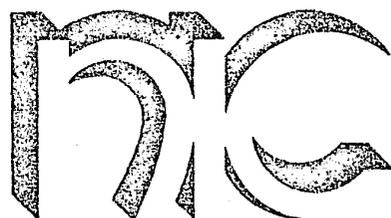


**national institute
of corrections**

Guideline Manual:



**Financial Management
Guidelines for Grantees**

54167

NATIONAL INSTITUTE OF CORRECTIONS
FINANCIAL MANAGEMENT GUIDELINES
FOR GRANTEEES

U.S. DEPARTMENT OF JUSTICE
BUREAU OF PRISONS
320 FIRST STREET, N. W.
WASHINGTON, D. C. 20534
JULY 26, 1976

TABLE OF CONTENTS

	<u>PAGE NO.</u>
CHAPTER 1. FOREWORD	1
CHAPTER 2. GENERAL GRANT ADMINISTRATION	2
PARAGRAPH 1. Grantee Responsibility	2
2. Allowability of Costs	3
3. General Principles of Fiscal Administration	4
4. Conflict of Interest	4
5. Copyrights	5
6. Termination of Grants	5
CHAPTER 3. ACCOUNTING SYSTEMS AND FINANCIAL RECORDS	6
PARAGRAPH 1. General	6
2. Accounting System Standards	6
3. Monitoring Responsibility	8
4. General Account Structure	9
5. Grantee Contributions	9
6. Maintenance and Retention of Records	10
7. Cash Depositories	11
CHAPTER 4. ALLOWABILITY OF COSTS	13
SECTION 1. General	13
PARAGRAPH 1. Authority	13
2. Applicability of Federal Management Circulars	13
3. Basic Principles	14
4. Cost Related Provisions	14
5. Contents of Federal Management Circulars	15
6. Interpretation and Explanation	16
7. Reasonableness of Cost	17
8-9. Reserved	17
SECTION 2. Cost Review Approval and Monitoring	17
PARAGRAPH 10. Prior Cost Approval	17
11. Prior Cost Approval Responsibility	17

	<u>PAGE NO.</u>
SECTION 3. Costs Allowable With Approval	18
PARAGRAPH 12-15. Reserved	18
16. Costs Requiring Approval	18
17. Automatic Data Processing	19
18. Building Space and Related Facilities	20
19. Equipment	21
20. Insurance	22
21. Management Studies	22
22. Preagreement Costs	22
23. Proposal Costs	22
24. Professional Services	22
25. Medical Research	24
26. Foreign Travel	25
27-29. Reserved	
SECTION 4. Costs Generally Allowable	25
PARAGRAPH 30. Commentary	25
31. Compensation for Personal Services	25
32. Conferences	26
33. Project Income	27
34-37. Reserved	27
SECTION 5. Costs Generally Unallowable	28
PARAGRAPH 38. Compensation of Federal Employees	28
39. Travel of Federal Employees	28
40. Bonuses or Commissions	28
41. Reserved	
42. Lobbying	28
43-44. Reserved	29
SECTION 6. General Cost Principles	29
PARAGRAPH 45. Cost Allocation Plans	29
46. Indirect Costs	29
47. Deviations from Submitted Budgets	30
48. Reserved	30
49. Grantee Procurement Standards and Procedures	30
CHAPTER 5. FINANCIAL AND PERFORMANCE REPORTS	37
SECTION 1. Applicability of FMC Forms	37

PARAGRAPH 1. General	37
2. Applicability to NIC	37
3. Forms to Use	37
4. Submission Requirements	37
5. Award Document	38
6. Payment of Grant Funds	38
7. Obligating Federal Funds	39
8. Reserved	39
SECTION 2. Glossary of Accounting Terms	39
PARAGRAPH 9. Accrual Basis	39
10. Accrued Expenditures	39
11. Accrued Income	40
12. Advance by Treasury Check	40
13. Cash Basis	40
14. Disbursements (Gross)	40
15. Disbursements (Net)	40
16. Federal Funds	40
17. Letter of Credit	40
18. Obligations	41
19. Outlays	41
20. Program Income	41
21. Reimbursement by Treasury Check	42
22. Undelivered Orders	42
23. Unobligated Balance	42
24. Unpaid Obligations	42
25-27. Reserved	42
SECTION 3. Detailed Instruction for Financial Reports	42
PARAGRAPH 28. General	42
29. Illustrations	42
30. Attachment H-2	43
31. Attachment H-1	46
32. Attachment H-3	50
33. Grant Progress Report	53
34-38. Reserved	53

APPENDIX

APPENDIX 1 - FMC 74-4: COST PRINCIPLES APPLICABLE TO GRANTS AND CONTRACTS WITH STATE AND LOCAL GOVERNMENTS

APPENDIX 2 - FMC 73-8: COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS

APPENDIX 3 - FMC 74-7: PROPERTY MANAGEMENT STANDARDS

APPENDIX 4 - H-3 REQUEST FOR ADVANCE

APPENDIX 5 - H-1 FINANCIAL STATUS REPORT

APPENDIX 6 - H-2 REPORT OF FEDERAL CASH TRANSACTIONS

APPENDIX 7 - COMPTROLLER GENERAL'S ACCOUNTING PRINCIPLES AND STANDARDS

APPENDIX 8 - CURRENT GENERAL CONDITIONS FOR ALL NIC GRANTEES

CHAPTER 1

FOREWORD

1. PURPOSE. This guideline manual has been prepared as a reference source and guide for program and financial questions arising in administration of grants made in accordance with the provisions of Title V, Part B, Juvenile Justice and Delinquency Prevention Act of 1974, Pub. Law 93-415 (herein after referred to as the "Act") by the National Institute of Corrections. (NIC)
2. SCOPE. The provisions of this guideline manual apply to all Department of Justice, National Institute of Corrections grants. This manual is of concern to all recipients of NIC funds.
3. CONTENT. The coverage of this guideline manual includes requirements and suggestions as to accounting systems and records, allowability of costs, financial reports, and the award and payment of grant funds. No manual could properly address all program and fiscal administration problems and needs reasonably expected to arise in a grant program. Accordingly, the NIC has sought in this manual to relate the Title V program to the Act and the general fiscal policies and procedures applicable to federal aid programs such as reflected in Federal Management Circulars 73-8, 74-4, and 74-7.

CHAPTER 2

GENERAL GRANT ADMINISTRATION

1. GRANTEE RECIPIENT AGENCY SUPERVISION AND MONITORING RESPONSIBILITY.

- a. As the Institutes grantee, the Agency has responsibility for assuring proper administration of grants under the Institute grant program including responsibility for:
 - (1) Proper conduct of the financial affairs of any sub-contractor insofar as they relate to programs or projects for which Institute grant funds have been made available and
 - (2) Default in which the Recipient Agency may be held accountable for improper use of grant funds.
- b. When the grantee is the ultimate recipient of funds the following approvals are authorized.
 - (1) A GRANTEE may transfer, between direct cost object class budget categories, the following:
 - (a) The cumulative amount of 5 percent of the grant budget (Federal) or \$10,000 whichever is greater (for grant budgets in excess of \$100,000) or
 - (b) A cumulative 5 percent change of the grant budget (for grants of \$100,000 or less).
 - (2) The Grantee shall request in writing from the Institute prior approval for:
 - (a) Any cumulative amount of transfers exceeding the limitations set forth in paragraph 1b(1) above.
 - (b) Extensions of projects period beyond the approved duration.
 - (c) Cost items normally requiring grantor approval (see Chapter 4, Section 3)
 - (d) Changes of substance in project activities, design, or research plans as set forth in the approved application.

- (e) Changes in the project director or key professional personnel identified in the approved application.
 - (f) All other deviations from an Institute grant.
2. ALLOWABILITY OF COSTS. The allowability of costs incurred under Institute grants shall be determined in accordance with the general principles of allowability and standards for selected cost items set forth in Federal Management Circulars (FMC) 74-4, 73-8, 74-7, and in this Guideline Manual.
- a. Each individual project supported under the Institute grant program will be subject to a separate grant application to the Institute incorporating a detailed budget of proposed project costs. Grant funds may be expended only for purposes and activities set forth in the approved project plan described in the grantee's application and in accordance with the approved budget set forth in the application or otherwise accompanying the award notice. Funds remaining unexpended at the termination of the grant period must be returned by check payable to the National Institute of Corrections.
 - b. The budget narrative will set forth the details of cost items specified in Chapter 4 as requiring specific prior approval.
 - c. Award of the grant will constitute approval in each instance of specified cost items and therefore "prior approval" items will receive consideration and subsequent approval or disapproval as part of the award process.
 - d. Where this manual requires the specific approval of the Institute or when changes in any of the budget categories exceed the limitations set forth in paragraph 1b(1) of this chapter, these items will receive consideration and subsequent approval or disapproval by the Institute in those "grantor approval" instances.
 - e. Changes among items within one of the budget categories may be made by the grantee without prior approval but will otherwise remain subject to the cost allowability and budget requirements of this manual.
 - f. Limitation of travel and subsistence charges by grantee to levels allowed under Federal travel regulations (or lower at the option of the grantee), including use of less than first class accommodations in air and rail travel and the applicable per diem at the time the expense is incurred. Exceptions to this requirement must have the prior approval of the Institute.

3. General Requirements and Principles of Fiscal Administration.

- a. Financial Records. Each recipient of assistance under this Act shall keep such records as the Institute shall prescribe, including records which fully disclose the amount and disposition by such recipient of the proceeds of such assistance, the total cost of the project or undertaking in connection with which such assistance is given or used, and the amount of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit. These provisions apply to all recipients of assistance, whether by direct grant or contract from the Institute or by sub-contract from primary grantees or contractors to the Institute.
- b. Conditions of Financial Administration. All Title V grants are awarded subject to "conditions of fiscal administration" to which grantees expressly agree and must adhere. Portions of this guideline manual which prescribe or further delineate rules, policies, or requirements of fiscal administration are incorporated by reference in such conditions of fiscal administration.
- c. Special Conditions. In addition, individual grants may include "special conditions" related to financial administration of grants, and where this is the case, these are to be considered a continuing requirement for eligibility and use of grant funds.
 - (1) Authority. In support of the foregoing, the Institute is authorized to establish appropriate fiscal regulations, rules, and procedures such as provided in this Guideline Manual. Federal aid recipients are obliged to submit such financial and other reports as the Institute may reasonably require.
- d. General Conditions. All Title V grants are awarded subject to "General Conditions" to which grantees expressly agree and must adhere. Appendix 8 contains these general conditions.

4. CONFLICT OF INTEREST

- a. In the use of Institute grant funds officials or employees of State or local units of government and non-government grantees shall avoid any action which might result in, or create the appearance of:

- (1) Using his official position for private gain,
- (2) Giving preferential treatment to any person,
- (3) Losing complete independence or impartiality,
- (4) Making an official decision outside official channels,
or,
- (5) Affecting adversely the confidence of the public in
the integrity of the Government or the program.

5. COPYRIGHTS

Where grant projects produce original books, manuals, films, or other copyrightable material, the grantee may copyright such, but the Institute reserves a royalty-free, non-exclusive and irrevocable license to reproduce, publish, translate, or otherwise use, and to authorize others to publish and use, such materials. Where such license is exercised, appropriate acknowledgement of the grantee's contribution will be made.

6. TERMINATION OF GRANTS

FMC 74-7 attachment L prescribes procedures for closeout of grants to state and local governments which are hereby incorporated by reference as applicable to all Institute grant recipients.

CHAPTER 3

ACCOUNTING SYSTEMS AND FINANCIAL RECORDS

1. GENERAL

a. Purpose. This chapter offers guidance as to the establishment and maintenance suitable accounting systems for grantees, and sub-contractors executing Title V programs. Grantees are free to follow their established financial procedures so long as these provide the means through which compliance with fiscal requirements of Title V grants can be achieved and verified. See Appendix 7 for accounting principles and standards issued by the Comptroller General of the United States.

b. Requirements

(1) It is essential that the Grantees grant accounting system provide effective financial controls. Grantees should recognize that audits of grants will be made and unless commonly accepted standards of financial responsibility have been followed, these audits may result in the disallowance of expenditures for which the grantee will be liable. The grantee may be requested to return the funds to the Federal agency.

(2) To the extent that minimum accounting system requirements are set forth in subsequent text, due consideration was given in their formulation to the financial and reporting requirements of the Act as well as other reporting and statutory requirements of the Congress, the Treasury Department, the Office of Management and Budget, General Services Administration, and the General Accounting Office. Continuing review and revision of these requirements will be undertaken as developing experience reveals the need for improvement or the potential for greater effectiveness.

2. ACCOUNTING SYSTEM STANDARDS. The financial responsibility of grantees and their contractors is parallel to that of the Institute. Each must govern its affairs so that it may properly discharge the public trust which accompanies the authority to expend public funds. The implementing Grantee Agency must establish and maintain fiscal control and accounting procedures which assure that Federal funds available for the conduct of the grant programs and projects are disbursed properly.

- a. Criteria. Adequate accounting systems should meet the following criteria:
- (1) Accounting records should provide information needed to adequately identify the receipt of funds under each grant awarded and the expenditure of funds for each grant.
 - (2) Entries in accounting records should refer to subsidiary records and/or documentation which support the entry and which can be readily located.
 - (3) The accounting system should provide accurate and current financial reporting information.
 - (4) The accounting system should be integrated with an adequate system of internal controls to safeguard the funds and assets covered, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.
- b. Management Information. In addition to the control and documentation of financial activities, the financial system can be an important instrument for managerial decision. Proper use of financial information will assist in determining what activities merit priority or emphasis, where efficiency can be improved, and how resources can best be utilized.
- c. Objectives. The objectives of any accounting system are to:
- (1) Provide management with financial data to assist in the planning, control, measurement, and evaluation required for the efficient and economical operation of the organization and its programs;
 - (2) Provide management control of funds and other assets so as to insure that the expenditure of funds and use of other property is in conformance with applicable laws and regulations;
 - (3) Insure, by means of cost and property control and prudent management, that optimal use is made of all resources;
 - (4) Meet any requirements for reporting periodically on financial operations; and,

- (5) To classify and present projected and historical costs as required for budgeting purposes.
3. SUPERVISION AND MONITORING RESPONSIBILITY. The Grantee has primary responsibility for assuring proper administration of funds awarded under Title V. This includes responsibility for the proper conduct of the financial affairs of any sub-contractor insofar as they relate to programs or projects for which Title V funds have been made available -- and for default in which the Grantee may be held accountable for improper use of grant funds.
- a. Delegation of Responsibility. Grantees may delegate to another organization a portion of the responsibility for carrying out a program or project component. In such cases, the agreement between the grantee and its sub-contractor should indicate the agreed scope of work to be performed by the latter.
- b. Grantee Responsibilities for Accounting by Delegate Agencies. Where the conduct of a program or program component is so delegated, the grantee is, nevertheless, responsible for performance of all aspects of the program, including proper accounting for expenditure of funds by the delegate agencies. These responsibilities also include:
- (1) Review of Sub-Contractor Financial Operations. The grantee should be familiar with and should periodically monitor subgrantee financial operations, records, systems, and procedures. The grantee should see, among other things, that adequate records are maintained in current condition.
- (2) Recording Sub-Contractor Financial Activities. The sub-contractor agreement or other contract obligation, as well as advances and financial activities, should be recorded upon the books of the grantee in summary form. Sub-Contractor expenditures should be recorded on the books of the grantee, or evidenced by report forms duly filed by sub-contractor, according to the major object categories used for Institute reporting and budgeting. Non-federal contributions applied to programs or projects by sub-contractors must likewise be recorded as should any program income resulting from program operations.
- (3) Budgeting and Budget Review of Sub-Contractor Financial Operations. The grantee should, in most cases, see that each sub-contractor prepares an adequate budget,

on which its contractual commitment will be based. The detail of each sub-contractor project budget must be maintained on file by the grantee.

- (4) Non-Federal Contributions. In some cases, the grantee agency may furnish negotiated non-federal matching shares. In those instances, the Institute shall provide guidance on an individual basis on the rules, requirements, limitations, and regulations pertinent to non-federal contributions.
- (5) Reporting Irregularities. Grantees are responsible for reporting promptly to the Institute the nature and circumstances surrounding any financial irregularities discovered. Failure to report known irregularities may result in suspension of the governing grant or other remedial action.

4. ELEMENTS OF ACCOUNTING SYSTEMS - GENERAL ACCOUNT STRUCTURE

- a. General System Elements. Accounting systems involve a series of operations relating to the classifying, recording, summarizing, and reporting of transactions performed. The elements of the system should consist of an account structure, the accounting records, source documents, financial reports, and the procedures that prescribe the manner in which these operations are performed.
- b. Minimum Accounting Requirements. This Guideline Manual seeks to identify minimum accounting requirements for grants awarded under Title V of the Act. Compliance with these requirements will assist implementing Grantees and their sub-contractor in meeting financial report requirements and prepare internal financial reports to satisfy program information needs. At the outset, an account structure adequate to the demands of the Act and grantee fiscal responsibilities must be developed and utilized.

5. ACCOUNTING FOR GRANTEE CONTRIBUTIONS AND MATCHING SHARES.

- a. Total Cost Budgeting and Accounting. Accounting for grants under the Act should be structured and executed on a "total program cost" basis. That is, total program costs, including Federal grant funds, matching shares, and any other fund sources (other Federal grants, private foundation grants, etc.) should be the foundation for fiscal administration and accounting for Title V grants. The value, appropriateness and allowability of costs funded with Grantee contributions

is determined in the same manner and under the same principles as the allowability of costs funded from the Federal grant. The Grantee shall separately record such grantee contributions.

- b. RECORDS OF CONTRIBUTIONS. Where the requirement for Grantee contributions is indicated, records must be maintained which show the amount and timing of contributions. These records are subject to audit and exceptions in the same manner and to the same extent as books and records dealing with the receipt and disposition of Federal grant funds.

6. MAINTENANCE AND RETENTION OF RECORDS.

- a. Retention Period. Records of the grantee and its sub-contractors, including books of original entry, source documents supporting accounting transactions, the general ledger, subsidiary ledgers, personnel and payroll records, cancelled checks, and related documents and records must be retained for a period of three years. The retention period starts from the date of the submission of the final expenditure report or, for grants which are renewed annually from the date of the submission of the annual expenditure report. The three-year retention period is qualified as follows:
- (1) Records for nonexpendable property acquired with Federal grant funds shall be retained for three years after its final disposition.
 - (2) When grant records are transferred to or maintained by the Federal grantor agency, the three-year retention requirement is not applicable to the grantee.
 - (3) Records must be retained beyond the three-year period if an audit is in progress and/or the findings of a completed audit have not been resolved satisfactorily. If an audit is completed and the findings are resolved prior to the three-year period, records will be retained until the end of the three-year period. If the three-year period has passed and no audit has been initiated, the records will be retained in accordance with other State and local law. If State or local law requires a longer period of record retention, access to the records will be allowed for purposes of a Federal audit.
 - (4) The Institute may request transfer of certain records to its custody from implementing Grantees when it determines in conjunction with the State that the records possess long-term retention value.

- (5) Unless otherwise required by law, no implementing Grantee will place restrictions which would limit public access to the records except when records must remain confidential for the following reasons:
 - (a) Prevent a clear unwarranted invasion of personal privacy.
 - (b) Specifically required by Executive Order or statute to be kept secret.
 - (c) Commercial or financial information obtained from a person or a firm on a privileged or confidential basis.
 - (d) Any other information which can be exploited for the purpose of illegal gains.
 - b. Coverage. Source documents would, for Institute grant administration purposes, also include copies of all sub-contracts and sub-contract awards, applications and required sub-contract fiscal reports. Adequate time and attendance accounting for full-time, part-time and intermittent employees, and for individual consultants whose compensation is charged to grant programs and sub-contract projects is required. Grantees shall insure maintenance of supporting records of grant expenditures in sufficient detail and itemization to show the exact nature of each expenditure. Such records should clearly indicate to which major budget category and sub-items within the category an expenditure is chargeable. Each expenditure shall be referenced to a supporting purchase order, contract, voucher, invoice, or bill properly approved.
 - c. Maintenance. Records shall be maintained in an orderly manner and shall be available, for audit purposes, to the Institute or the Comptroller General of the United States or their authorized representatives. Grantees are expected to see that records of different Federal fiscal periods are separately identifiable and so maintained that information desired can be readily located. Grantees are also obliged to protect records adequately against fire or other damage. When records are stored away from the grantee's principal office, a written index of the location of records stored should be on hand and ready access should be assured.
7. CASH DEPOSITORIES. Recipients of Federal funds shall deposit these funds in a bank with FDIC coverage and must be collaterally secure, as provided for in 12 U.S.C. 265. Although the Institute does not require physical segregation or the establishment of any eligibility requirement for cash depositories, it does recommend the following:

- a. A separate bank account may be used.
- b. Consistent with the national goal of expanding the opportunities for minority business enterprises, grantees are encouraged to use minority banks.

CHAPTER 4

ALLOWABILITY OF COSTS

Section 1. General

1. AUTHORITY

This chapter deals with the rules and principles applicable in determining costs properly chargeable to grants and contracts awarded by the National Institute of Corrections under Title V of the Act. It is based on the standardized cost allocation and allowability principles prescribed for all Federal grant-in-aid programs as contained in Federal Management Circulars (FMC) issued by the General Services Administration. To this extent, the principal FMC are described below.

2. APPLICABILITY OF FEDERAL MANAGEMENT CIRCULARS (FMC)

FMC 73-8 "Cost principles for educational institutions" forms the basis for determining costs related to educational institutions while FMC 74-4 "Cost principles applicable to grants and contracts with state and local governments" forms the basis for determining costs related to federally supported projects performed by state and local governments. These circulars provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between grantees and the federal government. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.

The National Institute of Corrections has determined that allowable costs associated with federally supported projects conducted by public and private agencies, other organizations and individuals shall be determined in accordance with the principles contained in FMC 74-4 until such time as the General Services Administration promulgates Federal Management Circulars for these areas.

To the extent of the applicability of Federal Management Circular 74-7 "Uniform Administrative requirements for grants-in-aid...", many of those pertinent positions have been incorporated throughout this Guideline Manual and where circumstances may warrant, the Institute can provide individual guidance for grantees where potential applicable provisions of FMC 74-7 have not been specifically incorporated herein.

Accordingly, these directives are to be regarded as applicable to all grant and subgrant recipients receiving Title V funds and will guide the Institutes administration, audit, and cost determinations with respect to such funds and their use by grantees.

