agency.

39. Rental costs.

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.

Rationale for rental choices must be properly documented.

b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.

c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had the title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where:

(1) One party to the lease is able to control or substantially influence the actions of the other;

(2) Both parties are parts of the same governmental unit; or

(3) The governmental unit creates an authority or similar entity to acquire and lease facilities to the governmental unit and other parties.

d. Rental costs under leases which are required to be treated as capital leases under GAAP

are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. This amount would include expenses such as depreciation or use allowance, maintenance, and insurance. The provisions of Financial Accounting Standards Board Statement 13 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 27.

40. Security deposits. Outlays for security deposits (e.g., rent, utilities, equipment rental) when required to carry out an authorized program are allowable. These outlays will be shown as "assets" until returned to the grantee. Any fund returned to guarantee or sub-recipient shall be treated as program income in the year recovered.

41. Taxes.

- a. Taxes that a government 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 becomes effective for taxes paid during the governmental unit's first fiscal year that begins on or after January 1, 1998, and applies thereafter.
- b. Gasoline taxes, motor vehicle taxes, and other taxes that are in effect user fees for benefits provided to the State or 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.

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

a. In reviewing training cost, the following factors should be considered to ensure cost reasonableness and consistency:

- 1. The training or education costs are consistently incurred pursuant to an established training and education program, and;**
- 2. The course or degree pursued, if applicable, is related to the field in which the employee is now working or may reasonably be expected to work.**

Costs of preparation and maintenance of an instruction program including but not limited to on-the-job, classroom, and apprenticeship training, designed for vocational effectiveness of employees, are allowable. These costs may include training materials, text books, salaries or wages of trainees. They may also include

training materials, salaries of the director of the training and staff when the training program is conducted by the organization; or tuition and fees when the training is an institution not operated by the organization.

Costs of part-time education at an undergraduate or postgraduate college level, including that provided at the organization's own facilities, are allowable only when the course or degree pursued is relative to the field in which the employee is now working or may reasonably be expected to work. These costs are limited to the following:

- 1. Training materials;**
 - 2. Textbooks;**
 - 3. Fees charged by the educational institution such as college, junior college, or universities;**
 - 4. Tuition charged by the educational institution, or in lieu of tuition, instructors' salaries and the related share of indirect costs of the educational institution to the extent that the sum thereof is not in excess of the tuition which would have been paid to the participating educational institution; and**
 - 5. Salaries and related costs of instructors who are employees of the organization;**
 - 6. When obtaining training other than from an educational institution, recipients shall use state procurement rules stated in the Uniform Grant Management Standards, Grant Administration Section, Subpart C (36) Procurement.**
43. Travel costs.
- a. General. Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business. **Funds expended for travel should be used judiciously, and only for the public purpose targeted by the grant or contract.** Such costs may be charged on an actual cost basis, on a per diem mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in non-federally and non-state-sponsored activities unless state law prescribes otherwise. Notwithstanding the provisions of Section 24, travel costs of officials covered by that section, when specifically related to Federal or state awards, are allowable with the prior approval of a grantor agency.

- 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 a result of the governmental unit's policy. **(That is, the grantee's policies)**. In the absence of a written governmental unit policy regarding travel costs, the rates and amounts established under subchapter 1 of Chapter 57 of Title 5, United States Code "Travel and Subsistence Expenses; Mileage Allowances," or by the Administrator of General Services, or the President (or his designee) pursuant to any provisions of such subchapter or as otherwise directed by state law shall be used as guidance for travel under Federal and state awards (41 U.S.C. 420, "Travel Expenses of Government Contractors").

The governmental unit travel policy shall observe restriction similar to the State of Texas Travel Allowance Guide.

State travel regulations set limitations on reimbursements that should be followed when reimbursement is made from state grant or contract funds.

- a. **Lodging and meals within the State of Texas. Reimbursement is to be based on actual expenses but may not exceed the State of Texas Travel Allowance Guide.**
- b. **Lodging and meal when traveling outside of the State of Texas. Reimbursement is to be based on actual expenses but may not exceed the maximum established in the federal General Services Administration travel regulations.**
- c. **Mileage rates are also established by the State of Texas Travel Allowance Guide and the federal General Service Administration travel regulations.**

This same travel provision should be used for board members.

In the event the director or the recipient agency determines on a case-by-case basis that unique circumstances cause lodging or meal expenses to exceed the state or federal maximums, the director may authorize an employee to be reimbursed an amount above the stated limit, but not to exceed actual, documented costs.

- c. Commercial air travel. Airfare costs in excess of the customary standard (coach or equivalent) airfare, are unallowable except when such accommodations would: require circuitous routing, require travel during unreasonable hours, excessively prolong travel, greatly increase the duration of the flight, result in increased cost that would offset, transportation savings, or offer accommodations not reasonably adequate for the medical needs of the traveler. Where a governmental unit can reasonably demonstrate to the awarding agency either the nonavailability of customary standard airfare or Federal

or state government contract airfare for individual trips or, on an overall basis, that it is the governmental unit's practice to make routine use of such airfare, specific determinations of nonavailability will generally not be questioned by the Federal Government or state awarding agency, unless a pattern of avoidance is detected. However, in order for airfare costs in excess of the customary standard commercial airfare to be allowable, e.g., use of first-class airfare, the governmental unit must justify and document on a case-by-case basis the applicable condition(s) set forth above.

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

e. Board Member Activities and Travel Cost.

Board member activities and travel costs are allowable charges to the indirect cost pool if the travel costs are incurred in compliance with the regulation above.

In addition to the travel costs regulation, the following criteria should be applied in determining if the cost is reasonable and necessary:

- 1. The activity or event provides specific benefits, and is necessary for the efficient administration of the programs. The necessary criteria will consider whether the activity is required for the board member to fulfill his or her responsibilities. This must be documented on the supporting documentation, and;**
- 2. The cost of attending the activity or event is reasonable.**

44. Under recovery of costs under Federal or state agreements. Any excess costs over the Federal or state contribution under one award agreement are unallowable under other award agreements.

45. Other Unallowable Costs

a. Goods and services for personal use and housing and living expenses of a recipient's officers are unallowable.

b. Organization-furnished automobiles

- 1. Costs associated with the business use of organization-furnished automobiles are allowable costs if the recipients comply with the following requirements:**