3. BASIC PRINCIPLES. The policy guides and general allocability and allowability principles set forth in the FMC's adequately define the Institutes policies and assumptions concerning cost determinations in connection with Title V grants and the programs and projects to which they relate. The basic focus in determining or examining allowability of costs within the FMC framework will be the extent to which cost items contribute to the purposes and execution of the grant program and are so applied. It will be assumed:
 - a. That Grantees will each bear their appropriate share of allocated costs as allowable not only under the FMC but also under State and local law or regulation.
 - b. That grantees and their sub-contractors will accept responsibility for expending and accounting for Institute funds in a manner consistent with:
 - (1) Pertinent agreements and program objectives, and
 - (2) Policies and procedures that apply uniformly both to federally assisted and other activities of the grantees.
 - c. That Grantees and their sub-contractors have the primary responsibility for employing whatever form of organization and management techniques necessary to assure proper and efficient fiscal administration and cost allocation, including accounting, budgeting, reporting, auditing and other review controls.
 - d. That costs pertinent to carrying out unrelated functions of government (i.e., unrelated to correctional programs receiving grant support) are not allowable and there can be no recognition of "profit" or other increment above true cost to State or local government in executing Title V grants.
4. COST RELATED PROVISIONS OF THE ACT. It should be noted that FMC's do not identify the circumstances or dictate the extent of Federal and State or local participation in the financing of particular grants programs. Matching requirements of various Federal programs are unaffected by the Circulars and where

authorizing legislation contains explicit restrictions on the reimbursement of particular costs, such restrictions are also unaffected. The Institutes initial legislation does not provide for matching requirements; accordingly, grantees will receive 100% funding. Therefore, it is the determination of the Institute that, in order to maximize the availability of federal funds, careful scrutiny of costs budgeted in applications will be of paramount significance.

5. CONTENTS OF FEDERAL MANAGEMENT CIRCULARS. The pertinent text of these Circulars will be found in this manual.
 - a. Federal Management Circular 74-4, Attachment A deals with general principles for determining costs (Appendix 1). It elaborates on the Circular's purpose and scope and:
 - (1) Provides certain definitions;
 - (2) Sets forth basic guidelines;
 - (3) Treats the subjects of composition of cost, direct costs, and indirect costs (including limitations on the latter);
 - (4) Deals with costs incurred by agencies other than the grantee and costs incurred by the grantee for others;
 - (5) States the general requirements and approvals related to cost allocation plans for distribution of central support or other joint costs among benefited grant programs.
 - b. Attachment B of FMC 74-4 deals with standards for selected items of cost. Costs, as discussed in this attachment, are divided into three categories:
 - (1) Costs which are generally allowable.
 - (2) Costs which are allowable with grantor agency approval; and,
 - (3) Costs which are not allowable.
 - c. Federal Management Circular 73-8 Attachments. The principles and related policy guides are set forth in the attachments. Although for the convenience of educational institutes the FMC 73-8 is reproduced herein, the subsequent cost policy analysis in this manual pertains to the principals contained in FMC 74-4. Where circumstances dictate, the Institute

shall provide individual guidance to educational institutions in interpretations affecting FMC 73-8 (Appendix 2).

- (1) Attachment A - Principles for determining costs applicable to research and development under grants and contracts with educational institutions
- (2) Attachment B - Principles for determining costs applicable to training and other educational services under grants and contracts with educational institutions
- (3) Attachment C - Cost accounting standards issued by the Cost Accounting Standards Board under the authority of Public Law 91-379 (50 U.S.C. App. 2168)

6. INTERPRETATION AND EXPLANATION.

- a. Costs Allowable with Institute Approval . Subsequent discussion will deal primarily with definition of Institute policies and rules concerning those costs to which prior Institute approval is contemplated. Here guidance is needed by grantees to facilitate grant fund administration, define precisely when prior approval is required and how requests must be made and minimize the necessity for individual approval requests through blanket approval policies applicable to such costs.
- b. Costs Generally Allowable and Unallowable. In addition to costs outlined in this manual, limited interpretation and expansion of Circular 74-4 text with respect to overall cost allocation or composition principles, costs generally allowable and costs generally unallowable has been provided in those areas where questions have been frequently raised or ambiguities identified by grantees which prevent them from proceeding with assurance as to correct adherence to Circular 74-4 or proper interpretation of Circular 74-4 requirements.
- c. Future Modification or Adjustment. Where no amplification of FMC 74-4 text is deemed necessary, no commentary has been offered. It is only with reference to questions or subjects which call for further explanation or policy definition that additional guidance has been provided. In such cases, the Institutes rules and policies will be subject to modification or adjustment to conform to future issuances or instructions applicable to all Federal grant-in-aid programs which seek to further elaborate and standardize the cost allowability principles of the circulars.

7. REASONABLENESS OF COST. These definitions of reasonable are added as an amplification of FMC 74-4. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by an ordinarily prudent person in the conduct of business or Government service. The question of reasonableness of specific costs must be scrutinized with particular care in connection with procurement which may not be subject to effective competition. What is reasonable depends upon a variety of considerations and circumstances involving both the nature and amount of the cost in question. In determining the 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 conduct of the contractor's business or the performance of the contract or necessary for Government service or the grant;
 - b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and State laws and regulations, and contract and grant terms and specifications;
 - c. The action that a prudent manager would take in the circumstances considering his responsibilities to his employees, the Government and the public at large; and
 - d. Significant deviations from the established practices of the grantee or contractor which may unjustifiably increase the grant or contract costs.

8-9. RESERVED

SECTION 2. COST REVIEW, APPROVAL, AND MONITORING

10. PRIOR COST APPROVAL

- a. Requirement. Written approval of grant costs will be required for cost items listed in Section C, Attachment B of Federal Management Circular 74-4 under the heading "Costs Allowable With Approval of Grantor Agency" and for cost determinations specified in other sections of the Circular as requiring explicit grantor approval except as limited or modified by subsequent paragraphs of this section of the Guideline Manual.
- b. Form. Requests offering adequate justification or description to permit review of allowability must be in writing either:

- (1) Through inclusion in the budget or other component of a grant or subgrant application, or,
- (2) As a separate letter or written request.

11. PRIOR COST APPROVAL RESPONSIBILITIES

- a. Administrative Authorities. Administration of Federal Management Circulars 74-4, 73-8, and 74-7, principles and standards will be vested in one authority:

- (1) The National Institute of Corrections. Review of those costs requiring grantor approval reserved for the Institute are enumerated in this chapter and written approvals will be requested from and issued by the Institute.

SECTION 3: COSTS ALLOWABLE WITH APPROVAL OF GRANTOR AGENCY

12-15. RESERVED

16. GENERAL - COSTS REQUIRING APPROVAL

- a. Cost categories. Several types of grant costs (eight basic categories) requiring prior Federal approval are listed in Section C of Attachment B, FMC 74-4. Two additional types of costs have been added by the Institute. Section 3 addresses the ten specific types of grant costs requiring prior approval (see paragraphs 17 through 26). It was not the intention of the Institute to require "grantor agency approval" of all charges falling within the listed cost categories but only for those aspects or elements which specifically require grantor agency approval. Thus, for example, although automatic data processing costs are discussed generally in this section and are deemed allowable, it is only the purchase or other acquisition of automatic data processing equipment that requires "specific prior approval of the grantor Federal agency."
- b. Expenditure Levels. The establishment of dollar expenditure levels in this section below which individual grantor approval is not required is intended to furnish blanket approval for modest grant-related outlays within the pertinent cost category. It should not be taken to imply that costs above such levels will not receive "grantor approval" upon submission of appropriate data and justification.

17. AUTOMATIC DATA PROCESSING.a. Requirement

- (1) Prior approval is required only for the acquisition of equipment, whether by outright purchase, lease-purchase agreement or other method of purchase.

b. Definition. The following is the definition of automatic data processing equipment as used in FMC 74-4: General purpose, commercially available ADP components and the equipment created from them, regardless of use, size, capacity or price, which are designed to be applied to the solution or processing of a variety of problems or applications. This definition includes:

- (1) Digital, analog or hybrid computer equipment;
- (2) Auxiliary or accessorial equipment such as data communications terminals, source data automation recording equipment (e.g., optical character recognition equipment, and other data acquisition devices), and data output equipment (e.g., digital plotters, computer output microfilms) etc., to be used in support of digital, analog, or hybrid computer equipment; whether cable connected, wire connected, radio connected or self-standing, and whether selected or acquired with a computer or separately;
- (3) PCAM (Punch Card Accounting Machines) whether used in conjunction with or independently of digital, analog, or hybrid computers.

c. Qualifications and Exclusions

- (1) Analog computers are covered only when computers of this type are being used as equipment peripheral to a digital computer.
- (2) Items of ADP equipment that are (a) physically incorporated in a weapon, or (b) manufactured under a developmental contract, are excluded from the above definition.
- (3) Accessories such as tape cleaners, tape testers, magnetic tapes, paper tapes, disc packs and the like are excluded.

18. BUILDING SPACE AND RELATED FACILITIES.

- a. Rental Cost. Prior written approval is not required where:
- (1) The total rental space requirement, including space for file; conference, mail, supply, reproduction, and storage rooms, is not in excess of 150 square feet per employee (space required for intermittent and/or part-time employees may be included).
 - (2) The rental charge is certified in writing by the grantee or subgrantee (document on file with grant fiscal records) to be consistent with the prevailing rates in the area and not in excess of \$7 annually per square foot.
- b. Maintenance and Operation. Prior approval is not required where maintenance and operation expenses as defined in FMC 74-4 when added to any space rental costs, are estimated not to exceed an aggregate total of \$10 annually per square foot of space occupied.
- c. Rearrangements and Alterations. Prior approval is not required from the Institute when the total estimated outlay for rearrangement and alteration costs under any grant or subgrant is less than \$1,500. For costs in excess of such amount, justification must normally show that:
- (1) The building involved is in reasonably good condition with a life expectancy of five or more years,
 - (2) The costs are true rearrangement or renovation costs as distinguished from new construction or expansion of an existing building.
 - (3) Total costs do not exceed 25 percent of the current value of the building.
 - (4) Same limit other than above.
- d. Depreciation and Use Allowances on Publicly Owned Buildings. Charges in conformity with the principles and rules on "depreciation and use allowances" set forth in section B.11 of Attachment B, FMC 74-4 are allowable. Prior Institute approval is required only when depreciation or use allowances are to be charged, for appropriate reason, on temporarily idle or excess facilities.

- e. Occupancy Under Rental Purchase or Lease with Option to Purchase Agreement. Prior approval of costs of occupancy under arrangements of this type for grantees must be provided by the Institute.
19. EQUIPMENT AND OTHER CAPITAL EXPENDITURES. (See paragraph 49 of this chapter for Grantee Procurement Standards and Procedures). Title V grant funds may be expended for equipment. FMC 74-4 provides that the cost of equipment and other capital assets, including repairs which materially increase their useful life, is allowable "when such procurement is specifically approved by the Federal grantor agency." Institute approval requirements will be as follows:
- a. Inclusion of equipment in the grant application budget with sufficient detail to indicate the types, quantity and estimated costs of items desired or,
 - b. Submission of a separate request for approval providing similar information.
 - c. Cost Allowability Principles. In reviewing equipment acquisition budgets and proposals, the following cost allowability principles should be kept in mind:
 - (1) Equipment required for the conduct of Title V grant projects should be budgeted for and purchased only after determination by responsible grantee officials that no other equipment owned by the grantee is available for the effort.
 - (2) Grant funds should not be used to provide reimbursement for the purchase price of equipment already owned by the grantee or sub-contractor other than through permissible depreciation or use allowances actually charged to the grantee. This would not apply to equipment owned by a State or local government central purchasing department and held in stock available for issuance and sale to the grantee or other grantee government offices.
 - (3) If equipment purchased is used commonly for two or more Federal grant programs or for a Federal grant program and a non-federally grantee activity, appropriate proration of cost to each activity involved must be effected.

- (4) Allowability of the costs of equipment purchased with Federal funds will be reduced to the extent of resale or recovery value where use of such equipment for carrying out the purposes of the grant project is discontinued (during the life of the project) or use for law enforcement purposes is discontinued (after completion of the project) unless all credits relating to such contingencies as set forth in section C.3 of FMC 74-4 ("Applicable Credits") are applied to offset or reduce grant charges. This requirement should be made a specific condition of all grants which include Federal funds for the purchase of equipment.
20. INSURANCE AND INDEMNIFICATION. As indicated in FMC 74-4, inclusion of insurance or indemnification costs in the approved grant budget or award is normally a precondition for allowability of such costs. However, separate requests for approval may also be made. Also, prior approval of insurance costs incurred in accordance with standard State or local government policy in the conduct of its activities (i.e., both federally and non-federally related) and consistent with sound business practice, such as bonding of employees or liability insurance for staff, is not required.
21. MANAGEMENT STUDIES. Prior approval of costs of management studies as defined in FMC 74-4 is required only if the studies are to be performed by agencies other than the grantee.
22. PREAGREEMENT COSTS. Prior approval is required for "preagreement costs" either by inclusion in the grant application or by separate submission and approval prior to formal approval by the Institute of the grant application.
23. PROPOSAL COSTS. Prior approval by the Institute is required for proposal costs, either by inclusion in the grant or by separate submission.
24. PROFESSIONAL (INCLUDING CONTRACT AND CONSULTANT) SERVICES.
(See paragraph 49 of this chapter for Grantee Procurement Standards and Procedures.)
- a. The requirements of professional services with respect to arrangements with individuals, other government units and non-government organizations are as follows:
- (1) Arrangements with INDIVIDUALS shall insure that:
- (a) It is Institute policy that as a general rule the maximum daily rate for consultants and specialists

will not exceed \$135 per day including fringe benefits. Under unusual circumstances up to \$200 per day may be paid to individual consultants. Any amounts exceeding \$135 per day must have prior Institute approval. This rate is based upon an eight-hour day. It is recognized an eight-hour day may include preparation, evaluation and travel time in addition to the actual performance.

- (b) The individual is not an employee of the executive branch of State government,
 - (c) Dual compensation is not involved (i.e., the individual may not receive compensation from his regular employer and the retaining grantee for work performed during a single period of time even though the services performed benefit both),
 - (d) The compensation is reasonable and consistent with that paid for similar work in other activities of the State or local government,
 - (e) The retainer arrangement is formal and proper and otherwise consistent with the grantee's usual practices for obtaining such services,
 - (f) Time and/or services for which payment will be made and rates of compensation will be supported by adequate documentation, and,
 - (g) Transportation and subsistence costs for travel performed are at an identified rate consistent with the Federal Government general travel reimbursement practices.
- (2) Arrangements with OTHER GOVERNMENT UNITS shall insure that the work or services for which reimbursement is claimed must be directly and exclusively devoted to grant purposes and charged at rates not in excess of actual cost to the "contractor" government agency.
- (3) Arrangements with NON-GOVERNMENT ORGANIZATIONS shall insure that:
- (a) The arrangement is formal and proper and consistent with the usual practice and policies of the grantee in contracting for or otherwise obtaining services of the type required:

- (b) Indirect costs or overhead charges in cost-type arrangements are based on an audited or negotiated rate previously approved by a State or Federal agency or are based on an indirect cost submission, reflecting actual cost experience during the contractor's last annual or other recently completed fiscal period; and,
 - (c) The fixed fee or profit allowance in cost-type arrangements, does not exceed 10 percent of total estimated costs.
- (4) A grantee should not circumvent the requirements of Chapter 4, paragraph 24a(1) and (3) by contracting for a fixed product which would not be subject to the professional services fee limitation. This is particularly significant in contracting for the services of the individuals.
- b. If any of the requirements outlined in Chapter 4, paragraph 24a(1), (2) or (3) are not met, prior approval must be obtained from the Institute.

25. MEDICAL RESEARCH

Medical research to be conducted by any grantee or sub-contractor financed with Institute funds must be specifically detailed in the grant application as to type of research; place and persons conducting the research; amount of research funds available; and research methodology, including data on use of chemical agents or medical procedures, use of human volunteers or animal subjects, and a description of any anticipated experiments, for review and prior approval by the Institute.

Generally it is Institute policy not to fund grant applications for medical research or for the use of medical procedures which seek to modify behavior by means of any aspect of psycho-surgery, aversion therapy, chemotherapy (except as part of routine clinical care), and physical therapy of mental disorders. Such proposals will be referred to the Secretary of the Department of Health, Education and Welfare for appropriate funding consideration. This policy does not apply to a limited class of programs involving procedures generally recognized and accepted as not subjecting the patient to physical or psychological risk (e.g., methadone maintenance and certain alcoholism treatment programs), as specifically approved in advance by the National Institute of Corrections, after appropriate consultation with and advice of the Department of Health, Education, and Welfare. This is not intended to cover those programs of behavior modification such as involve environmental changes or social interaction where no medical procedures are utilized.

26. FOREIGN TRAVEL. Foreign travel is defined as any travel outside of the United States and its territories and possessions. Foreign travel costs are allowed only when:
- a. The travel has received specific prior approval by the NIC.
 - b. Each separate foreign trip must be specifically approved by the NIC.
- 27-29. RESERVED.

SECTION 4. COSTS GENERALLY ALLOWABLE

30. COMMENTARY. This section supplements Federal Management Circular 74-4 text and responds to points on which questions have been frequently raised.
31. COMPENSATION FOR PERSONAL SERVICES.
- a. Two or More Federal Grant Programs. Where salaries apply to executive of two or more grant programs, proration of cost to each grant involved must be made, and written Institute permission obtained to permit charges of salaries to one grant in cases where two or more grants constitute one identified activity or "program."
 - b. Extra Work
 - (1) A State or local government employee may be employed by a grantee in addition to his full-time job provided the work is performed on the employee's own time and:
 - (a) The compensation is reasonable and consistent with that paid for similar work in other activities of State or local government;
 - (b) The employment arrangement is approved and proper under State or local regulations; and,
 - (c) The time and/or services provided is supported by adequate documentation.
 - (2) Such employment arrangements should normally be made by the grantee directly with the individual (to avoid problems arising from overtime, holiday pay, night differential or related payroll regulations) unless there has been a transfer or loan of the employee for which his regular as well as overtime services provided

are to be charged to or reimbursed by the grantee. Overtime and night differential payments are allowed only to the extent that payment for such services is in accordance with the policies of the State agency or unit of local government. The overtime should be prorated among the various jobs and not charged exclusively to Institute funds.

(3) Payment of these premiums will be for work performed by grant employees in excess of the established work week (usually 40 hours). Payment of continued overtime is subject to the periodic review by the Institute.

c. Grant Purposes and Dual Compensation. Charges of the time of State and local government employees assigned to grant programs may be reimbursed or recognized only to the extent they are directly and exclusively related to grant purposes or proper for inclusion in indirect cost bases. In no case is dual compensation allowable (see note). That is, an employee of a unit of government may not receive compensation from his unit or agency of government and from an Institute grantee or sub-contractor for work purportedly performed during a single period of time (e.g., 1 p.m. to 5 p.m.) even though such work may benefit both activities.

NOTE: Full time university academic appointments do not preclude paid reimbursement for consultant services under the dual compensation ban where university arrangements specifically permit the faculty member to consult during a specified number of days or portions of the work week or other employment period.

32. CONFERENCES, SYMPOSIA AND WORKSHOPS. Charges to a grant may include conference or meeting arrangements, publicity, registration, salaries of personnel, rental of staff offices and conference space, recording or translation services, postage and telephone charges, and travel expenses (including transportation and subsistence) for faculty, speakers, or participants. Each of these items, when related to grant purposes, are otherwise allowable costs under FMC 74-4. Grant funds may not be used for honoraria (i.e., payments to participating individuals or guests other than for documented professional services actually rendered at reasonable compensation rates), entertainment, sports, visas, passport charges, tips, bar charges, personal telephone calls, or laundry charges of participants or guests.

33. PROJECT INCOME. Grantees are required to account for program income related to projects financed in whole or in part with Federal funds.
- a. Interest. The State and any agency or instrumentality of a State shall not be held accountable for interest earned on grant funds. All other grantees shall return any interest earned on grant funds to the National Institute of Corrections. In this respect, grantees and sub-contractors shall so order their affairs as to insure minimum balances in their respective grant accounts.
 - b. Royalties.
 - (1) Royalties received from copyrights and patents during the grant period shall be retained by the grantee and, in accordance with the grant agreement, be either added to the funds already committed to the program or deducted from total project costs for the purpose of determining the net costs on which the Federal share of costs will be based. In either case, the Institute shall be consulted for proper disposition.
 - (2) After termination or completion of the grant, the Federal share of royalties in excess of \$200 received annually shall be returned to the Federal grantor agency in the absence of any specific agreements. The Federal share of royalties shall be computed on the ratio basis as the Federal share of the total project cost.
 - c. Sale of Property. The policy governing the proceeds from the sale of real and personal property purchased with project funds is covered in Attachment N of Federal Management Circular (see appendix 3 of this manual).
 - d. Other. All other program income earned during the grant period shall be retained by the grantee and, in accordance with the grant agreement, shall be:
 - (1) Added to funds committed to the project by the grantor and grantee and be used to further eligible program objectives; or
 - (2) Deducted from the total project costs for the purpose of determining the net costs on which the Federal share of costs will be based.

SECTION 5. COSTS GENERALLY UNALLOWABLE.

38. COMPENSATION OF FEDERAL EMPLOYEES. Salary payments, consulting fees or other remuneration of full-time federal employees are unallowable costs under Title V grants and contracts.
39. TRAVEL OF FEDERAL EMPLOYEES. Costs of transportation, lodging, subsistence, and related travel expenses of Institute employees are unallowable charges against Title V grants. Travel expenses of other Federal employees may be reimbursed from grant funds (in accordance with Federally established rates) when:
- a. It has been included as an identifiable item in the funds budgeted for the project or subsequently submitted for grantor approval and,
 - b. Approved participation of the Federal employee has been by the Federal employee's department or agency.
40. BONUSES OR COMMISSIONS. The grantee or subgrantee is prohibited from paying any bonus or commission to any individual for the purpose of obtaining approval of an application for Institute assistance.
41. RESERVED
42. LOBBYING.
- a. No part of any grant shall be used:
 - (1) For publicity or propaganda purposes designed to support or defeat legislation pending before legislative bodies;
 - (2) To pay, directly or indirectly, for any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device, intended or designed to influence in any manner a member of Congress, to favor or oppose, by vote or otherwise, any legislation or appropriation by Congress, whether before or after the introduction of any bill or resolution proposing such legislation or appropriation (18 U.S.C. 1913; or
 - (3) To pay a publicity expert (5 U.S.C. 3107).
 - b. This provision is not to be construed as limiting expenses for the purpose of testimony before legislative bodies reviewing the effectiveness of grant programs or to prevent introduction and support in the State legislatures of general statutory reform, such as criminal code revisions, etc.

43-44. RESERVEDSECTION 6. GENERAL COST PRINCIPLES

45. COST ALLOCATION PLANS - CENTRAL SUPPORT SERVICES. State Agencies may not charge the cost of central support services supplied by the State except pursuant to a "cost allocation plan" approved by the Department of Health, Education and Welfare as provided in Section J of Attachment A, Federal Management Circular 74-4. This may be on a provisional, final and predetermined rate basis.
46. INDIRECT COSTS.
- a. Approved Plan Available
- (1) The Institute may accept any indirect cost rate or allocation plan previously approved for any State agency, local unit of government or any other public or private organization by any Federal granting agency on the basis of allocation methods substantially in accord with those set forth in FMC 74-4.
 - (2) Where federally approved rates are used as the basis for charging indirect costs to Title V grant funds, a copy of the Federal agency approval document should be promptly furnished.
- b. No Existing Approved Plan
- (1) Where there is no existing federally approved rate for the organization indirect costs may not be charged to Title V grant funds on the basis of predetermined fixed rates or a negotiated lump sum unless the rate is approved by the Institute.
 - (2) In those instances where there is no existing federally approved rate, flat amounts not in excess of ten percent of direct labor costs (excluding fringe benefits) may be allowed.
 - (3) Where flat rates are accepted in lieu of approved indirect costs, rates, grantees may not also charge expenses normally included in overhead pools, e.g., accounting services, legal services, building occupancy and maintenance, etc., as direct costs. Grantees are encouraged to seek maximum indirect cost absorption

as a means for broader and more concentrated application of Federal funds to direct Institute activities.

47. DEVIATIONS FROM SUBMITTED BUDGETS - ALLOWABILITY OF COSTS.

The Institute recognizes the needs which will arise for departure from or adjustment of previously submitted budget estimates in Title V grants. The most carefully formulated estimates must respond to future events, experience, and special contingencies, problems or costs not always susceptible of advance determination, therefore, grantees may transfer, among expenditure categories, a cumulative amount of up to 5 percent of the grant budget or \$10,000 whichever is greater (for grant budgets in excess of \$100,000 or a cumulative 5 percent change of the grant budget for grants of \$100,000 or less). Transfers exceeding these limitations require the prior approval of the Institute.

48. RESERVED.

49. GRANTEE PROCUREMENT STANDARDS AND PROCEDURES.

- a. Purpose. The following paragraphs provide standards for use by the grantees in establishing procedures for the procurement of supplies, equipment, and other services with Institute grant funds. These standards are furnished to insure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal law and Executive Orders.
- b. Content. The policies set forth in this paragraph supplement paragraphs 19 and 24 of this chapter of the manual. These policies and standards do not relieve the grantee of the contractual responsibilities arising under its contracts. The grantee is the responsible authority, without recourse to the grantor agency regarding the settlement and satisfaction of all contractual and administrative issues arising out of procurements entered into in support of a grant. This includes but is not limited to: disputes, claims, protests of award, source evaluation or other matters of a contractual nature. Matters concerning violation of law are to be referred to such local, State, or Federal authority as may have proper jurisdiction.
- c. Minimum Requirements. Grantees may use their own procurement regulations which reflect applicable State and local law, rules and regulations provided that procurements made with Federal grant funds adhere to the standards set forth in this paragraph.

- d. Standards of Conduct. The grantee shall abide by a code or standard of conduct which shall govern the performance of its officers, employees, or agents in contracting with and expending Institute grant funds. Grantee's officers, employees or agents, shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or potential contractors. To the extent permissible by State or local law, rules or regulations, such standards shall provide for penalties, sanctions, or other disciplinary actions to be applied for violations of such standards by either the grantee officers, employees, or agents, or by contractors or their agents.
- e. Adequate Competition. All procurement transactions regardless of whether negotiated or advertised and without regard to dollar value shall be conducted in a manner so as to provide maximum open and free competition. The grantee shall be alert to organizational conflicts of interest or noncompetitive practices among contractors which may restrict or eliminate competition or otherwise restrain trade. Contractors that develop or draft specifications, requirements statements of work and/or RFP's for a proposed procurement shall be excluded from bidding or submitting a proposal to compete for the award of such procurement.
- f. Procurement Procedures. The grantee shall establish procurement procedures which provide for, as a minimum, the following procedural requirements:
- (1) Proposed Procurement Actions shall be reviewed by grantee officials to avoid purchasing unnecessary or duplicative items. Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement.
 - (2) Invitations for Bids or Requests for Proposals shall be based upon a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description shall not, in competitive procurements, contain features which unduly restrict competition. "Brand name or equal" description may be used as a means to define the performance or other salient requirements of a procurement, and when so used, the specific features of the named brand which must be met by offerors must be clearly specified.

- (3) Positive Efforts shall be made by the grantees to utilize small business and minority owned business sources of supplies and services. Such efforts should allow these sources the maximum feasible opportunity to compete for contracts to be performed utilizing Institute grant funds. Such positive efforts may include where feasible, the breakout of work that could be readily handled by small business or minority firms; and shall include the aggressive recruitment of small business and minority firms for bidders list.
- (4) The Type of Procuring Instruments used (i.e., fixed price contracts, cost reimbursable contracts, purchase orders, incentive contracts, etc.), shall be appropriate for the particular procurement and for promoting the best interest of the grant program involved. The "cost-plus-a-percentage-of-cost" method of contracting shall not be used.
- (5) Formal Advertising. With adequate purchase description, sealed bids, and public openings shall be the required method of procurement unless negotiation pursuant to paragraph 49f(6) is necessary to accomplish sound procurement. However, procurements of \$10,000 or less need not be so advertised unless otherwise required by State or local law or regulations. Where such advertised bids are obtained the awards shall be made to the responsible bidder whose bid is responsive to the invitation and is most advantageous to the grantee, price and other factors considered. (Factors such as discounts, transportation costs, taxes, may be considered in determining the lowest bid.) Invitations for bids shall clearly set forth all requirements which the bidder must fulfill in order for his bid to be evaluated by the grantee. Any or all bids may be rejected when it is in the grantee's interest to do so, and such rejections are in accordance with applicable State and local law, rules, and regulations.
- (6) Procurements May be Negotiated if it is impracticable and unfeasible to use formal advertising. Notwithstanding the existence of circumstances justifying negotiation, competition shall be obtained to the maximum extent practicable. Generally, procurements may be negotiated by the grantee if:
 - (a) The public exigency will not permit the delay incident to advertising;

- (b) The material or service (including personal or professional services) to be procured is available from only one person or firm; (all contemplated sole source procurements where the aggregate expenditure is expected to exceed \$10,000 shall be referred to the grantor agency for prior approval.) Proposed formal advertised or competitive negotiated procurements for which only one bid or proposal is received is deemed to be, for purposes of this paragraph, a sole source procurement. Interagency contracts where the work is performed by a State governmental agency, including a State University, does not require approval.
 - (c) The aggregate amount involved does not exceed \$10,000;
 - (d) The contract is for personal or professional services, or for any service to be rendered by a university, college, or other educational institutions;
 - (e) No acceptable bids have been received after formal advertising;
 - (f) The purchases are for highly perishable materials or medical supplies, for material or services where the prices are established by law, for technical items or equipment requiring standardization and interchangeability of parts with existing equipment, for experimental, developmental or research work, for supplies purchased for authorized resale, and for technical or specialized supplies requiring substantial initial investment for manufacture;
 - (g) Otherwise authorized by law, rules, or regulations.
- g. Contracts. Contracts shall be made only with responsible contractors who possess the potential ability to perform successfully under terms and conditions of a proposed procurement. Consideration shall be given to such matters as contractor integrity, record of past performance, financial and technical resources, or accessibility to other necessary resources.
- h. Procurement Records. Procurement records or files for purchases in amounts in excess of \$10,000 shall provide at least the following pertinent information: justification

for the use of negotiation in lieu of advertising, contractor selection, and the basis for the cost or price negotiated,

- i. Contract Administration. A system for contract administration shall be maintained to assure contractor conformance with terms, conditions and specifications of the contract or order, and to assure adequate and timely follow-up of all purchases.
- j. Provisions for Contracts. The grantee shall include, in addition to provisions to define a sound and complete agreement, the following provisions in all contracts:
 - (1) Contracts shall contain such contractual provisions or conditions which will allow for administrative, contractual or legal remedies in instances where contractors violate or breach contracts terms, and provide for such sanctions and penalties as may be appropriate.
 - (2) All contracts, amounts for which are in excess of \$10,000, shall contain suitable provisions for termination by the grantee including the manner by which it will be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.
 - (3) All contracts in excess of \$10,000, shall include provisions for compliance with Executive Order No. 11246, entitled, "Equal Employment Opportunity," as supplemented in Department of Labor Regulations (41 CFR, Part 60). Each contractor shall be required to have an affirmative action plan which declares that it does not discriminate on the basis of race, color, religion, creed, national origin, sex, and age and which specifies goals and target dates to assure the implementation of that plan. (The grantee shall establish procedures to assure compliance with this requirement by contractors and to assure that suspected or reported violations are promptly investigated.)
 - (4) All contracts for repair of physical facilities shall include a provision for compliance with the Copeland "Anti-Kick Back" Act (18 U.S.C. 874) as supplemented in Department of Labor Regulations (29 CFR, Part 3),

This Act provides that each contractor shall be prohibited from inducing, by any means, any person employed in the completion or repair of public work, to give up any part of the compensation to which he is otherwise entitled. The grantee shall report all suspected or reported violations to the grantor agency.

- (5) Where applicable, all contracts awarded by grantees in excess of \$2,500 for contracts which involve the employment of mechanics or laborers shall include a provision for compliance with sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR, Part 5). Under Section 103 of the Act, each contractor shall be required to compute the wages of every mechanic and laborer on the basis of a standard work day of 8 hours and a standard work week of 40 hours. Work in excess of the standard work-day or workweek is permissible provided that the worker is compensated at a rate of not less than 1 1/2 times the basic rate of pay for all hours worked in excess of 8 hours in any calendar day or 40 hours in the work week. Section 107 of the Act is applicable to construction work and provides that no laborer or mechanic shall be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous to his health and safety as determined under construction, safety, and health standards promulgated by the Secretary of Labor. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.
- (6) Contracts or agreements, the principal purpose of which is to create, develop, or improve products, processes or methods; or for exploration into fields which directly concern public health, safety, or welfare; or contracts in the field of science or technology in which there has been little significant experience outside of work funded by Federal assistance, shall contain a notice to the effect that matters regarding rights to inventions, and materials generated under the contract or agreement are subject to the regulations issued by the Federal grantor agency and the grantee.
- (7) All contracts awarded by grantees shall include a provision to the effect that the grantee, Institute, and the Comptroller General of the United States, or any of their duly authorized representatives, shall

have access for purpose of audit and examination to any books, documents, papers, and records of the contractor that are pertinent to the grants received under Title V. On all negotiated contracts pertinent records are deemed to include all cost estimating and actual cost data.

- (8) Each contract of an amount in excess of \$10,000 awarded by a grantee shall provide that the recipient will comply with applicable regulations and standard of the Cost of Living Council in establishing wages and prices. The provision shall advise the recipient that submission of a bid or offer or the submittal of an invoice or voucher for property, goods, or services furnished under a contract or agreement with the grantee shall constitute a certification by him that amounts to be paid do not exceed maximum allowable levels authorized by the Cost of Living Council regulations or standards. Violations shall be reported to the Institute and the local Internal Revenue Service field office.
- (9) Contracts of amounts in excess of \$100,000 shall contain a provision which requires the recipient to agree to comply with all applicable standards, orders, or regulations issued pursuant to the Clean Air Act of 1970. Violations shall be reported to the Institute and the Regional Office of the Environmental Protection Agency.
- k. Grant Applications. The procurement procedure and selection basis to be used for contracts over \$10,000 or the proposed contract must be included as part of the application. On all sole source procurements over \$10,000, a justification for the use of this method must be included and if the contemplated sole source procurement aggregate expenditure is expected to exceed \$10,000, prior Institute approval of the contract is required.

CHAPTER 5

FINANCIAL AND PERFORMANCE REPORTS

SECTION 1. APPLICABILITY OF FEDERAL MANAGEMENT CIRCULAR NO. 74-7
FORMS TO THE INSTITUTE

1. GENERAL. The manner in which the Institute obtains financial information, is prescribed by the standards for administration of grants-in-aid contained in Federal Management Circular (FMC) No. 74-7, Attachment H. This attachment prescribes a set of standard forms which are to be used by Grantees for:
 - a. Reporting financial information to grantor agencies; and
 - b. Requesting advances and reimbursements when a letter of credit method is not used.
2. APPLICABILITY TO THE INSTITUTE. Since most grants made to State and local units of government are categorical grants, FMC 74-7 is primarily directed toward this type of grant.
3. FORMS TO USE. The following form shall be used:
 - a. Fund Request Form. Request for Advance or Reimbursement - Attachment H-3. This form is used for securing funds. (See Chapter 5, paragraph 32.)
 - b. Reporting Forms.
 - (1) Financial Status Report - Attachment H-1. This form is submitted to report the status of funds for ALL grants covered by this manual.
 - (2) Report of Federal Cash Transactions - Attachment H-2. This form is submitted by all grantees receiving Federal funds with U. S. Treasury checks for ALL grants. Only one form, per grantee, is required.
 - (3) Grant Progress Report. This narrative report is submitted for all Institute grants.
4. SUBMISSION REQUIREMENTS
 - a. Fund Requests
 - (1) Requests for advances or reimbursements (Attachment H-3) will be submitted in original and one copy by the grantee funded by the Institute to the National Institute of Corrections.

- b. Reporting Forms. The required financial and performance reporting forms shall be submitted to the Institute as follows: (See Section 3, Chapter 5.)

5. AWARD DOCUMENT AND PAYMENT OF GRANT FUNDS

- a. Statement of Award. As grant applications are approved by the Institute, Grantees will receive formal "grant award statements" evidencing such action and indicating the amount and type of grant and any special conditions of the grant. The award statement will incorporate by reference or attachment the grant application to which it relates. When issued and accepted by the grantee, it will constitute the operative document obligating and reserving Federal funds for use by the grantee in execution of the program covered by the award.
- b. Acceptance. The grantee must indicate acceptance of the grant and any special conditions by returning a signed copy of the award statement to the Institute. This will confirm its contractual obligation to utilize funds for purposes contemplated by the award and grant application and to comply with grant conditions and applicable statutory requirements and regulations.
- c. Grant Number. Each grant will be numbered by the Institute and all future correspondence and references to a grant should include this number.

6. PAYMENT OF GRANT FUNDS

- a. Annual Requirements Under \$250,000. Grantees whose annual fund requirement for all types of grants is less than \$250,000 will receive Federal funds on a "check issued" basis. That is, upon receipt of a written request for funds from the grantee a check covering the amount requested for a minimum operational level will be mailed direct to the grantee or its designated fiscal agent.
- b. Annual Requirements Over \$250,000. At the option of the Institute, special arrangements may be made for grantees whose annual fund requirements are over \$250,000. These arrangements shall be concluded on an individual grantee basis by the Institute through a letter of credit procedures. Generally, the use of a letter of credit procedure shall be minimized to the greatest extent possible.

7. OBLIGATING FEDERAL FUNDS. Federal funds are obligated and thereby made available to the grantee at the time the grant is awarded, but only for purposes contemplated in the grant application and award, and only for expenditure or obligation by the grantees within the period stipulated in the grant award or generally prescribed by the Institute for the type of grant involved. Grant funds will be obligated within the specific grant period indicated on grantee's statement of award and must be expended within 90 days after that date. Request for change or extension of the grant period must be made 60 days in advance of expiration and in writing.
- a. Federal Obligation Process. Once a grant award has been signed by the Institute and accepted by the grantee, the amount of the award is entered in the accounts of the Institute as an obligation of the Federal Government. Appropriated funds are thereby reserved against the grant until all monies are withdrawn by the grantee or, in case of non-utilization of funds within statutory or other time limits, revert to the Institute through cancellation of the unused balance.
- b. Payment to Grantees. Actual payment of funds to grantees, is handled by the Treasury Department acting on the basis of Institute certifications.
- c. Expenditures/Obligations by Grantees. For accounting purposes, funds are expended or obligated, respectively, by grantees when actually disbursed or when a definite commitment is made or a legal liability incurred to pay determinable sums for services or goods furnished or to be furnished.

8. RESERVED.

SECTION 2. GLOSSARY OF ACCOUNTING TERMS FOR FMC 74-7

9. ACCRUAL BASIS OF ACCOUNTING. A method of accounting whereby financial transactions or events are identified with and recorded in the accounting records during the period in which revenue is earned and goods and services are received. Expenses incurred, income earned, assets acquired, and liabilities incurred during a given period are recorded in the accounts for that period regardless of when obligations are incurred, payments are made, or collections are received.
10. ACCRUED EXPENDITURES. The amount paid or the liability incurred for goods and services received, other assets acquired and performance accepted during the accounting period, regardless of when cash payments are made; whether invoices have been rendered;

or in some cases, whether goods or other tangible property have been physically delivered. As applied to FMC 74-7, accrued expenditures are the changes incurred by the grantee or sub-grantee during a given period requiring the provision of funds for:

- a. Goods and other tangible property received.
 - b. Services performed by employees, contractors and other payees.
11. ACCRUED INCOME. The amount earned during the reporting period (regardless of when collections are received) for commodities, work, or services furnished to an individual, firm, corporation, or State or local government, for which payments are required and which may be credited to an appropriation or fund. As applied to FMC 74-7, accrued income is the earnings during a given period which is a source of funds resulting from:
- a. Services performed by the grantee or subgrantee.
 - b. Goods and other tangible property delivered to purchasers.
12. ADVANCE BY TREASURY CHECK. Payments made by Treasury check to a grantee upon its request or through the use of a predetermined payment schedule before actual payment is made by the grantee.
13. CASH BASIS OF ACCOUNTING. A method of accounting in which income is credited when received rather than when earned, and expenses are recorded when paid rather than when incurred.
14. DISBURSEMENTS (GROSS). Payments in cash or by check, including all advances, net of refunds received. As applied to FMC 74-7, gross disbursements are the grantee's total cash disbursements or payments made from Federal funds less refunds of Federal funds received during the reporting period.
15. DISBURSEMENT (NET). Gross disbursements less reimbursements and other income collected and credited in the accounts. As applied to FMC 74-7, net disbursements represent gross disbursements less program income received.
16. FEDERAL FUNDS AUTHORIZED. The amount of the Federal funds authorized for obligations, the grant award.
17. LETTER OF CREDIT. An instrument certified by an authorized official of a Federal agency which authorizes a grantee to draw funds when needed from the Treasury through the cognizant Department of Treasury Disbursing Office. Generally, Institute Grantees shall not be under this method of funding.

18. OBLIGATIONS. The amounts of orders placed, contracts awarded, services received, and similar transactions during a given period, which will require payment during the same or future period. Such amounts will include disbursements to pay obligations not preceded by the recording of obligations and will reflect adjustments for differences between obligations previously recorded and actual disbursements for those obligations.
19. OUTLAYS: Expenditures made by grantees for a given project or program.
- a. If reporting on a cash basis, outlays represent the sum of:
- (1) Actual cash disbursements for goods and services.
 - (2) The amount of indirect expenses charged.
 - (3) The value of in-kind contributions applied if applicable; and,
 - (4) The amount of cash advances and payments made to contractors.
- b. If reporting on an accrual basis, outlays represent the sum of:
- (1) Actual cash disbursements by subgrantees.
 - (2) The amount of indirect expenses incurred.
 - (3) The value of in-kind contributions applied if applicable; and,
 - (4) The amounts owed for goods and other property received and for services performed by employees, contractors, and other payees.
20. PROGRAM INCOME. Earnings by the grantee realized from the grant-supported activities. Such earnings exclude interest income and may include, but are not limited to, income from service fees, sales of commodities, usage or rental fees, sale of assets purchased with grant funds, and royalties on patents and copyrights. If reporting on a cash basis, program income represents the amount of cash income received during the reporting period. If reporting on an accrual basis, program income represents the amount of income earned regardless of when collections are received.

21. REIMBURSEMENT BY TREASURY CHECK. Payment made by Treasury check to a grantee upon its request after actual payment was made by the grantee.
 22. UNDELIVERED ORDERS. The amount of orders for goods and services outstanding for which the liability has not yet accrued. This amount includes any orders for goods or services for which advance payment has been made, but for which delivery or performance has not yet occurred.
 23. UNOBLIGATED BALANCE. The portion of a Federal grant which has not been obligated by grantees. It is determined by deducting the cumulative unpaid obligations and outlays as reported by grantees from the authorized amount of the Federal grant.
 24. UNPAID OBLIGATIONS. The amount of obligations incurred by grantees which have not been paid. As applied to FMC 74-7, if reporting on a cash basis, unpaid obligations represent the total amount of unpaid obligations for a project or program including unpaid obligations to subgrantees. If reporting on an accrual basis, unpaid obligations represent only the amount of undelivered orders.
- 25-27. RESERVED.

SECTION 3. DETAILED INSTRUCTIONS FOR FINANCIAL REPORTS

28. GENERAL. This section is designed to present a comprehensive description of the reporting forms. Each report presentation includes the purpose and a general discussion on the contents of the forms.
29. ILLUSTRATIONS. Following the discussions of the forms, at the end of this chapter is a set of appendices containing illustrative material to display, convey, and otherwise communicate the use of the various forms for reporting data. This is accomplished by presenting formal instructions, completed forms and sample accounting worksheets.
 - a. Appendix 6 consists of materials for the H-2, Report of Federal Cash Transactions.
 - b. Appendix 5 consists of materials for the H-1, Financial Status Report.
 - c. Appendix 4 consists of materials for the H-3, Request for Advance or Reimbursement.
 - d. Appendix consists of the Quarterly Progress Report. RESERVED.

30. REPORT OF FEDERAL CASH TRANSACTIONS - ATTACHMENT H-2

- a. Purpose. The report of Federal Cash Transactions (refer to Appendix 6) is a monthly report designed to report Federal cash disbursements made in support of various grant programs and to reflect cash on hand at the grantee level. It presents the difference between Federal funds received by the grantee and the disbursement of those funds.
- b. Submission. One H-2 report, which reflects current monthly Federal cash transactions for all grants, is prepared by each grantee receiving Federal funds through letters of credit or with U. S. Treasury checks. This report is submitted monthly, within 15 days following the end of the reporting month. The original copy of this report is submitted by the grantee to the Institute.
- c. General Content. Page 1 of the report is submitted by all grantees. Page 2 of the report is used only when the grantee is reporting on more than one grant. The inter-relationship of Page 1 and Page 2 is the Net Disbursement Amount for the current period. Therefore, line 11h of Page 1 must be identical to the total of column 6a which is shown on item 7 of Page 2.
- d. Instructions.
 - (1) Page 1.
 - (a) Item 1 - FEDERAL AGENCY AND ORGANIZATIONAL ELEMENT. Enter the name of the Institute.
 - (b) Item 2 - NAME OF GRANTEE ORGANIZATION. Enter the name and complete mailing address, including the zip code, for the grantee organization.
 - (c) Item 3 - FEDERAL EMPLOYER IDENTIFICATION NO. Enter the employer identification number assigned to the organization by the U. S. Internal Revenue Service. This number should be used consistently on all reports.
 - (d) Item 4 - FEDERAL GRANT NO. OR OTHER IDENTIFYING NO. When this report reflects cash transactions of Federal funds for only one grant, enter the Federal grant number assigned by the Institute. When reporting on more than one grant, leave this item blank.

- (e) Item 5 - GRANTEE'S ACCOUNT NO. OR IDENTIFYING NO. This item is not applicable. Enter "N/A."
- (f) Item 6 - LETTER OF CREDIT NO. When Federal funds are received only by U. S. Treasury check, enter "N/A" for not applicable.
- (g) Item 7 - LAST PAYMENT VOUCHER NO. When Federal funds are received only by U. S. Treasury check, enter "N/A" for not applicable.
- (h) Item 8 - NUMBER OF PAYMENT VOUCHERS
1. When Federal funds are received only by U. S. Treasury check, enter "N/A" for not applicable.
- (i) Item 9 - NO. OF TREASURY CHECKS RECEIVED.
1. Enter the total number (count) of U. S. Treasury checks received during the reporting month, whether or not deposited. The dollar amount of all U. S. Treasury checks reported in this item must equal the amount of Treasury check payments in line 11c.
- (j) Item 10 - REPORT PERIOD (MONTH, DAY, YEAR). Enter the beginning and ending dates of the month applicable to this report. The dates should be indicated as follows:
1. Month - 01 through 12
 2. Day - 01 through 31
 3. Year - Last two digits of the calendar year.
- (k) Item 11 - STATUS OF FEDERAL CASH. This item presents current month cash transactions of Federal funds at the grantee level.
1. Line a - CASH ON HAND BEGINNING OF PERIOD. Enter the total amount of Federal cash on hand at the grantee level at the beginning of the month. This value will be the amount reported on line 11j of the previous month's report.

NOTE: When using this report form for the first time, the value will be the actual amount

of Federal cash on hand at the close of business on the day prior to the first reporting day.

2. Line b - LETTER OF CREDIT WITHDRAWALS. When Federal funds are received only by U. S. Treasury check, enter "0".
3. Line c - TREASURY CHECK PAYMENTS. Enter the total of all Federal funds received (whether or not deposited) through U. S. Treasury checks. The amount must equal the total dollar value of the Treasury checks reported in Item 9 above.
4. Line d - TOTAL RECEIPTS. Enter the sum of line b, Letter of Credit Withdrawals, and line c, Treasury Check Payments.
5. Line e - TOTAL CASH AVAILABLE. Enter the sum of line a, Cash on hand beginning of period, and line d, Total receipts.
6. Line f - GROSS DISBURSEMENTS. Enter the total Federal cash disbursements made by the grantee during the reporting month.
7. Line g - FEDERAL SHARE OF PROGRAM INCOME. Enter the Federal share of program income received by the grantee during the reporting month. Enter only the amount of program income derived from the grant-supported activities which is required, by the terms of the grant, to be used on the project or program.
8. Line h - NET DISBURSEMENTS. Enter the net result of line f, Gross disbursements, less line g, Federal share of program income. When reporting on more than one grant, this amount must agree with the total of column 6a as shown in Item 7 of Page 2.
9. Line i - ADJUSTMENTS OF PRIOR PERIODS. Enter the amount of all adjustments pertaining to prior periods which affect the cash on hand balance at the end of the reporting month. DO NOT include amounts which have been included in any line above or in column 6a of page 2. In item 14, Remarks, give a full explanation of the adjustment.

10. Line j - CASH ON HAND END OF PERIOD. Enter the total amount of Federal cash on hand at the end of the reporting month. This amount should equal the net of line e, Total cash available; less line h, Net disbursements; plus or minus line i, Adjustments.

(1) Item 12 - THE AMOUNT IN ITEM 11j REPRESENTS CASH REQUIREMENTS FOR THE ENSUING 30 - DAYS. Enter the estimated number of days until the cash on hand, shown on line 11j, will be expended. This estimate should be based on the predicted disbursement requirements necessary for the subsequent month. If the number of days is more than seven, in Item 14, Remarks, provide an explanation and the amount of the excess cash on hand.

(m) Item 13 - OTHER INFORMATION. This item is not required to be completed on the form.

1. Line a - INTEREST INCOME. Enter "N/A."

2. Line b - ADVANCES TO SUBGRANTEES. Enter "N/A."

(n) Item 14 - REMARKS. Provide the following information, if applicable.

1. Explain in detail any adjustments to prior periods included on line 11i above.

(o) Item 15 - CERTIFICATION. The contents of this item are self-explanatory. Reports should be certified by an authorized official of the grantee organization before submission.

31. FINANCIAL STATUS REPORT - ATTACHMENT H-1

a. Purpose. The Financial Status Report (refer to Appendix 5) is a quarterly report designed to reflect all information relating to obligations and outlays (Federal and non-federal) for ALL grants.

b. Submission.

(1) A separate H-1 report is required of the grantee for each grant.

- (2) An original of this report is submitted quarterly, within 45 days following the end of the quarter. It is submitted by the grantee to the Institute.

c. Instructions.

- (1) Item 1 - FEDERAL AGENCY AND ORGANIZATIONAL ELEMENT. Enter the name of the Institute.
- (2) Item 2 - FEDERAL GRANT NO. OR OTHER IDENTIFYING NO. Enter the Federal grant number assigned by the Institute.
- (3) Item 3 - NAME AND ADDRESS OF GRANTEE ORGANIZATION. Enter the name and complete mailing address, including the zip code, for grantee organization.
- (4) Item 4 - EMPLOYER IDENTIFICATION NO. Enter the employer identification number assigned to the organization by, the U. S. Internal Revenue Service.
- (5) Item 5 - GRANTEE ACCOUNT NO. OR IDENTIFYING NO. This item is not applicable. Enter "N/A."
- (6) Item 6 - FINAL REPORT. When this is the final expenditure report for the grant, enter an x in the "yes" box. Enter an x in the "no" box when this is an interim report.
- (7) Item 7 - BASIS OF REPORT. Enter an x in the appropriate box to indicate the grantees method of reporting.
- (8) Item 8 - PROJECT PERIOD. Enter the month, day, and year of the beginning and ending period of the grant as shown in the Grant Award Letter. If this grant period has changed, the dates indicated in this item should agree with the dates shown on the latest approved Grant Adjustment Notice. The dates should be indicated as follows:
- (a) Month - 01 through 12
 - (b) Day - 01 through 31
 - (c) Year - last two digits of the calendar year.
- (9) Item 9 - REPORT PERIOD. Enter the month, day, and year of the beginning and ending dates of the quarter for which this report is prepared. Refer to above paragraph for the proper date format.

- (10) Item 10 - STATUS OF FUNDS. This item presents the obligation and expenditure status of the grant(s). Only the "Total" column will be used for all grants.
- (a) Line a - TOTAL OUTLAYS PREVIOUSLY REPORTED. Enter the total Federal and non-federal program outlays at the beginning of the report period. This will be the amount reported on line 10e of the previous report. Exception:
1. When the grant is being reported for the first time the value will be zero "0";
 2. When using this report form for the first time, the value will be the actual amount of outlays for the grant as of the close of business on the day prior to the first reporting day.
- (b) Line b - TOTAL PROGRAM OUTLAYS THIS PERIOD. Enter the amount of Federal and non-federal cash outlays reported by the grantee/subgrantee as expended for the indicated grant. This figure includes all program income returned for use in executing the grant.
- (c) Line c - PROGRAM INCOME CREDITS. Enter the program income included in line b, Total program outlays this period.
- (d) Line d - NET PROGRAM OUTLAYS THIS PERIOD. Enter the result of line b, Total program outlays this period, less line c, Program income credits.
- (e) Line e - TOTAL PROGRAM OUTLAYS TO DATE. Enter the sum of line a, Total outlays previously reported, and line d, Net program outlays this period. This amount represents the cumulative outlays to date of both Federal and non-federal funds.
- (f) Line f - LESS: NON-FEDERAL SHARE OF PROGRAM OUTLAYS. Enter the cumulative non-federal share (matching contribution) of the program outlays included in line e, Total program outlays to date.

- (g) Line g - TOTAL FEDERAL SHARE OF PROGRAM OUTLAYS. Enter the result of line e, Total program outlays to date, less line f, Non-federal share of program outlays.
 - (h) Line h - TOTAL UNPAID OBLIGATIONS. Enter the total Federal and non-federal unpaid obligations for the grant. This amount represents the amount of obligations incurred by the grantee/subgrantee which have not been paid.
 - (i) Line i - LESS: NON-FEDERAL SHARE OF UNPAID OBLIGATIONS. Enter the non-federal share of unpaid obligations included on line h, Total unpaid obligations.
 - (j) Line j - FEDERAL SHARE OF UNPAID OBLIGATIONS. Enter the result of line h, Total unpaid obligations, less line i, Non-federal share of unpaid obligations.
 - (k) Line k - TOTAL FEDERAL SHARE OF OUTLAYS AND UNPAID OBLIGATIONS. Enter the sum of line g, Total Federal share of program outlays, and line j, Federal share of unpaid obligations.
 - (l) Line l - TOTAL FEDERAL FUNDS AUTHORIZED. Enter the total Federal grant award amount as defined by the Grant Award Letter or revised by Grant Adjustment Notices.
- (11) Item 11 - INDIRECT EXPENSE. This item is used to describe the indirect expense associated with the grant and defined prior to the grant award. Amount entered in this item shall be the total amount of indirect cost charged during the quarter.
- (a) The line items and the "Instructions for Preparing the Financial Status Report" are self-explanatory.
 - (b) For grants, only item d, Total amount, and item e, Federal share, are applicable. Enter "N/A" in items a through c.
- (12) Item 12 - REMARKS. This space will be used to provide information necessary to comply with Institute legislative and administrative requirements.
- (13) Item 13 - CERTIFICATION. The contents of this item are self-explanatory. Reports should be certified by an authorized official of the grantee organization before submission.

32. REQUEST FOR ADVANCE OR REIMBURSEMENT - ATTACHMENT H-3

- a. PURPOSE. The Request for Advance or Reimbursement (refer to Appendix 4) is the form used in requesting funds, and it is used to request both advances and reimbursements of funds.
- b. SUBMISSION. A separate form, submitted on a monthly basis, must be used for EACH grant when requesting funds. It is prepared by the grantee and the original and one copy is submitted to the Institute.
- c. INSTRUCTIONS.
- (1) Item 1 - FEDERAL AGENCY AND ORGANIZATIONAL ELEMENT.
Enter the name of the Institute.
 - (2) Item 2 - FEDERAL GRANT NO. OR OTHER IDENTIFYING NO.
Enter the Federal grant number assigned by the Institute.
 - (3) Item 3 - TYPE OF PAYMENT REQUESTED.
 - (a) Part a. Enter an "x" in the appropriate box to indicate whether the payment requested is an advance or a reimbursement. Check both blocks if the request represents both types of payment. If the advance box is checked, lines 11d and 11j must be completed.
 - (b) Part b. Enter an "x" in the appropriate box to indicate if the funds requested will be a final or partial payment.
 - (4) Item 4 - BASIS OF REPORT. Enter an "x" in the appropriate box to indicate the grantees method of reporting. Refer to Glossary of Accounting Terms, Chapter 6 for the definition of Accrual Basis of Accounting and for the definition of Cash Basis of Accounting. All requests which are for advances only shall be prepared on a cash basis.
 - (5) Item 5 - PARTIAL PAYMENT REQUEST NO. Enter the partial payment request number pertaining to the grant reported on this request.
 - (6) Item 6 - EMPLOYER IDENTIFICATION NO. Enter the employer identification number assigned to the organization by the U. S. Internal Revenue Service. This number should be used consistently on all requests.

- (7) Item 7 - GRANTEE ACCOUNT NO. OR IDENTIFYING NO. This item is not applicable. Enter "N/A."
- (8) Item 8 - PERIOD COVERED. Enter the month, day, and year for the beginning and ending period of the month that the advance will cover or the beginning and ending period for which the reimbursement is requested. The dates should be indicated as follows:
- (a) Month - 01 through 12
 - (b) Day - 01 through 31
 - (c) Year - last two digits of the calendar year
- (9) Item 9 - NAME OF GRANTEE ORGANIZATION. Enter the name and complete mailing address, including the zip code for the grantee organization.
- (10) Item 10 - NAME OF PAYEE. Enter the name and complete mailing address, including the zip code, of the payee only if it is different than the grantee organization shown in item 9.
- (11) Item 11 - COMPUTATION OF AMOUNT REQUESTED. Only the total column should be used. Vertical columns (1) through (3) are not applicable.
- (a) Line a - TOTAL PROGRAM OUTLAYS TO DATE AS OF _____.
 - 1. On the line provided in the description section, enter the month, day, and year of the ending date of the accounting period to which this amount applies. Refer to paragraph 4, Item 8.
 - 2. In the "Total" column enter the cumulative Federal and non-federal outlays incurred for the indicated grant.
 - (b) Line b - LESS: CUMULATIVE PROGRAM INCOME. If reports are prepared on a cash basis enter the cumulative program income received which is required to be used for the project or program by the terms of the grant. If the report is prepared on an accrual basis enter the amount earned to date.
 - (c) Line c - NET PROGRAM OUTLAYS. Enter the result of line a, Total program outlays to date, less line b, Cumulative program income.

- (d) Line d - ESTIMATED CASH OUTLAYS FOR ADVANCE PERIOD. Enter the total estimated amount of cash outlays that will be made during the period covered by the advance, as shown in Item 8. If this request is for reimbursement, enter "N/A."
 - (e) Line e - TOTAL OF LINES C AND D. This amount represents both net and estimated outlays.
 - (f) Line f - NON-FEDERAL SHARE OF AMOUNT ON LINE E. Enter the amount of the non-federal share of outlays included on line 11e, if applicable.
 - (g) Line g - FEDERAL SHARE OF AMOUNT ON LINE E. Enter the amount of the Federal share of outlays included on line 11e. The amount shown on this line should be the result of line 11e minus line 11f.
 - (h) Line h - FEDERAL PAYMENTS PREVIOUSLY REPORTED. Enter the sum of the cumulative amount of Federal payments received and the cumulative amount of previous requests still outstanding.
 - (i) Line i - FEDERAL SHARE NOW REQUESTED. Enter the result of line 11g less line 11h.
 - (j) Line j - MONTHLY ADVANCE REQUIREMENTS. Enter "0" on each of the lines since advances shall be requested for only a one month period.
- (12) Item 12 - REMARKS.
- (a) If this request reflects both a reimbursement and an advance payment, enter the amount requested for advance funding included on line 11i.
 - (b) This item will also be used by the Institute to indicate approval of the grantees request for payment. The statement "Approved for Payment" shall be dated and certified by an authorized Institute official.
- (13) Item 13 - CERTIFICATION. The contents of this item are self-explanatory. Reports should be certified by an authorized official before submission.

33. The Grant Progress Report is submitted on a regular basis to the Institute. This report serves as the narrative performance report for all grants.
- 34-38. RESERVED.

U. S. DEPARTMENT OF JUSTICE
NATIONAL INSTITUTE OF CORRECTIONS
320 FIRST STREET, N.W., WASHINGTON, D. C. 20534

H-1 Report

FINANCIAL STATUS REPORT		1. Federal Agency and Organizational Element U. S. Department of Justice, NATIONAL INSTITUTE OF CORRECTIONS			2. Federal Grant No. or Other Identifying No. 76-NIC-02-0006						
3. Name and Address of Grantee Organization Alabama Law Enforcement Agency 501 Adams Avenue Montgomery, Alabama 36104		4. Employer Identification No. 636000619	5. Grantee Account No. or Identifying No. N/A		6. Final Report <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		7. Basis of Report CASH Accrued Expenditures				
		8. Project Period (Month, Day, Year) FROM 07 01 76 TO 06 30 77			9. Report Period (Month, Day, Year) FROM 07 01 76 TO 09 30 76						
10. STATUS OF FUNDS		PROGRAMS — FUNCTIONS — ACTIVITIES									
		(1)	(2)	(3)	(4)	(5)	(6)	TOTAL			
a.	Total outlays previously reported (Line 100 from previous report)							-0-			
b.	Total program outlays this period							9,000			
c.	Less: Program income credits							-0-			
d.	Net program outlays this period (Line b minus Line c)							9,000			
e.	Total program outlays to date (Sum of Lines a and d)							9,000			
f.	Less: Non-Federal share of program outlays							1,319			
g.	Total Federal share of program outlays (Line e minus Line f)							7,681			
h.	Total unpaid obligations							2,410			
i.	Less: Non-Federal share of unpaid obligations							410			
j.	Federal share of unpaid obligations (Line h minus Line i)							2,000			
k.	Total Federal share of outlays and unpaid obligations (Line g plus Line j)							9,681			
l.	Total Federal funds authorized							27,000			
m.	Unutilized balance of Federal funds (Line l minus Line k)							17,319			
11. Interest Expense - a. Type of rate (Mark box) <input checked="" type="checkbox"/> Prorated <input type="checkbox"/> Final <input type="checkbox"/> Predetermined <input type="checkbox"/> Fixed		12. REMARKS (Attach additional sheets if necessary)			13. CERTIFICATION - I certify that to the best of my knowledge and belief this report is correct and complete and that all outlays and unpaid obligations are for the purposes set forth in the grant award documents.						
b. Rate 27%	c. Base \$2,560							Signature of Authorized Officer T. J. Henry		TELEPHONE Area Code No. Ext. 205 476 3128	
d. Total amount \$1,356	e. Federal share \$1,220							Date Reported T. J. Henry		Date Reported Oct. 20, 1976	

INSTRUCTIONS FOR PREPARING THE FINANCIAL STATUS REPORT

Item 2 - Enter the Federal grant number.

Item 3 - Enter the name and complete mailing address including the ZIP code for the grantee organization.

Item 4 - Enter the employer identification number assigned by the U. S. Internal Revenue Service.

Item 5 - Enter "NA" for not applicable.

Items 6 and 7 - Mark the appropriate block.

Item 8 - Enter the month, day, and year of the beginning and ending period of the grant. The ending period should reflect any approved extension date.

Item 9 - Enter the month, day, and year of the beginning and ending dates of the quarter for which this report is prepared.

Item 10 -

Line a. Enter the total outlays reported on Line 10e of the previous report. Show zero, if this is the initial report for the grant.

Line b. Enter the total gross program outlays for this report period, including disbursements of cash realized as program income. For reports which are prepared on a cash basis, outlays are the sum of the subgrantees actual cash disbursements for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to contractors. For reports prepared on an accrued expenditure basis, outlays are the sum of the subgrantees actual cash disbursements, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase (or decrease) in the amounts owed by the subgrantee for goods and other property received and for services performed by employees, contractors, and other payees.

Line c. The report prepared on a cash basis, enter the amount of cash income received during the quarter which is to be used in the project or program in accordance with the terms of the grant. For reports prepared on an accrual basis, enter the amount of the net increase (or decrease) in the amount of accrued income since the beginning of the report period.

Line d. This amount should be the difference between amounts shown on Lines b and c.

Line e. Enter the sum of amounts shown on Lines a and d above. This amount represents the cumulative outlays to date of both Federal and non-Federal funds.

Line f. Enter the cumulative non-Federal share ("Match") of the program outlays included in the amount of Line e.

Line g. Enter the cumulative Federal share of program outlays. The amount should be the difference between Lines e and f.

Line h. For reports prepared on a cash basis, enter the total amount of unpaid obligations for this grant.

For reports prepared on an accrued expenditure basis, enter the amount of undelivered orders and other outstanding obligations. Do not include any amounts that have been included on Lines a through g. On the final report, Line h should have a zero balance.

Line i. Enter the non Federal share of unpaid obligations included on Line h. On the final report, Line i should have a zero balance.

Line j. Enter the Federal share of unpaid obligations included on Line h. The amount shown on this line should be the difference between the amounts on Lines h and i. On the final report, Line j should have a zero balance.

Line k. Enter the sum of the amounts shown on Lines g and j. If the report is final, the report should not contain any unpaid obligations.

Line l. Enter the total amount of the federal grant.

Line m. Enter the unobligated balance of Federal funds. This amount should be the difference between Lines l and k.

Item 11 - INDIRECT EXPENSE

a. Type of rate - Mark appropriate block.

b. Rate - Enter the rate in effect during the quarter.

c. Base - Enter the amount of the base to which the rate was applied.

d. Total Amount - Enter the total amount of the Federal share charged during the quarter.

e. Federal Share - Enter the amount of the Federal share charged during the report period.

(When reporting on Planning or Block Action Grants, complete only items d and e. Enter "N/A" for items a through c.)

If more than one rate was applied during the project period, include a separate schedule which shows the basis against which the indirect cost rates were applied, the respective indirect rates, the month, day, and year the indirect rates were in effect, amounts of indirect expense charged to the project, and the Federal share of indirect expense charged to the project to date. (See Office of Management and Budget Circular No. A-87 which contains principles for determining allowable costs of grants and contracts with State and local governments.)

Item 13 - The contents of this item are self-explanatory.

ADDITIONAL INFORMATION

A. All credit figures will be shown in parentheses.

B. Due Date: Quarterly, within 30 days after end of quarter. Final reports are due 90 days after end of grant period or after completion.

C. Distribution: ORIGINAL AND ONE COPY TO:
NATIONAL INSTITUTE OF CORRECTIONS
320 FIRST STREET, N.W., WASHINGTON, D.C. 20534

ONE COPY TO BE RETAINED BY GRANTEE.

REPORT OF FEDERAL CASH TRANSACTIONS		1. Federal Agency and Organizational Element U. S. Department of Justice		
2. Name of Grantee Organization Alabama Law Enforcement		4. Federal Grant No. or Other Identifying No. 76-NIC-01-0001	5. Grantee's Account No. or Identifying No. N/A	
3. Street Address 501 Adams Avenue		6. Letter of Credit No. N/A	7. Last Payment Voucher No.	
Montgomery, Alabama 36104		8. Number of Payment Vouchers	9. No. of Treasury Checks Received	
1. Federal Employer Identification No. 636000619		10. Report Period (Month, Day, Year) FROM 09 01 76 TO 09 30 76		
11. STATUS OF FEDERAL CASH				
a. Cash on hand beginning of period (Line 11 j) from previous report		\$ 1,576		
b. Letter of credit withdrawals		\$ N/A		
c. Treasury check payments		\$ 15,784		
d. Total receipts (Sum of Lines b and c)		\$ 15,784		
e. Total cash available (Sum of Lines a and d)		\$ 17,360		
f. Gross disbursements		\$ 15,200		
g. Federal share of program income		\$ -0-		
h. Net disbursements (Line f minus Line g)		\$ 15,200		
i. Adjustments of prior periods		\$ -0-		
j. Cash on hand end of period (Line e less Line h plus or minus Line i)		\$ 2,160		
12. The amount in item 11) represents cash requirements for the ensuing 30 days.				
13. OTHER INFORMATION				
a. Interest income		\$ N/A		
b. Advances to subgrantees		\$ N/A		
14. REMARKS (Attach additional sheets if necessary)				
15. CERTIFICATION - I certify that to the best of my knowledge and belief this report is true in all respects and that all disbursements have been made for the purposes and conditions of the grant				
Name T. J. Henry		Title Financial Officer		TELEPHONE Area Code 205 Number 476 Ext. 3128
Signature of Author and Official <i>T. J. Henry</i>		Date Report is Submitted October 7, 1973		
FOR AGENCY USE ONLY				
Batch No. _____				
Date Processed _____				
Initials _____				

**INSTRUCTIONS FOR PREPARING PAGE 1
OF THE REPORT OF FEDERAL CASH
TRANSACTIONS**

Item 2 - Enter the name and complete mailing address including the Zip Code for the grantee organization.

Item 3 - Enter the employer identification number assigned by the U.S. Internal Revenue Service.

Item 4 - Enter the Federal grant number if this report covers only one grant. If more than one grant is covered by this report, leave this space blank and provide the information on page 2.

Item 5 - Enter "N/A" for not applicable.

Item 6 - Enter the Letter of Credit number which applies to this report. If all Federal funds received were by Treasury check, enter "N/A" for not applicable.

Item 7 - Enter the voucher number of the last letter of credit payment voucher (Form TUS 5401) which was credited to your account as of the end of the reporting month. Do not use the serial number preprinted on the payment vouchers (Form TUS 5401). If all Federal funds received were by Treasury check, enter "N/A" for not applicable.

Item 8 - Enter the total number of letter of credit payment vouchers which were credited to your account during the reporting month. If all Federal funds received were by Treasury check, enter "N/A" for not applicable.

Item 9 - Enter the total number of Treasury checks received during the reporting month whether or not deposited. If all Federal funds received were through payment vouchers (Form TUS 5401) enter "N/A" for not applicable.

Item 10 - Enter the month, day, and year of the beginning and ending dates of the month covered by this report.

Item 11 -

Line a. Enter the total amount of Federal cash on hand at the beginning of the month including all of the Federal funds on deposit, imprest funds, and undeposited Treasury checks. This amount should equal Line 11 j, from the previous month's report.

Line b. Enter the total of all Federal funds received through payment vouchers (Form TUS 5401) which were credited to your account during the reporting month. If all Federal funds received were by Treasury check, enter "-0-".

Line c. Enter the total of all Federal funds received during the reporting month through Treasury checks, whether or not deposited. If all Federal funds received were through payment vouchers (Form TUS 5401), enter "-0-".

Line d. Enter the sum of lines b and c.

Line e. Enter the sum of lines a and d.

Line f. Enter the total Federal cash disbursements made by the grantee during the reporting period. Disbursements include the amount of advances and payments less refunds of Federal funds received.

Line g. Enter the Federal share of program income received by the grantee during the reporting month. Enter only the amount of program income which was required to be used on the project or program by the terms of the grant.

Line h. Enter the net disbursements. This amount is the difference between the amount shown on Line f minus the amount on Line g. If more than one grant is covered by this report, this amount should equal the total of column 6a, shown in item 7, page 2.

Line i. Enter the amount of all adjustments pertaining to prior periods affecting the ending balance (Line 11 j) which have not been included in any lines above. In the "Remarks" section identify by Federal grant number the amount of the adjustment and an explanation.

Line j. Enter the total amount of Federal cash on hand at the end of the reporting month. This amount should equal the net of Lines e, less h, plus or minus i.

Item 12 - Enter the estimated number of days until the cash on hand, shown on Line 11 j, will be expended. If more than seven days cash requirements are on hand, provide an explanation in the "Remarks" section of the amount and reason of the excess cash.

Item 13 -

Line a. Enter "N/A" for not applicable.

Line b. Enter "N/A" for not applicable.

Item 14 - Provide the following information, if applicable:

- a. The amount and an explanation, identified by Federal grant number, of the adjustment shown on Line 11i.
- b. The amount and reason of cash on hand in excess of seven days cash requirements.

Item 15 - The contents of this item are self-explanatory.

ADDITIONAL INFORMATION

- A. One report is prepared _____ grantee.
- B. All credit figures will be shown in parenthesis ().
- C. **Due Date:** Monthly, on the 15th day of the following month.
- D. **Distribution:** ORIGINAL AND ONE COPY TO:
NATIONAL INSTITUTE OF CORRECTIONS
320 FIRST STREET, N.W., WASHINGTON, D.C. 20534

One copy to be retained by _____ grantee.

REPORT OF FEDERAL CASH TRANSACTIONS		1. Federal Agency and Organizational Element U. S. Department of Justice	
2. Name of Grantee Organization Alabama Law Enforcement		3. Report Period (Month, Day, Year) FROM TO 09 01 76 09 30 76	
4. Federal Grant No. or Other Identifying No.	5. Grantee's Account No. or Identifying No.	6. Federal Share of Net Disbursements	
		a. For the Period	b. Cumulative
76-NIC-01-0001		\$13,519	\$15,200
76-NIC-02-0006		1,681	7,681
7. TOTALS		• 15,200	\$22,881

* This total should be the same as the amount shown on Line 11 h on page 1.

**INSTRUCTIONS FOR PREPARING PAGE 2 OF
THE REPORT OF FEDERAL CASH TRANSACTIONS**

This page will be used as an attachment to the Report of Federal Cash Transactions when reporting on more than one grant.

Item 2 – Enter only the name of the grantee as shown on Item 2 of page 1.

Item 3 – Enter the reporting month covered by this report as shown in Item 10 of page 1.

Item 4 – Enter the Federal grant number for each grant to which Federal cash disbursements were made and/or refunds of Federal funds were received. Each grant should be shown on a separate line. The Federal grant numbers applicable to disbursements made for refunds returned should be listed last. Draw a line to separate this section and enter "Refunds" before entering the applicable grant numbers.

Item 5 – This item should be left blank.

Item 6 –

Column a. Show the total current month Federal cash disbursements made, less Federal program income and refunds received by the SPA or other grantee for each grant shown under item 4.

Column b. Show the cumulative net Federal Cash disbursements for each grant shown under item 4. This amount should equal the sum of the amount shown in column 6a on this report, plus or minus any adjustments included in Line 11i on page 1, and the cumulative total shown in column 6b on the last report which included this grant. Do not show cumulative amounts for refunds

Item 7 – Enter the totals for columns 6a and 6b. The total of column 6a must agree with the amount reported on line 11h of page 1.

NOTE: All credit figures will be shown in parenthesis ().

U. S. DEPARTMENT OF JUSTICE
 NATIONAL INSTITUTE OF CORRECTIONS
 326 FIRST STREET, N. W., WASHINGTON, D. C. 20534

H-3 Report

REQUEST FOR ADVANCE OR REIMBURSEMENT		1. Federal Agency and Organizational Element U. S. Department of Justice, NATIONAL INSTITUTE OF CORR.		2. Federal Grant No. or Other Identifying No. 76-NTC-01-0001	
3. Type of Payment Requested a. <input type="checkbox"/> Advance <input type="checkbox"/> Reimbursement		b. <input type="checkbox"/> Final <input checked="" type="checkbox"/> Partial		4. Date of Report <input checked="" type="checkbox"/> Cash <input type="checkbox"/> Accrued Expenditures	
6. Employer Identification No. 536001131		7. Grantee Account No. or Identifying No. N/A		5. Partial Payment Request No. 2	
8. Period Covered (Month, Day, Year) FROM 10 01 76 TO 10 31 76		9. Name of Grantee Organization D.C. Office of Criminal Justice <small>STREET NO. AND NAME</small> 1329 E Street, N. W. <small>CITY STATE ZIP CODE</small> Washington, D. C. 20004			
10. Name of Payee (if different than item 9) <small>STREET NO. AND NAME</small> <small>CITY STATE ZIP CODE</small>					
II. COMPUTATION OF AMOUNT REQUESTED					
	PROGRAMS — FUNCTIONS — ACTIVITIES			TOTAL	
	(1)	(2)	(3)		
a. Total program outlays to date as of 09/30/76	\$	\$	\$	\$ 15,200	
b. Less Cumulative program income				-0-	
c. Net program outlays (Line a minus Line b)				15,200	
d. Estimated net cash outlays for advance period				3,500	
e. Total of Lines c and d				18,700	
f. Non-Federal share of amount on Line e				2,000	
g. Federal share of amount on Line e				16,700	
h. Federal payments previously requested				15,000	
i. Federal share now requested (Line g minus Line h)				1,700	
j. Monthly advance requirements:					
(1) 1st month				-0-	
(2) 2nd month				-0-	
(3) 3rd month				-0-	
12. REMARKS (Attach additional sheets if necessary)					
13. I certify that to the best of my knowledge and belief the data reported above is correct and that all outlays were made in accordance with grant conditions and that payment is due and has not been previously requested.					
Name Robert S. Jones		Title Financial Officer		TELEPHONE Area Code 202 Number 123 Ext. 4567	
Signature of Authorized Official <i>Robert S. Jones</i>				Date Report is Submitted 10/05/76	
Batch No. _____		FOR AGENCY USE ONLY			
Date Processed _____					
Initials _____					

**INSTRUCTIONS FOR PREPARING THE
REQUEST FOR ADVANCE OR REIMBURSEMENT**

Item 2 - Enter the Federal grant number.

Item 3 - Indicate with an "X" whether the type of payment requested is

- a. An advance, reimbursement, or both
- b. Final or partial

Item 4 - Indicate with an "X" whether the report is prepared on a cash or accrued expenditure basis. All requests which are for advances only shall be prepared on a cash basis.

Item 5 - Enter the payment request number for this request.

Item 6 - Enter the employer identification number assigned by the U. S. Internal Revenue Service.

Item 7 - Enter "N/A" for not applicable.

Item 8 - Enter the month, day, and year for the beginning and ending of the period covered in this request. If the request is for an advance or for both an advance and reimbursement, show the month that the advance will cover. If the request is for a reimbursement, show the period for which the reimbursement is requested.

Item 9 - Enter the name and complete mailing address, including ZIP Code for the grantee organization.

Item 10 - Enter the name and complete mailing address, including ZIP Code of the payee if it is different than the grantee organization shown in Item 9.

Item 11 - COMPUTATION OF AMOUNT REQUESTED. Only the "Total" column should be used. Vertical columns (1) through (3) are not applicable.

Line a - On the stub enter the month, day, and year of the ending of the accounting period to which this amount applies. Enter program outlays to date in the appropriate columns. For reports which are prepared on a cash basis, outlays are the sum of actual cash disbursements for goods and services, the amount of indirect expenses charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to sub-contractors and subgrantees. For reports prepared on an accrued expenditure basis, outlays are the sum of the actual cash disbursements, the amount of indirect expenses incurred, the value of in-kind contributions applied, amounts owed by the grantee for goods and other property received, amounts owed for services performed by employees, contractors, subgrantees, and other payees, and amounts becoming owed for which no current service or performance is required.

Line b - Enter the cumulative cash income received to date, if reports are prepared on a cash basis. For reports prepared on an accrued expenditure basis, enter the cumulative income earned to date. Under either basis, enter only the amount applicable to program income which was required to be used for the project or program by the terms of the grant.

Line c - This amount should be the difference between the amounts shown on Line a less the amounts shown on Line b.

Line d - Only when making requests for advance payments, enter the total estimated amount of cash outlays that will be made during the period covered by the advance.

Line e - Enter the total of Lines c and d.

Line f - Enter the non-Federal share of the amount shown on Line e.

Line g - Enter the Federal share of the amount shown on Line e.

Line h - Enter the cumulative amount of Federal payments received and amounts included in outstanding requests.

Line i - Enter the Federal share now requested, (Line g minus Line h).

Line j - Enter "-0-" on each of the lines. Advances shall be requested for only a one month period.

Item 12 - Provide the following information, if applicable:

- a. Requests reflecting both a reimbursement and an advance payment - enter the amount included on line 11i for each type of payment requested.

Item 13 - The contents of this section are self-explanatory.

ADDITIONAL INFORMATION

- A. All credit figures will be shown in parenthesis ().
- B. Submission: On a monthly basis, as needed. Advances shall be requested for only a one month period.
- C. Distribution: Original and one copy to the National Institute of Corrections, 320 First St., N.W. Washington, D. C. 20534. One copy to be retained by grantee.

GENERAL SERVICES ADMINISTRATION
OFFICE OF FEDERAL MANAGEMENT POLICY

FEDERAL MANAGEMENT CIRCULAR

FMC 74-4: Cost principles applicable to grants
and contracts with State and local
governments

July 18, 1974

TO: HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

1. Purpose. This circular establishes principles and standards for determining costs applicable to grants and contracts with State and local governments.
2. Supersession. The President by Executive Order 11717 transferred the functions covered by this circular from the Office of Management and Budget to the General Services Administration. This circular is therefore issued as a replacement for previous Office of Management and Budget Circular No. A-87. No substantive changes have been made.
3. Policy intent. This circular provides principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. They are designed to provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between grantees and the Federal Government. The principles are for determining costs only and are not intended to identify the circumstances nor to dictate the extent of Federal and State or local participation in the financing of a particular project. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.

July 18, 1974

4. Applicability and scope.

a. The provisions of this circular apply to all Federal agencies responsible for administering programs that involve grants and contracts with State and local governments.

b. Its provisions do not apply to grants and contracts with:

(1) Publicly financed educational institutions subject to Federal Management Circular 73-8; and

(2) Publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

Any other exceptions will be approved by the General Services Administration in particular cases where adequate justification is presented.

5. Attachments. The principles and related policy guides are set forth in the attachments, which are:

Attachment A - Principles for determining costs applicable to grants and contracts with State and local governments

Attachment B - Standards for selected items of cost

6. Inquiries. Further information concerning this circular may be obtained by contacting:

General Services Administration (AMF)
Washington, DC 20405

Telephone: IDS 183-7747
FTS 202-343-7747


DWIGHT A. JWK
Acting Administrator of General Services

(Note: This circular will be codified in the Code of Federal Regulations as 34 CFR 255.)

APPENDIX 1

Federal Management Circular 74-4
Attachment A

PRINCIPLES FOR DETERMINING COSTS APPLICABLE

TO GRANTS AND CONTRACTS WITH

STATE AND LOCAL GOVERNMENTS



PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND
CONTRACTS WITH STATE AND LOCAL GOVERNMENTS

TABLE OF CONTENTS

	<u>Page</u>
A. <u>Purpose and scope</u>	
1. Objectives.....	1
2. Policy guides.....	1
3. Application.....	1
B. <u>Definitions</u>	
1. Approval or authorization of the grantor Federal agency.....	1
2. Cost allocation plan.....	1
3. Cost.....	2
4. Cost objective.....	2
5. Federal agency.....	2
6. Grant.....	2
7. Grant program.....	2
8. Grantee.....	2
9. Local unit.....	2
10. Other State or local agencies.....	2
11. Services.....	2
12. Supporting services.....	2
C. <u>Basic guidelines</u>	
1. Factors affecting allowability of costs.....	3
2. Allocable costs.....	3
3. Applicable credits.....	3
D. <u>Composition of cost</u>	
1. Total cost.....	4
2. Classification of costs.....	4
E. <u>Direct costs</u>	
1. General.....	4
2. Application.....	4
F. <u>Indirect costs</u>	
1. General.....	5
2. Grantee departmental indirect costs.....	5
3. Limitation on indirect costs.....	6
G. <u>Cost incurred by agencies other than the grantee</u>	
1. General.....	6
2. Alternative methods of determining indirect cost.....	6
H. <u>Cost incurred by grantee department for others</u>	
1. General.....	6
J. <u>Cost allocation plan</u>	
1. General.....	6
2. Requirements.....	7

TABLE OF CONTENTS (Continued)

	<u>Page</u>
J. <u>Cost allocation plan</u> (continued)	
3. Instructions for preparation of cost allocation plans.....	7
4. Negotiation and approval of indirect cost proposals for States.....	7
5. Negotiation and approval of indirect cost proposals for local governments.....	8
6. Resolution of problems.....	8

PRINCIPLES FOR DETERMINING
COSTS APPLICABLE TO GRANTS AND CONTRACTS
WITH STATE AND LOCAL GOVERNMENTS

A. Purpose and scope.

1. Objectives. This attachment sets forth principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a particular grant. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.

2. Policy guides. The application of these principles is based on the fundamental premises that:

a. State and local governments are responsible for the efficient and effective administration of grant and contract programs through the application of sound management practices.

b. The grantee or contractor assumes the responsibility for seeing that federally assisted program funds have been expended and accounted for consistent with underlying agreements and program objectives.

c. Each grantee or contractor organization, 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.

3. Application. These principles will be applied by all Federal agencies in determining costs incurred by State and local governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) except those with (a) publicly financed educational institutions subject to Federal Management Circular 73-8, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

B. Definitions.

1. Approval or authorization of the grantor Federal agency means documentation evidencing consent prior to incurring specific cost.

2. Cost allocation plan means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used.

July 18, 1974

3. Cost, as used herein, means cost as determined on a cash, accrual, or other basis acceptable to the Federal grantor agency as a discharge of the grantee's accountability for Federal funds.

4. Cost objective means a pool, center, or area established for the accumulation of cost. Such areas include organizational units, functions, objects or items of expense, as well as ultimate cost objectives including specific grants, projects, contracts, and other activities.

5. Federal agency means any department, agency, commission, or instrumentality in the executive branch of the Federal Government which makes grants to or contracts with State or local governments.

6. Grant means an agreement between the Federal Government and a State or local government whereby the Federal Government provides funds or aid in kind to carry out specified programs, services, or activities. The principles and policies stated in this circular as applicable to grants in general also apply to any federally sponsored cost reimbursement type of agreement performed by a State or local government, including contracts, subcontracts and subgrants.

7. Grant program means those activities and operations of the grantee which are necessary to carry out the purposes of the grant, including any portion of the program financed by the grantee.

8. Grantee means the department or agency of State or local government which is responsible for administration of the grant.

9. Local unit means any political subdivision of government below the State level.

10. Other State or local agencies means departments or agencies of the State or local unit which provide goods, facilities, and services to a grantee.

11. Services, as used herein, means goods and facilities, as well as services.

12. Supporting services means auxiliary functions necessary to sustain the direct effort involved in administering a grant program or an activity providing service to the grant program. These services may be centralized in the grantee department or in some other agency, and include procurement, payroll, personnel functions, maintenance and operation of space, data processing, accounting, budgeting, auditing, mail and messenger service, and the like.

C. Basic guidelines.

1. Factors affecting allowability of costs. To be allowable under a grant program, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient administration of the grant program, be allocable thereto under these principles, and, except as specifically provided herein, not be a general expense required to carry out the overall responsibilities of State or local governments.

b. Be authorized or not prohibited under State or local laws or regulations.

c. Conform to any limitations or exclusions set forth in these principles, Federal laws, or other governing limitations as to types or amounts of cost items.

d. Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part.

e. Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

f. Not be allocable to or included as a cost of any other federally financed program in either the current or a prior period.

g. Be net of all applicable credits.

2. Allocable costs.

a. A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

b. Any cost allocable to a particular grant or cost objective under the principles provided for in this circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

c. Where an allocation of joint cost will ultimately result in charges to a grant program, an allocation plan will be required as prescribed in section J.

3. Applicable credits.

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are:

purchase discounts; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipment, and scrap; income from personal or incidental services; and adjustments of overpayments or erroneous charges.

b. Applicable credits may also arise when Federal funds are received or are available from sources other than the grant program involved to finance operations or capital items of the grantee. This includes costs arising from the use or depreciation of items donated or financed by the Federal Government to fulfill matching requirements under another grant program. These types of credits should likewise be used to reduce related expenditures in determining the rates or amounts applicable to a given grant.

D. Composition of cost.

1. Total cost. The total cost of a grant program is comprised of the allowable direct cost incident to its performance, 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 grant or other ultimate cost objective. It is essential therefore that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under grant programs are provided in the sections which follow.

E. Direct costs.

1. General. Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged. Direct costs may also be charged to cost objectives used for the accumulation of costs pending distribution in due course to grants and other ultimate cost objectives.

2. Application. Typical direct costs chargeable to grant programs are:

a. Compensation of employees for the time and effort devoted specifically to the execution of grant programs.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of the grant.

c. Equipment and other approved capital expenditures.

d. Other items of expense incurred specifically to carry out the grant agreement.

e. Services furnished specifically for the grant program by other agencies, provided such charges are consistent with criteria outlined in Section G. of these principles.

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 the grantee department. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect cost within a grantee department or in other agencies providing services to a grantee department. Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.

2. Grantee departmental indirect costs. All grantee departmental indirect costs, including the various levels of supervision, are eligible for allocation to grant programs provided they meet the conditions set forth in this circular. In lieu of determining the actual amount of grantee departmental indirect cost allocable to a grant program, the following methods may be used:

a. Predetermined fixed rates for indirect costs. A predetermined fixed rate for computing indirect costs applicable to a grant may be negotiated annually in situations where the cost experience and other pertinent facts available are deemed sufficient to enable the contracting parties to reach an informed judgment (1) as to the probable level of indirect costs in the grantee department during the period to be covered by the negotiated rate, and (2) that the amount allowable under the predetermined rate would not exceed actual indirect cost.

b. Negotiated lump sum for overhead. A negotiated fixed amount in lieu of indirect costs may be appropriate under circumstances where the benefits derived from a grantee department's indirect services cannot be readily determined as in the case of small, self-contained or isolated activity. When this method is used, a determination should be made that the amount negotiated will be approximately the same as the actual indirect cost that may be incurred. Such amounts negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses of the grantee department before allocation to remaining activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

3. Limitation on indirect costs.

a. Federal grants may be subject to laws that limit the amount of indirect cost that may be allowed. Agencies that sponsor grants of this type will establish procedures which will assure that the amount actually allowed for indirect costs under each such grant does not exceed the maximum allowable under the statutory limitation or the amount otherwise allowable under this circular, whichever is the smaller.

b. When the amount allowable under a statutory limitation is less than the amount otherwise allocable as indirect costs under this circular, the amount not recoverable as indirect costs under a grant may not be shifted to another federally sponsored grant program or contract.

G. Cost incurred by agencies other than the grantee.

1. General. The cost of service provided by other agencies may only include allowable direct costs of the service plus a prorata share of allowable supporting costs (section B.12.) and supervision directly required in performing the service, but not supervision of a general nature such as that provided by the head of a department and his staff assistants not directly involved in operations. However, supervision by the head of a department or agency whose sole function is providing the service furnished would be an eligible cost. Supporting costs include those furnished by other units of the supplying department or by other agencies.

2. Alternative methods of determining indirect cost. In lieu of determining actual indirect cost related to a particular service furnished by another agency, either of the following alternative methods may be used provided only one method is used for a specific service during the fiscal year involved.

a. Standard indirect rate. An amount equal to ten percent of direct labor cost in providing the service performed by another State agency (excluding overtime, shift, or holiday premiums and fringe benefits) may be allowed in lieu of actual allowable indirect cost for that service.

b. Predetermined fixed rate. A predetermined fixed rate for indirect cost of the unit or activity providing service may be negotiated as set forth in section F.2.a.

H. Cost incurred by grantee department for others.

1. General. The principles provided in section G. will also be used in determining the cost of services provided by the grantee department to another agency.

J. Cost allocation plan.

1. General. A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs

included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges.

2. Requirements. The allocation plan of the grantee department should cover all joint costs of the department as well as costs to be allocated under plans of other agencies or organizational units which are to be included in the costs of federally sponsored programs. The cost allocation plans of all the agencies rendering services to the grantee department, to the extent feasible, should be presented in a single document. The allocation plan should contain, but not necessarily be limited to, the following:

a. The nature and extent of services provided and their relevance to the federally sponsored programs.

b. The items of expense to be included.

c. The methods to be used in distributing cost.

3. Instructions for preparation of cost allocation plans. The Department of Health, Education, and Welfare, in consultation with the other Federal agencies concerned, will be responsible for developing and issuing the instructions for use by State and local government grantees in preparation of cost allocation plans. This responsibility applies to both central support services at the State and local government level and indirect cost proposals of individual grantee departments.

4. Negotiation and approval of indirect cost proposals for States.

a. The Department of Health, Education, and Welfare, in collaboration with the other Federal agencies concerned, will be responsible for negotiation, approval, and audit of cost allocation plans, which will be submitted to it by the States. These plans will cover central support service costs of the State.

b. At the grantee department level in a State, a single Federal agency will have responsibility similar to that set forth in a., above, for the negotiation, approval, and audit of the indirect cost proposal. Cognizant Federal agencies have been designated for this purpose. Changes which may be required from time to time in agency assignments will be arranged by the Department of Health, Education, and Welfare in collaboration with the other interested agencies, and submitted to the General Services Administration for final approval. A current list of agency assignments will be maintained by the Department of Health, Education, and Welfare.

c. Questions concerning the cost allocation plans approved under a. and b., above, should be directed to the agency responsible for such approvals.

July 18, 1974

5. Negotiation and approval of indirect cost proposals for local governments.

a. Cost allocation plans will be retained at the local government level for audit by a designated Federal agency except in those cases where that agency requests that cost allocation plans be submitted to it for negotiation and approval.

b. A list of cognizant Federal agencies assigned responsibility for negotiation, approval and audit of central support service cost allocation plans at the local government level is being developed. Changes which may be required from time to time in agency assignments will be arranged by the Department of Health, Education, and Welfare in collaboration with the other interested agencies, and submitted to the General Services Administration for final approval. A current list of agency assignments will be maintained by the Department of Health, Education, and Welfare.

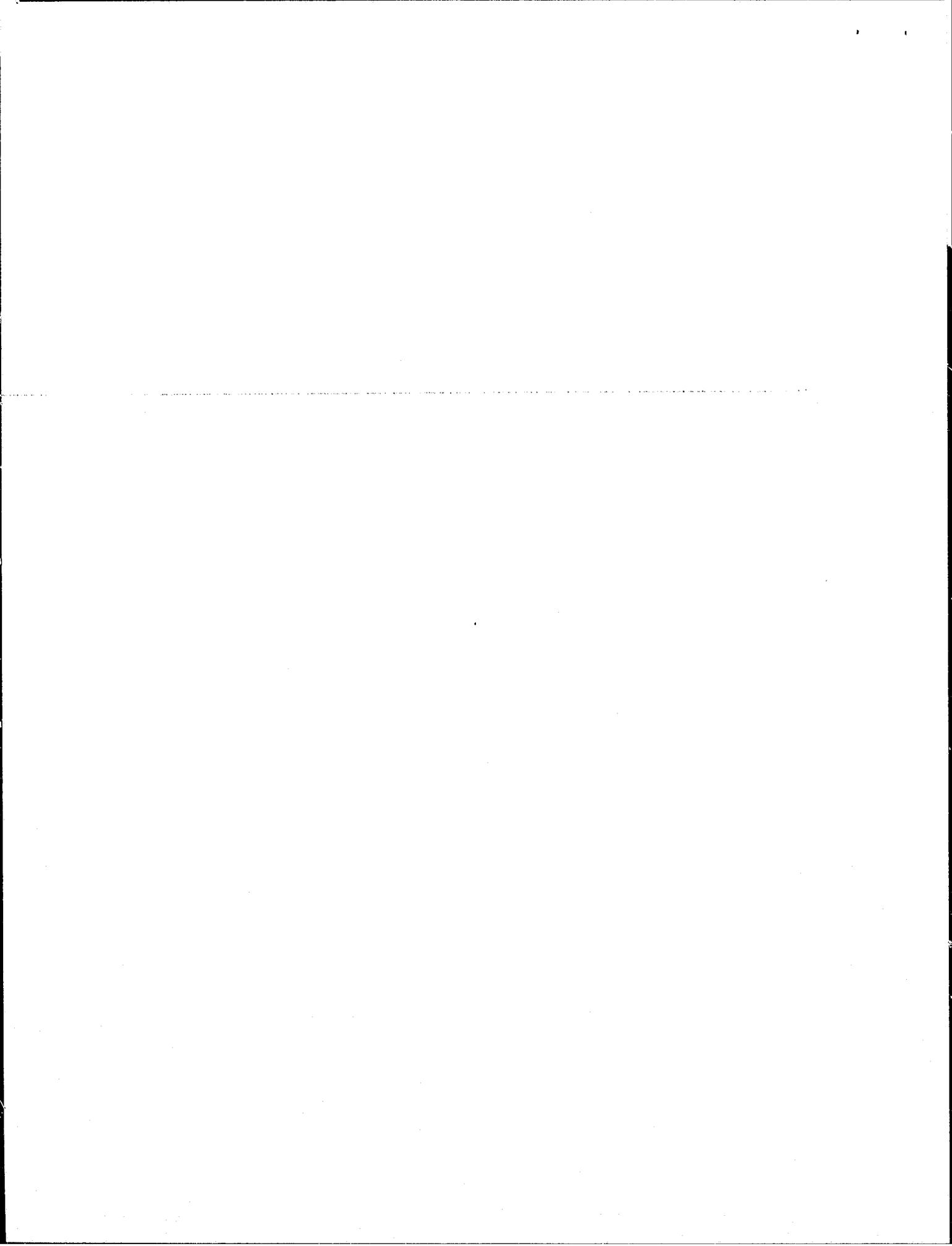
c. At the grantee department level of local governments, the Federal agency with the predominant interest in the work of the grantee department will be responsible for necessary negotiation, approval and audit of the indirect cost proposal.

6. Resolution of problems. To the extent that problems are encountered among the Federal agencies in connection with 4. and 5. above, the General Services Administration will lend assistance as required.

APPENDIX 1

Federal Management Circular 74-4
Attachment B

STANDARDS FOR SELECTED ITEMS OF COST



July 18, 1974

FMC 74-4
Attachment B

STANDARDS FOR SELECTED ITEMS OF COST

TABLE OF CONTENTS

	<u>Page</u>
A. <u>Purpose and applicability</u>	
1. Objective.....	1
2. Application.....	1
B. <u>Allowable costs</u>	
1. Accounting.....	1
2. Advertising.....	1
3. Advisory councils.....	1
4. Audit service.....	1
5. Bonding.....	2
6. Budgeting.....	2
7. Building lease management.....	2
8. Central stores.....	2
9. Communications.....	2
10. Compensation for personal services.....	2
11. Depreciation and use allowances.....	3
12. Disbursing service.....	4
13. Employee fringe benefits.....	4
14. Employee morale, health and welfare costs.....	4
15. Exhibits.....	4
16. Legal expenses.....	4
17. Maintenance and repair.....	4
18. Materials and supplies.....	5
19. Memberships, subscriptions and professional activities.....	5
20. Motor pools.....	5
21. Payroll preparation.....	5
22. Personnel administration.....	5
23. Printing and reproduction.....	5
24. Procurement service.....	5
25. Taxes.....	6
26. Training and education.....	6
27. Transportation.....	6
28. Travel.....	6
C. <u>Costs allowable with approval of grantor agency</u>	
1. Automatic data processing.....	6
2. Building space and related facilities.....	6
3. Capital expenditures.....	7
4. Insurance and indemnification.....	7
5. Management studies.....	8
6. Preagreement costs.....	8
7. Professional services.....	8
8. Proposal costs.....	8

TABLE OF CONTENTS (Continued)

	Page
D. <u>Unallowable costs</u>	
1. Bad debts.....	8
2. Contingencies.....	8
3. Contributions and donations.....	8
4. Entertainment.....	8
5. Fines and penalties.....	8
6. Governor's expenses.....	9
7. Interest and other financial costs.....	9
8. Legislative expenses.....	9
9. Underrecovery of costs under grant agreements.....	9

APPENDIX I

July 18, 1974

FMC 74-4
Attachment B

STANDARDS FOR SELECTED ITEMS OF COST

A. Purpose and applicability.

1. Objective. This attachment provides standards for determining the allowability of selected items of cost.

2. Application. These standards will apply irrespective of whether a particular item of cost is treated as direct or indirect cost. Failure to mention a particular item of cost in the standards 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 of standards provided for similar or related items of cost. The allowability of the selected items of cost is subject to the general policies and principles stated in Attachment A of this circular.

B. Allowable costs.

1. Accounting. The cost of establishing and maintaining accounting and other information systems required for the management of grant programs is allowable. This includes cost incurred by central service agencies for these purposes. The cost of maintaining central accounting records required for overall State or local government purposes, such as appropriation and fund accounts by the Treasurer, Comptroller, or similar officials, is considered to be a general expense of government and is not allowable.

2. Advertising. Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:

- a. Recruitment of personnel required for the grant program.
- b. Solicitation of bids for the procurement of goods and services required.
- c. Disposal of scrap or surplus materials acquired in the performance of the grant agreement.
- d. Other purposes specifically provided for in the grant agreement.

3. Advisory councils. Costs incurred by State advisory councils or committees established pursuant to Federal requirements to carry out grant programs are allowable. The cost of like organizations is allowable when provided for in the grant agreement.

4. Audit service. The cost of audits necessary for the administration and management of functions related to grant programs is allowable.

July 18, 1974

6. Bonding. Costs of premiums on bonds covering employees who handle grantee agency funds are allowable.

6. Budgeting. Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. Costs for services of a central budget office are generally not allowable since these are costs of general government. However, where employees of the central budget office actively participate in the grantee agency's budget process, the cost of identifiable services is allowable.

7. Building lease management. The administrative cost for lease management which includes review of lease proposals, maintenance of a list of available property for lease, and related activities is allowable.

8. Central stores. The cost of maintaining and operating a central stores organization for supplies, equipment, and materials used either directly or indirectly for grant programs is allowable.

9. Communications. Communication costs incurred for telephone calls or service, telegraph, teletype service, wide area telephone service (WATS), centrex, telpak (tie lines), postage, messenger service and similar expenses are allowable.

10. Compensation for personal services.

a. General. Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits (section B.13.). The costs of such compensation are allowable to the extent that total compensation for individual employees: (1) is reasonable for the services rendered, (2) follows an appointment made in accordance with State or local government laws and rules and which meets Federal merit system or other requirements, where applicable; and (3) is determined and supported as provided in b. below. Compensation for employees engaged in federally assisted activities will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the State or local government. In cases where the kinds of employees required for the federally assisted activities are not found in the other activities of the State or local government, 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.

b. Payroll and distribution of time. Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and approved in accordance with generally accepted practice of the State or local agency. Payrolls

July 18, 1974

FMC 74-4
Attachment B

must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

11. Depreciation and use allowances.

a. Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. Use allowances are the means of providing compensation in lieu of depreciation or other equivalent costs. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

b. The computation of depreciation or use allowance will be based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The computation will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government through charges to Federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides. In addition, the computation will also exclude the cost of land. Depreciation or a use allowance on idle or excess facilities is not allowable, except when specifically authorized by the grantor Federal agency.

c. Where the depreciation method is followed, adequate property records must be maintained, and any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected federally sponsored programs and must result in equitable charges considering the extent of the use of the assets for the benefit of such programs.

d. In lieu of depreciation, a use allowance for buildings and improvements may be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment (excluding items properly capitalized as building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment.

e. No depreciation or use charge may be allowed on any assets that would be considered as fully depreciated, provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.

July 18, 1974

12. Disbursing service. The cost of disbursing grant program funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.

13. Employee fringe benefits. Costs identified under a. and b. below are allowable to the extent that total compensation for employees is reasonable as defined in section B.10.

a. Employee 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, court leave, military leave, and the like, if they are: (1) provided pursuant to an approved leave system, and (2) the cost thereof is equitably allocated to all related activities, including grant programs.

b. Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, workmen's compensation insurance, pension plans, severance pay, and the like, provided such benefits are granted under approved plans and are distributed equitably to grant programs and to other activities.

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

15. Exhibits. Costs of exhibits relating specifically to the grant programs are allowable.

16. Legal expenses. The cost of legal expenses required in the administration of grant programs is allowable. Legal services furnished by the chief legal officer of a State or local government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against the Federal Government are unallowable.

17. Maintenance and repair. Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

18. Materials and supplies. The cost of materials and supplies necessary to carry out the grant programs is allowable. Purchases made specifically for the grant program should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. 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 material cost.

19. Memberships, subscriptions and professional activities.

a. Memberships. The cost of membership in civic, business, technical and professional organizations is allowable provided: (1) the benefit from the membership is related to the grant program, (2) the expenditure is for agency membership, (3) the cost of the membership is reasonably related to the value of the services or benefits received, and (4) the expenditure is not for membership in an organization which devotes a substantial part of its activities to influencing legislation.

b. Reference material. The cost of books, and subscriptions to civic, business, professional, and technical periodicals is allowable when related to the grant program.

c. Meetings and conferences. Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee.

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

21. Payroll preparation. The cost of preparing payrolls and maintaining necessary related wage records is allowable.

22. Personnel administration. Costs for the recruitment, examination, certification, classification, training, establishment of pay standards, and related activities for grant programs, are allowable.

23. Printing and reproduction. Cost for printing and reproduction services necessary for grant administration, including but not limited to forms, reports, manuals, and informational literature, are allowable. Publication costs of reports or other media relating to grant program accomplishments or results are allowable when provided for in the grant agreement.

24. Procurement service. The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities and services for grant programs, is allowable.

July 18, 1974

25. Taxes. In general, taxes or payments in lieu of taxes which the grantee agency is legally required to pay are allowable.

26. Training and education. The cost of in-service training, customarily provided for employee development which directly or indirectly benefits grant programs is allowable. Out-of-service training involving extended periods of time is allowable only when specifically authorized by the grantor agency.

27. Transportation. Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.

28. Travel. Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business incident to a grant program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in nonfederally sponsored activities. The difference in cost between first-class air accommodations and less-than-first-class air accommodations is unallowable except when less-than-first-class air accommodations are not reasonably available.

C. Costs allowable with approval of grantor agency.

1. Automatic data processing. The cost of data processing services to grant programs is allowable. This cost may include rental of equipment or depreciation on grantee-owned equipment. The acquisition of equipment, whether by outright purchase, rental-purchase agreement or other method of purchase, is allowable only upon specific prior approval of the grantor Federal agency as provided under the selected item for capital expenditures.

2. Building space and related facilities. The cost of space in privately or publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. The cost of space procured for grant program usage may not be charged to the program for periods of nonoccupancy, without authorization of the grantor Federal agency.

a. Rental cost. The rental cost of space in a privately owned building is allowable.

b. Maintenance and operation. The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent they are not otherwise included in rental or other charges for space.

July 18, 1974

FMC 74-4
Attachment B

c. Rearrangements and alterations. Cost incurred for rearrangement and alteration of facilities required specifically for the grant program or those that materially increase the value or useful life of the facilities (section C.3.) are allowable when specifically approved by the grantor agency.

d. Depreciation and use allowances on publicly owned buildings. These costs are allowable as provided in section B.11.

e. Occupancy of space under rental-purchase or a lease with option-to-purchase agreement. The cost of space procured under such arrangements is allowable when specifically approved by the Federal grantor agency.

3. Capital expenditures. The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency. When assets acquired with Federal grant funds are (a) sold, (b) no longer available for use in a federally sponsored program, or (c) used for purposes not authorized by the grantor agency, the Federal grantor agency's equity in the asset will be refunded in the same proportion as Federal participation in its cost. In case any assets are traded on new items, only the net cost of the newly acquired assets is allowable.

4. Insurance and indemnification.

a. Costs of insurance required, or approved and maintained pursuant to the grant agreement, is allowable.

b. Costs of other insurance in connection with the general conduct of activities is allowable subject to the following limitations:

(1) Types and extent and cost of coverage will be in accordance with general State or local government 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 property is unallowable except to the extent that the grantor agency has specifically required or approved such costs.

c. Contributions to a reserve for a self-insurance program approved by the Federal grantor agency are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and

July 18, 1974

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.

e. Indemnification includes securing the grantee against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the grantee only to the extent expressly provided for in the grant agreement, except as provided in d. above.

5. Management studies. The cost of management studies to improve the effectiveness and efficiency of grant management for ongoing programs is allowable except that the cost of studies performed by agencies other than the grantee department or outside consultants is allowable only when authorized by the Federal grantor agency.

6. Preagreement costs. Costs incurred prior to the effective date of the grant or contract, whether or not they would have been allowable thereunder if incurred after such date, are allowable when specifically provided for in the grant agreement.

7. Professional services. Cost of professional services rendered by individuals or organizations not a part of the grantee department is allowable subject to such prior authorization as may be required by the Federal grantor agency.

8. Proposal costs. Costs of preparing proposals on potential Federal Government grant agreements are allowable when specifically provided for in the grant agreement.

D. Unallowable costs.

1. Bad debts. Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable.

2. Contingencies. Contributions to a contingency reserve or any similar provision for unforeseen events are unallowable.

3. Contributions and donations. Unallowable.

4. Entertainment. Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.

5. Fines and penalties. Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.

July 18, 1974

FMC 74-4
Attachment B

6. Governor's expenses. The salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision are considered a cost of general State or local government and are unallowable.

7. Interest and other financial costs. Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation.

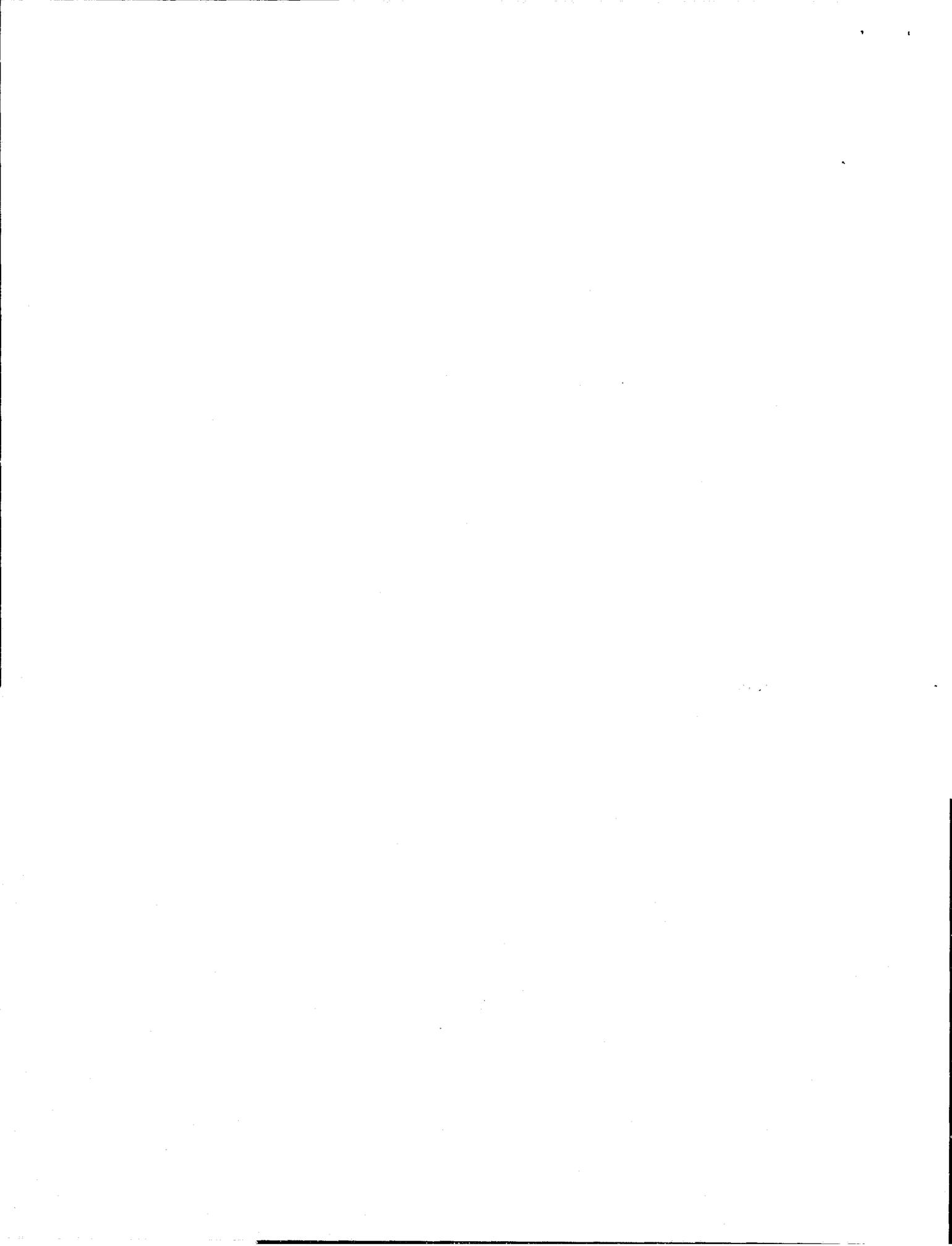
8. Legislative expenses. Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction, are unallowable.

9. Underrecovery of costs under grant agreements. Any excess of cost over the Federal contribution under one grant agreement is unallowable under other grant agreements.



CONTINUED

1 OF 2



GENERAL SERVICES ADMINISTRATION
OFFICE OF FEDERAL MANAGEMENT POLICY

FEDERAL MANAGEMENT CIRCULAR

FMC 73-8: Cost principles for educational
institutions

December 19, 1973

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

1. Purpose. This circular establishes principles for determining costs applicable to grants and contracts with educational institutions.

2. Supersession. The President by Executive Order 11717 transferred the functions covered by this circular from the Office of Management and Budget to the General Services Administration. This circular is therefore issued as a replacement for previous Office of Management and Budget Circular No. A-21.

3. Policy intent. This circular provides principles for determining the costs applicable to research and development and to training and other educational services performed by educational institutions under grants from and contracts with the Federal Government. These principles are confined to the subject of cost determination and make no attempt to identify the circumstances or dictate the extent of agency and institutional participation in the financing of a particular project. The principles are designed to provide recognition of the full allocated costs of such work under generally accepted accounting principles. No provision for profit or other increment above cost is intended.

4. Applicability and scope. The provisions of this circular apply to all Federal agencies that sponsor research and development and training and other educational services work at educational institutions.

Attachment

5. Responsibilities. The successful application of these principles requires development of mutual understanding between representatives of educational institutions and of the Federal Government as to their scope, implementation, and interpretation.

6. Attachments. The principles and related policy guides are set forth in the attachments, which are:

Attachment A - Principles for determining costs applicable to research and development under grants and contracts with educational institutions

Attachment B - Principles for determining costs applicable to training and other educational services under grants and contracts with educational institutions

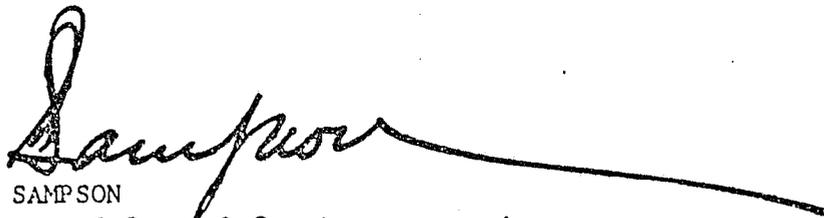
Attachment C - Cost accounting standards issued by the Cost Accounting Standards Board under the authority of Public Law 91-379 (50 U.S.C. App. 2168)

No substantive changes have been made in the attachments from the last version of the predecessor OMB Circular No. A-21.

7. Inquiries. Further information concerning this circular may be obtained by contacting:

General Services Administration (AMF)
Washington, DC 20405

Telephone: IDS 183-7747
FTS 202-343-7747



ARTHUR F. SAMPSON
Administrator of General Services

(Note: This circular will be codified in the Code of Federal Regulations as 34 CFR 254.)

APPENDIX 2

Federal Management Circular 73-8
Attachment A

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO RESEARCH
AND DEVELOPMENT UNDER GRANTS AND CONTRACTS WITH
EDUCATIONAL INSTITUTIONS



APPENDIX 2

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO RESEARCH
AND DEVELOPMENT UNDER GRANTS AND CONTRACTS WITH
EDUCATIONAL INSTITUTIONS

TABLE OF CONTENTS

	<u>Page</u>
A. <u>PURPOSE AND SCOPE</u>	
1. Objectives.....	1
2. Policy guides.....	1
3. Application.....	2
B. <u>DEFINITION OF TERMS</u>	
1. Organized research.....	2
2. Departmental research.....	2
3. Research agreement.....	2
4. Other institutional activities.....	2
5. Apportionment.....	3
6. Allocation.....	3
7. Stipulated salary support.....	3
C. <u>BASIC CONSIDERATIONS</u>	
1. Composition of total costs.....	3
2. Factors affecting allowability of costs.....	3
3. Reasonable costs.....	3
4. Allocable costs.....	4
5. Applicable credits.....	5
6. Costs incurred by State and local governments.....	5
D. <u>DIRECT COSTS</u>	
1. General.....	6
2. Application to research agreements.....	6
E. <u>INDIRECT COSTS</u>	
1. General.....	6
2. Criteria for distribution.....	7
3. Administration of limitations on allowances for research costs.....	10

TABLE OF CONTENTS (Continued)

	<u>Page</u>
F. <u>IDENTIFICATION AND ASSIGNMENT OF INDIRECT COSTS</u>	
1. General administration and general expenses.	10
2. Research administration expenses.....	11
3. Operation and maintenance expenses.....	11
4. Library expenses.....	12
5. Departmental administration expenses.....	13
6. Setoff for indirect expenses otherwise provided for by the Government.....	14
G. <u>DETERMINATION AND APPLICATION OF INDIRECT COST RATE OR RATES</u>	
1. Indirect cost pools.....	14
2. The distribution base.....	15
3. Negotiated lump sum for indirect costs.....	15
4. Predetermined fixed rates for indirect costs.....	16
5. Negotiated fixed rates and carryforward provisions.....	16
H. <u>SIMPLIFIED METHOD FOR SMALL INSTITUTIONS</u>	
1. General.....	17
2. Abbreviated procedure.....	17
J. <u>GENERAL STANDARDS FOR SELECTED ITEMS OF COST</u>	
1. Advertising costs.....	19
2. Bad debts..	19
3. Capital expenditures.....	19
4. Civil defense costs.....	19
5. Commencement and convocation costs.....	20
6. Communication costs.....	20
7. Compensation for personal services.....	20
8. Contingency provisions.....	25
9. Deans of faculty and graduate schools.....	25
10. Depreciation and use allowances.....	25
11. Employee morale, health, and welfare costs and credits.....	27
12. Entertainment costs.....	27
13. Equipment and other facilities.....	28
14. Fines and penalties.....	28
15. Insurance and indemnification.....	28

TABLE OF CONTENTS (Continued)

	<u>Page</u>
J. <u>GENERAL STANDARDS FOR SELECTED ITEMS OF COST</u>	
16. Interest, fund raising, and investment management costs.....	30
17. Labor relations costs.....	30
18. Losses on other research agreements or contracts.....	30
19. Maintenance and repair costs.....	31
20. Material costs.....	31
21. Memberships, subscriptions and professional activity costs.....	31
22. Patent costs.....	32
23. Pension plan costs.....	32
24. Plant security costs.....	32
25. Preresearch agreement costs.....	32
26. Professional services costs.....	32
27. Profits and losses on disposition of plant, equipment, or other capital assets.....	33
28. Proposal costs.....	33
29. Public information services costs.....	34
30. Rearrangement and alteration costs.....	34
31. Reconversion costs.....	34
32. Recruiting costs.....	34
33. Royalties and other costs for use of patents.....	35
34. Sabbatical leave costs.....	35
35. Scholarships and student aid costs.....	36
36. Severance pay.....	36
37. Specialized service facilities operated by institution.....	36
38. Special services costs.....	37
39. Staff benefits.....	38
40. Student activity costs.....	38
41. Student services costs.....	38
42. Taxes.....	39
43. Transportation costs.....	39
44. Travel costs.....	40
45. Termination costs applicable to research agreements.....	41
K. <u>CERTIFICATION OF CHARGES</u>	42



PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO
RESEARCH AND DEVELOPMENT UNDER GRANTS AND
CONTRACTS WITH EDUCATIONAL INSTITUTIONS

A. Purpose and scope.

1. Objectives. This Circular provides principles for determining the costs applicable to research and development work performed by educational institutions under grants from and contracts with the Federal Government. These principles are confined to the subject of cost determination and make no attempt to identify the circumstances or dictate the extent of agency and institutional participation in the financing of a particular research or development project. The principles are designed to provide recognition of the full allocated costs of such research work under generally accepted accounting principles. No provision for profit or other increment above cost is intended.

2. Policy guides. The successful application of these principles requires development of mutual understanding between representatives of universities and of the Federal Government as to their scope, implementation, and interpretation. It is recognized that--

a. The arrangements for agency and institutional participation in the financing of a research and development project are properly subject to negotiation between the agency and the institution concerned in accordance with such Government-wide criteria as may be applicable.

b. Each college and university, possessing its own unique combination of staff, facilities and experience, should be encouraged to conduct research in a manner consonant with its own academic philosophies and institutional objectives.

c. Each institution, in the fulfillment of its obligations, should employ sound management practices.

d. The application of the principles established herein should require no significant changes in the generally accepted accounting practices of colleges and universities.

c. Cognizant Federal agencies involved in negotiating indirect cost rates and auditing should assure that institutions are generally applying the cost principles and standards herein provided on a consistent basis. Where wide variations exist in the treatment of a given cost item among institutions, the reasonableness and equitableness of such treatments should be fully considered during the rate negotiations and audit.

3. Application. All Federal agencies that sponsor research and development work at educational institutions should apply these principles and related policy guides in determining the costs incurred for such work under any type of research and development agreement. These principles should also be used as a guide in the pricing of fixed price contracts or lump sum agreements.

B. Definition of terms.

1. Organized research means all research activities of an institution that are separately budgeted and accounted for.

2. Departmental research means research activities that are not separately budgeted and accounted for. Such research work, which includes all research activities not encompassed under the term organized research, is regarded for purposes of this document as a part of the instructional activities of the institution.

3. Research agreement means any valid arrangement to perform federally sponsored research, including grants, cost-reimbursement type contracts, cost-reimbursement type subcontracts, and fixed-price contracts and subcontracts for research.

4. Other institutional activities means all organized activities of an institution not directly related to the instruction and research functions, such as residence halls, dining halls, student hospitals, student unions, intercollegiate athletics, bookstores, faculty housing, student apartments, guest houses, chapels, theaters, public museums, and other similar activities or auxiliary enterprises. Also included under this definition is any other category of cost treated as "unallowable," provided such category of cost identifies a function or activity to which a portion of

APPENDIX 2

the institution's indirect costs (as defined in section E.1.) are properly allocable.

5. Apportionment means the process by which the indirect costs of the institution are assigned as between (a) instruction and research, and (b) other institutional activities.

6. Allocation means the process by which the indirect costs apportioned to instruction and research are assigned as between (a) organized research, and (b) instruction, including departmental research.

7. Stipulated salary support is a fixed or a stated dollar amount of the salary of professorial or other professional staff involved in the conduct of research which a Government agency agrees in advance to reimburse an educational institution as a part of sponsored research costs.

C. Basic considerations.

1. Composition of total costs. The cost of a research agreement is comprised of the allowable direct costs incident to its performance, plus the allocable portion of the allowable indirect costs of the institution, less applicable credits as described in section C.5.

2. Factors affecting allowability of costs. The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to research agreements under the standards and methods provided herein; (c) they must be accorded consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the research agreement as to types or amounts of cost items.

3. Reasonable costs. A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefor, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for

the operation of the institution or the performance of the research agreement; (b) the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and research agreement terms and conditions; (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Government, and the public at large; and (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including Government research.

4. Allocable costs.

a. A cost is allocable to a particular cost objective (i.e., a specific function, project, research agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a research agreement if it is incurred solely to advance the work under the research agreement; or it benefits both the research agreement and other work of the institution in proportions that can be approximated through use of reasonable methods; or it is necessary to the overall operation of the institution and, in the light of the standards provided in this Circular, is deemed to be assignable in part to organized research. Where the purchase of equipment or other capital items is specifically authorized under a research agreement, the amounts thus authorized for such purchases are allocable to the research agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

b. Any costs allocable to a particular research agreement under the standards provided in this Circular may not be shifted to other research agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the research agreement, or for other reasons of convenience.

APPENDIX 2

5. Applicable credits.

a. The term applicable credits refers to those receipt or negative expenditure types of transactions which operate to offset or reduce expense items that are allocable to research agreements as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; sales of scrap or incidental services; and adjustments of overpayments or erroneous charges.

b. In some instances, the amounts received from the Federal Government to finance institutional activities or service operations should be treated as applicable credits. Specifically, the concept of netting such credit items against related expenditures should be applied by the institution in determining the rates or amounts to be charged to Government research for services rendered whenever the facilities or other resources used in providing such services have been financed directly, in whole or in part, by Federal funds. (See sections F.6., J.10.b., and J.37. for areas of potential application in the matter of direct Federal financing.)

6. Costs incurred by State and local governments. Costs incurred or paid by State or local governments in behalf of educational institutions for certain personnel benefit programs such as pension plans, FICA and any other costs specifically disbursed in behalf of and in direct benefit to the institutions, are allowable costs of such institutions whether or not these costs are recorded in the accounting records of such institutions, subject to the following:

a. Such costs meet the requirements of sections C.1. through C.5.

b. Such costs are properly supported by cost allocation plans in accordance with Office of Management and Budget Circular No. A-87.

c. Such costs are not otherwise borne directly or indirectly by the Federal Government.

D. Direct costs.

1. General. Direct costs are those costs which can be identified specifically with a particular research project, an instructional activity or any other institutional activity or which can be directly assigned to such activities relatively easily with a high degree of accuracy.

2. Application to research agreements. Identifiable benefit to the research work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of research agreements. Typical transactions chargeable to a research agreement as direct costs are the compensation of employees for performance of work under the research agreement, including related staff benefit and pension plan costs to the extent that such items are consistently treated by the educational institution as direct rather than indirect costs; the costs of materials consumed or expended in the performance of such work; and other items of expense incurred for the research agreement, including extraordinary utility consumption. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of research agreements provided such items are consistently treated by the institution as direct rather than indirect costs and are charged under a recognized method of costing or pricing designed to recover only actual costs and conforming to generally accepted cost accounting practices consistently followed by the institution.

E. Indirect costs.

1. General. Indirect costs are those that have been incurred for common or joint objectives and therefore cannot be identified specifically with a particular research project, an instructional activity or any other institutional activity. At educational institutions such costs normally are classified under the following functional categories: general administration and general expenses; research administration expenses; operation and maintenance expenses; library expenses; and departmental administration expenses.

APPENDIX 2

2. Criteria for distribution.

a. Base period. A base period for distribution of indirect costs is the period during which such costs are incurred and accumulated for distribution to work performed within that period. The base period normally should coincide with the fiscal year established by the institution, but in any event the base period should be so selected as to avoid inequities in the distribution of costs.

b. Need for cost groupings. The overall objective of the allocation and apportionment process is to distribute the indirect costs described in section F to organized research, instruction, and other activities in reasonable proportions consistent with the nature and extent of the use of the institution's resources by research personnel, academic staff, students, and other personnel or organizations. In order to achieve this objective, it may be necessary to provide for selective distribution by establishing separate groupings of cost within one or more of the functional categories of indirect costs referred to in section E.1. In general, the cost groupings established within a functional category should constitute, in each case, a pool of those items of expense that are considered to be of like character in terms of their relative contribution to (or degree of remoteness from) the particular cost objectives to which distribution is appropriate. Cost groupings should be established considering the general guides provided in c. below. Each such pool or cost grouping should then be distributed individually to the appertaining cost objectives, using the distribution base or method most appropriate in the light of the guides set out in d. below.

c. General considerations on cost groupings. The extent to which separate cost groupings and selective distribution would be appropriate at an institution is a matter of judgment to be determined on a case-by-case basis. Typical situations which may warrant the establishment of two or more separate cost groups (based on account classification or analysis) within a functional category include but are not limited to the following:

(1) Where certain items or categories of expense relate solely to one of the three major divisions of the institution (instruction, organized research or other institutional activities) or to any two but not the third, such expenses should be set aside as a separate cost grouping for direct assignment or selective distribution in accordance with the guides provided in b. above and d. below.

(2) Where any types of expense ordinarily treated as general administration and general expenses or departmental administration expenses are charged to research agreements as direct costs, the similar type expenses applicable to other activities of the institution must, through separate cost groupings, be excluded from the indirect costs allocable to those research agreements and included in the direct cost of other activities for cost allocation purposes.

(3) Where it is determined that certain expenses are for the support of a service unit or facility whose output is susceptible of measurement on a workload or other quantitative basis, such expenses should be set aside as a separate cost grouping for distribution on such basis to organized research and other activities at the institution or within the department.

(4) Where organized activities (including identifiable segments of organized research as well as the activities cited in section B.4.) provide their own purchasing, personnel administration, building maintenance or similar service, the distribution of general administration and general expenses or operation and maintenance expenses to such activities should be accomplished through cost groupings which include only that portion of central indirect costs (such as for overall management) which are properly allocable to such activities.

(5) Where the institution elects to treat as indirect charges the cost of the pension plan and other staff benefits, such costs should be set aside as a separate cost grouping for selective distribution to appertaining cost objectives, including organized research.

(6) The number of separate cost groupings within a functional category should be held within practical

APPENDIX 2

limits, after taking into consideration the materiality of the amounts involved and the degree of precision attainable through less selective methods of distribution.

d. Selection of distribution method.

(1) Actual conditions must be taken into account in selecting the method or base to be used in distributing to applicable cost objectives the expenses assembled under each of the individual cost groupings established as indicated under b. above. Where a distribution can be made by assignment of a cost grouping directly to the area benefited, the distribution should be made in that manner. Where the expenses under a cost grouping are more general in nature, the distribution to appertaining cost objectives should be made through use of a selected base which will produce results that are equitable to both the Government and the institution. In general, any cost element or cost-related factor associated with the institution's work is potentially adaptable for use as a distribution base provided (a) it can readily be expressed in terms of dollars or other quantitative measure (total direct expenditures, direct salaries, man-hours applied, square feet utilized, hours of usage, number of documents processed, population served, and the like); and (b) it is common to the appertaining cost objectives during the base period.

(2) Results of cost analysis studies may be used when they result in more accurate and equitable distribution of costs. Such cost analysis studies may take into consideration weighting factors, population, or space occupied if they produce equitable results. Cost analysis studies, however, should (a) be appropriately documented in sufficient detail for subsequent review by the cognizant Federal agency, (b) distribute the indirect costs to the appertaining cost objectives in accord with the relative benefits derived, (c) be conducted to fairly reflect the true conditions of the activity and to cover representative transactions for a reasonable period of time, (d) be performed specifically at the institution at which the results are to be used, and (e) be updated periodically and used consistently. Any assumptions made in the study will be sufficiently supported. The use of cost analysis studies and periodic changes in the method of cost distribution must be fully justified.

(3) The essential consideration in selection of the distribution base in each instance is that it be the one best suited for assigning the pool of costs to appertaining cost objectives in accord with the relative benefits derived; the traceable cause and effect relationship; or logic and reason, where neither benefit nor cause and effect relationship is determinable.

3. Administration of limitations on allowances for research costs. Research agreements may be subject to statutory or administrative policies that limit the allowance of research costs. When the maximum amount allowable under a statutory limitation or the terms of a research agreement is less than the amount otherwise reimbursable under this Circular, the amount not recoverable under that research agreement may not be charged to other research agreements.

F. Identification and assignment of indirect costs.

1. General administration and general expenses.

a. The expenses under this heading are those that have been incurred for the general executive and administrative offices of educational institutions and other expenses of a general character which do not relate solely to any major division of the institution; i.e., solely to (1) instruction, (2) organized research, or (3) other institutional activities. The general administration and general expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The expenses included in this category may be apportioned and allocated on the basis of total expenditures exclusive of capital expenditures in situations where the results of the distribution made on this basis are deemed to be equitable both to the Government and the institution; otherwise the distribution of general administration and general expenses should be made through use of selected

bases applied to separate cost groupings established within this category of expenses in accordance with the guides set out in section E.2.d.

2. Research administration expenses.

a. The expenses under this heading are those that have been incurred by a separate organization or identifiable administrative unit established solely to administer the research activity, including such functions as contract administration, security, purchasing, personnel administration, and editing and publishing of research reports. They include the salaries and expenses of the head of such research organization, his assistants, and their immediate secretarial staff together with the salaries and expenses of personnel engaged in supporting activities maintained by the research organization, such as stock rooms, stenographic pools, and the like. The salaries of members of the professional staff whose appointments or assignments involve the performance of such administrative work may also be included to the extent that the portion so charged to research administration is supported as required by section J.7. The research administration expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowance and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The expenses included in this category should be allocated to organized research and, where necessary, to departmental research or to any other benefiting activities on any basis reflecting the proportion fairly applicable to each. (See section E.2.d.)

3. Operation and maintenance expenses.

a. The expenses under this heading are those that have been incurred by a central service organization or at the departmental level for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. They include expenses normally

incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment; and care of grounds and maintenance and operation of buildings and other plant facilities. The operation and maintenance expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, and charges representing use allowance and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The expenses included in this category should be apportioned and allocated to applicable cost objectives in a manner consistent with the guides provided in section E.2. on a basis that gives primary emphasis to space utilization. The allocations and apportionments should be developed as follows: (1) where actual space and related cost records are available or can readily be developed and maintained without significant change in the accounting practices, the amount distributed should be based on such records; (2) where the space and related cost records maintained are not sufficient for purposes of the foregoing, a reasonable estimate of the proportion of total space assigned to the various cost objectives normally will suffice as a means for effecting distribution of the amounts of operation and maintenance expenses involved; or (3) where it can be demonstrated that an area or volume of space basis of allocation is impractical or inequitable, other bases may be used provided consideration is given to the use of facilities by research personnel and others, including students.

4. Library expenses.

a. The expenses under this heading are those that have been incurred for the operation of the library, including the costs of books and library materials purchased for the library, less any items of library income that qualify as applicable credits under section C.5. The library expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in the performance of

APPENDIX 2

the functions represented thereunder. Costs incurred in the purchases of rare books (museum-type books) with no research value should not be allocated to Government-sponsored research.

b. The expenses included in this category should be allocated on the basis of population including students and other users. Where the results of the distribution made on this basis are deemed to be inequitable to the Government or the institution, the distribution should then be made on a selective basis in accordance with the guides set out in section E.2. Such selective distribution should be made through use of reasonable methods which give adequate recognition to the utilization of the library attributable to faculty, research personnel, students and others. The method used will be based on data developed periodically on the respective institution's experience for representative periods.

5. Departmental administration expenses.

a. The expenses under this heading are those that have been incurred in academic deans' offices, academic departments and organized research units such as institutes, study centers and research centers for administrative and supporting services which benefit common or joint departmental activities or objectives. They include the salaries and expenses of deans or heads, or associate deans or heads, of colleges, schools, departments, divisions, or organized research units, and their administrative staffs together with the salaries and expenses of personnel engaged in supporting activities maintained by the department, such as stockrooms, stenographic pools, and the like provided such supporting services cannot be directly identified with a specific research project, with an instructional activity or with any other institutional activity. The salaries of other members of the professional staff whose appointments or assignments involve the performance of such administrative work may also be included to the extent that the portion so charged to departmental administration expenses is supported as required by section J.7. The departmental administration expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the

operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The distribution of departmental administration expenses should be made through use of selected bases applied to cost groupings established within this category of expenses in accordance with the guides set out in section E.2.d.

6. Setoff for indirect expenses otherwise provided for by the Government.

a. The items to be accumulated under this heading are the reimbursements and other receipts from the Federal Government which are used by the institution to support directly, in whole or in part, any of the administrative or service (indirect) activities described in the foregoing (sections F.1. through F.5.). They include any amounts thus applied to such activities which may have been received pursuant to an institutional base grant or any similar contractual arrangement with the Federal Government other than a research agreement as herein defined (section B.3.).

b. The sum of the items in this group shall be treated as a credit to the total indirect cost pool before it is apportioned to organized research and to other activities. Such setoff shall be made prior to the determination of the indirect cost rate or rates as provided in section G.

G. Determination and application of indirect cost rate or rates.

1. Indirect cost pools.

a. Subject to b. below, indirect costs allocated to organized research should be treated as a common pool, and the costs in such common pool should then be distributed to individual research agreements benefiting therefrom on a single rate basis.

b. In some instances a single rate basis for use across the board on all Government research at an institution may not be appropriate, since it would not take into account those different environmental factors which may affect

APPENDIX 2

substantially the indirect costs applicable to a particular segment of Government research at the institution. For this purpose, a particular segment of Government research may be that performed under a single research agreement or it may consist of research under a group of research agreements performed in a common environment. The environmental factors are not limited to the physical location of the work. Other important factors are the level of the administrative support required, the nature of the facilities or other resources employed, the scientific disciplines or technical skills involved, the organizational arrangements used, or any combination thereof. Where a particular segment of Government research is performed within an environment which appears to generate a significantly different level of indirect costs, provision should be made for a separate indirect cost pool applicable to such work. The separate indirect cost pool should be developed during the course of the regular distribution process, and the separate indirect cost rate resulting therefrom should be utilized provided it is determined that (1) such indirect cost rate differs significantly from that which would have obtained under a. above, and (2) the volume of research work to which such rate would apply is material in relation to other Government research at the institution.

2. The distribution base. Indirect costs allocated to organized research should be distributed to applicable research agreements on the basis of direct salaries and wages. For this purpose, an indirect cost rate should be determined for each of the separate indirect cost pools developed pursuant to section G.1. The rate in each case should be stated as the percentage which the amount of the particular indirect cost pool is of the total direct salaries and wages of all research agreements identified with such pool. For the purpose of establishing an indirect cost rate, direct salaries and wages may include that portion contributed to the research by the institution for cost sharing or other purposes. Bases other than salaries and wages may be used provided it can be demonstrated that they produce more equitable results.

3. Negotiated lump sum for indirect costs. A negotiated fixed amount in lieu of indirect costs may be appropriate for self-contained, off-campus, or primarily subcontracted research activities where the benefits derived from an institution's

indirect services cannot be readily determined. Such amount negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses before apportionment to instruction, organized research, and other institutional activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

4. Predetermined fixed rates for indirect costs. Public Law 87-638 (76 Stat. 437) authorizes the use of predetermined fixed rates in determining the indirect costs applicable under research agreements with educational institutions. The stated objectives of the law are to simplify the administration of cost-type research and development contracts (including grants) with educational institutions, to facilitate the preparation of their budgets, and to permit more expeditious closeout of such contracts when the work is completed. In view of the potential advantages offered by this procedure, consideration should be given to the negotiation of predetermined fixed rates for indirect costs in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting period.

5. Negotiated fixed rates and carryforward provisions. When a fixed rate is negotiated in advance for a fiscal year (or other time period), the over- or under-recovery for that year may be included as an adjustment to the indirect cost for the next rate negotiation. When the rate is negotiated before the carryforward adjustment is determined due to the delay in audit, the carryforward may be applied to the next subsequent rate negotiation. When such adjustments are to be made, each fixed rate negotiated in advance for a given period will be computed by applying the expected indirect costs allocable to Government research for the forecast period plus or minus the carryforward adjustment (over- or under-recovery) from the prior period, to the forecast distribution base. Unrecovered amounts under lump-sum agreements or cost-sharing provisions of prior years shall not be carried forward for consideration in the new rate negotiation. There must, however, be an advance understanding in each case between the institution and the cognizant Federal agency as to whether these differences will be considered in the rate negotiation rather than making the determination after the differences are known. Further, institutions electing to use this carryforward

provision may not subsequently change without prior approval of the cognizant Federal agency. In the event that an institution returns to a postdetermined rate, any over- or under-recovery during the period in which negotiated fixed rates and carryforward provisions were followed will be included in the subsequent postdetermined rates. Where multiple rates are used, the same procedure will be applicable for determining each rate. This procedure also applies to rates established for grants and contracts for training and other educational services, but does not apply to cost-type research agreements covering work performed in wholly or partially Government-owned facilities.

H. Simplified method for small institutions.

1. General.

a. Where the total direct cost of all federally supported work under research and educational service agreements at an institution does not exceed \$1,000,000 in a fiscal year (excluding direct payments by the institution to participants under educational service agreements for stipends, support, and similar costs requiring little, if any, indirect cost support), the use of the abbreviated procedure described in 2., below, may be used in determining allowable indirect costs. Under this abbreviated procedure, the institution's most recent annual financial report and immediately available supporting information, with salaries and wages segregated from other costs, will be utilized as a basis for determining the indirect cost rate applicable both to federally supported research and educational service agreements.

b. The rigid formula approach provided under this abbreviated procedure should not be used where it produces results which appear inequitable to the Government or the institution. In any such case, indirect costs should be determined through use of the regular procedure.

2. Abbreviated procedure.

a. Establish the total amount of salaries and wages paid to all employees of the institution.

b. Establish an indirect cost pool consisting of the expenditures (exclusive of capital items and other costs specifically identified as unallowable) which customarily are classified under the following titles or their equivalents:

(1) General administration and general expenses (exclusive of costs of student administration and services, student aid, student activities, and scholarships).

(2) Operation and maintenance of physical plant.

(3) Library.

(4) Department administration expenses, which will be computed as 20% of the salaries and expenses of deans and heads of departments.

In those cases where expenditures classified under 2.b.(1) and 2.b.(2) have previously been allocated to other institutional activities, they may be included in the indirect cost pool. The total amount of salaries and wages included in the indirect cost pool must be separately identified.

c. Establish a salary and wage distribution base, determined by deducting from the total of salaries and wages as established under 2.a. the amount of salaries and wages included under 2.b.

d. Establish the indirect cost rate, determined by dividing the amount in the indirect cost pool 2.b. by the amount of the distribution base 2.c.

e. Apply the indirect cost rate established to direct salaries and wages for individual agreements to determine the amount of indirect costs allocable to such agreements.

J. General standards for selected items of cost.

Sections J.1. through J.46. provide standards to be applied in establishing the allowability of certain items involved in determining cost. These standards should apply irrespective of whether a particular item of cost is properly treated as direct cost or indirect cost.. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable; rather determination as to

allowability in each case should be based on the treatment or standards provided for similar or related items of cost. In case of discrepancy between the provisions of a specific research agreement and the applicable standards provided, the provisions of the research agreement should govern.

1. Advertising costs. 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. The only advertising costs allowable are those which are solely for (a) the recruitment of personnel required for the performance by the institution of obligations arising under the research agreement, when considered in conjunction with all other recruitment costs, as set forth in J.32.; (b) the procurement of scarce items for the performance of the research agreement; or (c) the disposal of scrap or surplus materials acquired in the performance of the research agreement. Costs of this nature, if incurred for more than one research agreement or for both research agreement work and other work of the institution, are allowable to the extent that the principles in sections D and E are observed.

2. Bad debts. Any losses, whether actual or estimated arising from uncollectible accounts and other claims, related collections costs, and related legal costs, are unallowable.

3. Capital expenditures. The costs of equipment, buildings, and repairs which materially increase the value or useful life of buildings or equipment, are unallowable except as provided for in the research agreement. Government funds shall not be used for the acquisition of land, or any interest therein, except with the specific prior approval of the sponsoring agency.

4. Civil defense costs. Civil defense costs are those incurred in planning for, and the protection of life and property against, the possible effects of enemy attack. Reasonable costs of civil defense measures (including costs in excess of normal plant protection costs, first-aid training and supplies, fire-fighting training, posting of additional exit notices and directions, and other approved civil defense measures) undertaken on the institution's premises pursuant to suggestions or requirements of civil defense authorities are allowable when distributed to all activities of the

institution. Capital expenditures for civil defense purposes will not be allowed, but a use allowance or depreciation may be permitted in accordance with provisions set forth in section J.10. Costs of local civil defense projects not on the institution's premises are unallowable.

5. Commencement and convocation costs. Costs incurred for commencements and convocations apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs.

6. Communication costs. Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable.

7. Compensation for personal services.

a. General. Compensation for personal services covers all remuneration paid currently or accrued to the institution for services of employees rendered during the period of performance under Government research agreements. Such remuneration includes salaries, wages, staff benefits (see section J.39.), and pension plan costs (see section J.23.). The costs of such remuneration are allowable to the extent that the total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the institution consistently applied, and provided that the charges for work performed directly on Government research agreements and for other work allocable as indirect costs to organized research are determined and supported as hereinafter provided.

b. Payroll distribution. Amounts charged to organized research for personal services, except stipulated salary support, regardless of whether treated as direct costs or allocated as indirect costs, will be based on institutional payrolls which have been approved and documented in accordance with generally accepted institutional practices. Support for direct and indirect allocations of personal service costs to (1) instruction, (2) organized research, and (3) indirect activities as defined in section E.1., or (4) other institutional activities as defined in section B.4., will be provided as described in c., d., e., and f., below.

c. Stipulated salary support. As an alternative to payroll distribution, stipulated salary support amounts may be provided in the research agreement for professorial staff,

APPENDIX 2

any part of whose compensation is chargeable to Government-sponsored research. Stipulated salary support may also be provided for any other professionals who are engaged part time in sponsored research and part time in other work. The stipulated salary support for an individual will be determined by the Government and the educational institution during the proposal and award process on the basis of considered judgment as to the monetary value of the contribution which the individual is expected to make to the research project. This judgment will take into account any cost sharing by the institution and such other factors as the extent of the investigator's planned participation in the project and his ability to perform as planned in the light of his other commitments. It will be necessary for those who review research proposals to obtain information on the total academic year salary of the faculty members involved; the other research projects or proposals for which salary is allocated; and any other duties they may have such as teaching assignments, administrative assignments, number of graduate students for which they are responsible, or other institutional activities. Stipulated amounts for an individual must not per se result in increasing his official salary from the institution.

d. Direct charges for personal services under payroll distribution. The direct cost charged to organized research for the personal services of professorial and professional staff, exclusive of those whose salaries are stipulated in the research agreement, will be based on institutional payroll systems. Such institutional payroll systems must be supported by either (1) an adequate appointment and workload distribution system accompanied by monthly reviews performed by responsible officials and a reporting of any significant changes in workload distribution of each professor or professional staff member, or (2) a monthly after-the-fact certification system which will require the individual investigators, deans, departmental chairmen or supervisors having first-hand knowledge of the services performed on each research agreement to report the distribution of effort. Reported changes will be incorporated during the accounting period into the payroll distribution system and into the accounting records. Direct charges for salaries and wages of nonprofessionals will be supported by time and attendance and payroll distribution records.

c. Direct charges for personal services under stipulated salaries. The amounts stipulated for salary support will be treated as direct costs. The stipulated salary for the academic year will be prorated equally over the duration of the grant or contract period during the academic year, unless other arrangements have been made in the grant or contract instrument. No time or effort reporting will be required to support these amounts. Special provision for summer salaries, or for a particular "off period" if other than summer, will be required. The research agreements will state that any research covered by summer salary support must be carried out during the summer, not during the academic year, and at locations approved in advance in writing by the granting agency. The certification required in section K will attest to this requirement as well as all others in a given research agreement. Stipulated salary support remains fixed during the funding period of the grant or contract and will be costed at the rate described above unless there is a significant change in performance. For example, a significant change in performance would exist if the faculty member (1) was ill for an extended period, (2) took sabbatical leave to devote effort to duties unrelated to his research, or (3) was required to increase substantially his teaching assignments, administrative duties, or responsibility for more research projects. In the latter event, it will be the responsibility of the educational institution to reduce the charges to the research agreement proportionately or seek an appropriate amendment. In the case of those covered by stipulated salary support, the auditors are no longer required to review the precise accuracy of time or effort devoted to research projects. Rather, their reviews should include steps to determine on a sample basis that an institution is not reimbursed for more than 100 percent of each faculty member's salary and that the portion of each faculty member's salary charged to Government-sponsored research is reasonable in view of his university workload and other commitments. The stipulated salary method may also be agreed upon for that portion of a professional's salary that represents cost sharing by the institution.

f. Indirect personal services costs. Allowable indirect personal services costs will be supported by the educational institution's accounting system maintained in

APPENDIX 2

accordance with generally accepted institutional practices. Where a comprehensive accounting system does not exist, the institution should make periodic surveys no less frequently than annually to support the indirect personal services costs for inclusion in the overhead pool. Such supporting documentation must be retained for subsequent review by Government officials.

g. General guidance for charging personal services.

Budget estimates on a monthly, quarterly, semester, or yearly basis do not qualify as support for charges to federally sponsored research projects and should not be used unless confirmed after the fact. Charges to research agreements may include reasonable amounts for activities contributing and intimately related to work under the agreement, such as preparing and delivering special lectures about specific aspects of the ongoing research, writing research reports and articles, participating in appropriate research seminars, consulting with colleagues and graduate students with respect to related research, and attending appropriate scientific meetings and conferences. In no case should charges be made to federally sponsored research projects for lecturing or preparing for formal courses listed in the catalog and offered for degree credit, or for committee or administrative work related to university business.

h. Nonuniversity professional activities. A university must not alter or waive university-wide policies and practices dealing with the permissible extent of professional services over and above those traditionally performed without extra university compensation, unless such arrangements are specifically authorized by the sponsoring agency. Where university-wide policies do not adequately define the permissible extent of consultantships or other nonuniversity activities undertaken for extra pay, the Government may require that the effort of professional staff working under research agreements be allocated as between (1) university activities, and (2) nonuniversity professional activities. If the sponsoring agency should consider the extent of nonuniversity professional effort excessive, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.

i. Salary rates for academic year. Charges for work performed on Government research by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the practice of the institution concerned, constitutes the basis of his salary. Charges for work performed on research agreements during all or any portion of such period would be allowable at the base salary rate. In no event will the charge to research agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period, and any extra compensation above the base salary for work on Government research during such period would be unallowable. This principle applies to all members of the faculty at an institution. Since intra-university consulting is assumed to be undertaken as a university obligation requiring no compensation in addition to full-time base salary, the principle also applies to those who function as consultants or otherwise contribute to a research agreement conducted by another faculty member of the same institution. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to his regular departmental load, any charges for such work representing extra compensation above the base salary are allowable provided such consulting arrangement is specifically provided for in the research agreement or approved in writing by the sponsoring agency.

j. Salary rates for periods outside the academic year. Charges for work performed by faculty members on Government research during the summer months or other periods not included in the base salary period will be determined for each faculty member at a monthly rate not in excess of that which would be applicable under his base salary and will be limited to charges made in accordance with other subsections of J.7.

k. Salary rates for part-time faculty. Charges for work performed on Government research by faculty members having only part-time appointments for teaching will be determined at a rate not in excess of that for which he is

APPENDIX 2

regularly paid for his part-time teaching assignments. Example: An institution pays \$5,000 to a faculty member for half-time teaching during the academic year. He devoted one-half of his remaining time (25% of his total available time) to Government research. Thus his additional compensation, chargeable by the institution to Government research agreements, would be one-half of \$5,000 or \$2,500.

8. Contingency provisions. 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 of their happening, are unallowable.

9. Deans of faculty and graduate schools. The salaries and expenses of deans of faculty and graduate schools, or their equivalents, and their staffs, are allowable.

10. Depreciation and use allowances.

a. Institutions may be compensated for the use of buildings, capital improvements, and usable equipment on hand through use allowances or depreciation. Use allowances are the means of providing such compensation when depreciation or other equivalent costs are not considered. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

b. Due consideration will be given to Government-furnished facilities utilized by the institution when computing use allowances and/or depreciation if the Government-furnished facilities are material in amount. Computation of the use allowance and/or depreciation will exclude both the cost or any portion of the cost of buildings and equipment borne by or donated by the Federal Government, irrespective of where title was originally vested or where it presently resides and, secondly, the cost of grounds. Capital expenditures for land improvements (paved areas, fences, streets, sidewalks, utility conduits and similar improvements not already included in the cost of buildings) are

allowable provided the systematic amortization of such capital expenditures has been provided, based on reasonable determinations of the probable useful lives of the individual items involved, and the share allocated to organized research is developed from the amount thus amortized for the base period involved. Amortization methods once used should not be changed for a given building or equipment unless approved in advance by the cognizant Federal agency.

c. Where the use allowance method is followed, the use allowance for buildings and improvements will be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable and needed equipment in those cases where the institution maintains current records with respect to such equipment on hand. Where the institution's records reflect only the cost (actual or estimated) of the original complement of equipment, the use allowance will be computed at an annual rate not exceeding ten percent of such cost. Original complement for this purpose means the complement of equipment initially placed in buildings to perform the functions currently being performed in such buildings; however, where a permanent change in the function of a building takes place, a redetermination of the original complement of equipment may be made at that time to establish a new original complement. In those cases where no equipment records are maintained, the institution will justify a reasonable estimate of the acquisition cost of usable and needed equipment which may be used to compute the use allowance at an annual rate not exceeding six and two-thirds percent of such estimate.

d. Where the depreciation method is followed, adequate property record must be maintained and periodic inventory (a statistical sampling basis is acceptable) must be taken to insure that properties for which depreciation is charged do exist and are needed. The period of useful service (service life) established in each case for usable capital assets must be determined on a realistic basis which takes into consideration such factors as type of construction,

APPENDIX 2

nature of the equipment used, technological developments in the particular research area, and the renewal and replacement policies followed for the individual items or classes of assets involved. Where the depreciation method is introduced for application to assets acquired in prior years, the annual charges therefrom must not exceed the amounts that would have resulted had the depreciation method been in effect from the date of acquisition of such assets.

e. Where an institution elects to go on a depreciation basis for a particular class of assets, no depreciation, rental or use charge may be allowed on any such assets that, under d. above, would be viewed as fully depreciated provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the actual replacement policy followed in the light of service lives used for calculating depreciation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.

11. Employee morale, health, and welfare costs and credits. The costs of house publications, health or first-aid clinics and/or infirmaries, recreational activities, employees' counseling services, and other expenses incurred in accordance with the institution's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance, are allowable. Such costs will be equitably apportioned to all activities of the institution. Income generated from any of these activities will be credited to the cost thereof unless such income has been irrevocably set over to employee welfare organizations.

12. Entertainment costs. Costs incurred for amusement, social activities, entertainment, and any items relating thereto, such as meals, lodging, rentals, transportation, and gratuities, are unallowable.

13. Equipment and other facilities. The cost of permanent equipment or other facilities are allowable where such purchases are approved by the sponsoring agency concerned or provided for by the terms of the research agreement. Total expenditures for permanent equipment may not exceed 125 percent of the amount allotted for the permanent equipment category by the sponsoring agency (through an approved budget or other document) except with approval. The term "permanent equipment" shall mean an item of property which has an acquisition cost of \$200 or more and has an expected service life of one year or more.

a. General purpose equipment. Approval must be obtained to acquire with Government funds any general purpose permanent equipment, i.e., any items which are usable for activities of the institution other than research, such as office equipment and furnishings, air conditioning, reproduction or printing equipment, motor vehicles, etc., or any automatic data processing equipment.

b. Research equipment. Approval must be obtained to acquire with Government funds any item of permanent research equipment costing \$1,000 or more.

14. Fines and penalties. Costs resulting from violations of, or failure of the institution to comply with, Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the research agreement, or instructions in writing from the contracting officer.

15. Insurance and indemnification.

a. Costs of insurance required or approved, and maintained, pursuant to the research agreement, are allowable.

b. Costs of other insurance maintained by the institution in connection with the general conduct of its activities, are allowable subject to the following

limitations: (1) types and extent and cost of coverage must be in accordance with sound institutional practice; (2) costs of insurance or of any contributions to any reserve covering the risk of loss of or damage to Government-owned property are unallowable except to the extent that the Government has specifically required or approved such costs; and (3) costs of insurance on the lives of officers or trustees are unallowable except where such insurance is part of an employee plan which is not unduly restricted.

c. Contributions to a reserve for an approved self-insurance program are allowable to the extent that the types of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the research agreement, except that costs incurred because of losses not covered under existing deductible clauses for insurance coverage provided in keeping with sound management practice, as well as 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.

e. Indemnification includes securing the institution against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the institution only to the extent expressly provided for in the research agreement, except as provided in d. above.

16. Interest, fund raising, and investment management costs.

a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable.

b. Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are not allowable under Government research agreements.

c. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are not allowable under Government research agreements.

d. Costs related to the physical custody and control of monies and securities are allowable.

17. Labor relations costs. Costs incurred in maintaining satisfactory relations between the institution and its employees, including costs of labor management committees, employees' publications, and other related activities, are allowable.

18. Losses on other research agreements or contracts. Any excess of costs over income under any other research agreement or contract of any nature is unallowable. This includes, but is not limited to, the institution's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect costs.

APPENDIX 2

when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Government. Retainer fees to be allowable must be reasonably supported by evidence of services rendered.

b. Factors to be considered in determining the allowability of costs in a particular case include (1) the past pattern of such costs, particularly in the years prior to the award of Government research agreements; (2) the impact of Government research agreements on the institution's total activity; (3) the nature and scope of managerial services expected of the institution's own organizations; and (4) whether the proportion of Government work to the institution's total activity is such as to influence the institution in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Government research agreements.

c. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with organization and reorganization or the prosecution of claims against the Government, are unallowable. Costs of legal, accounting and consulting services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the research agreement.

27. Profits and losses on disposition of plant, equipment, or other capital assets. Profits or losses of any nature arising from the sale or exchange of plant, equipment, or other capital assets, including sale or exchange of either short- or long-term investments, shall not be considered in computing research agreement costs.

28. Proposal costs. Proposal costs are the costs of preparing bids or proposals on potential Government and nongovernment research agreements or projects, including the development of engineering data and cost data necessary to support the institution's bids or proposals. Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be

16. Interest, fund raising, and investment management costs.

a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable.

b. Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are not allowable under Government research agreements.

c. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are not allowable under Government research agreements.

d. Costs related to the physical custody and control of monies and securities are allowable.

17. Labor relations costs. Costs incurred in maintaining satisfactory relations between the institution and its employees, including costs of labor management committees, employees' publications, and other related activities, are allowable.

18. Losses on other research agreements or contracts. Any excess of costs over income under any other research agreement or contract of any nature is unallowable. This includes, but is not limited to, the institution's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect costs.

APPENDIX 2

19. Maintenance and repair costs. Costs incurred for necessary maintenance, repair or upkeep of property (including Government property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life but keep it in an efficient operating condition, are allowable.

20. Material costs. Costs incurred for purchased materials, supplies, and fabricated parts directly or indirectly related to the research agreement, are allowable. Purchases made specifically for the research agreement should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the institution. Withdrawals from general stores or stockrooms should be charged at their cost under any recognized method of pricing stores withdrawals conforming to sound accounting practices consistently followed by the institution. Incoming transportation charges are a proper part of material cost. Direct material cost should include only the materials and supplies actually used for the performance of the research agreement, and due credit should be given for any excess materials retained, or returned to vendors. Due credit should be given for all proceeds or value received for any scrap resulting from work under the research agreement. Where Government-donated or furnished material is used in performing the research agreement, such material will be used without charge.

21. Memberships, subscriptions and professional activity costs.

a. Costs of the institution's membership in civic, business, technical, and professional organizations are allowable.

b. Costs of the institution's subscriptions to civic, business, professional, and technical periodicals are allowable.

c. Costs of meetings and conferences, when the primary purpose is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, and other items incidental to such meetings or conferences.

22. Patent costs. Costs of preparing disclosures, reports, and other documents required by the research agreement and of searching the art to the extent necessary to make such invention disclosures, are allowable. In accordance with the clauses of the research agreement relating to patents, costs of preparing documents and any other patent costs, in connection with the filing of a patent application where title is conveyed to the Government, are allowable. (See also section J.33.)

23. Pension plan costs. Costs of the institution's pension plan which are incurred in accordance with the established policies of the institution are allowable, provided such policies meet the test of reasonableness and the methods of cost allocation are not discriminatory, and provided appropriate adjustments are made for credits or gains arising out of normal and abnormal employee turnover or any other contingencies that can result in forfeitures by employees which inure to the benefit of the institution.

24. Plant security costs. Necessary expenses incurred to comply with Government security requirements, including wages, uniforms and equipment of personnel engaged in plant protection, are allowable.

25. Preresearch agreement costs. Costs incurred prior to the effective date of the research agreement, whether or not they would have been allowable thereunder if incurred after such date, are unallowable unless specifically set forth and identified in the research agreement.

26. Professional services costs.

a. Costs of professional services rendered by the members of a particular profession who are not employees of the institution are allowable, subject to b. and c. below.

APPENDIX 2

when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Government. Retainer fees to be allowable must be reasonably supported by evidence of services rendered.

b. Factors to be considered in determining the allowability of costs in a particular case include (1) the past pattern of such costs, particularly in the years prior to the award of Government research agreements; (2) the impact of Government research agreements on the institution's total activity; (3) the nature and scope of managerial services expected of the institution's own organizations; and (4) whether the proportion of Government work to the institution's total activity is such as to influence the institution in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Government research agreements.

c. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with organization and reorganization or the prosecution of claims against the Government, are unallowable. Costs of legal, accounting and consulting services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the research agreement.

27. Profits and losses on disposition of plant, equipment, or other capital assets. Profits or losses of any nature arising from the sale or exchange of plant, equipment, or other capital assets, including sale or exchange of either short- or long-term investments, shall not be considered in computing research agreement costs.

28. Proposal costs. Proposal costs are the costs of preparing bids or proposals on potential Government and nongovernment research agreements or projects, including the development of engineering data and cost data necessary to support the institution's bids or proposals. Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be

treated as indirect costs and allocated currently to all activities of the institution, and no proposal costs of past accounting periods will be allocable in the current period to the Government research agreement. However, the institution's established practices may be to treat proposal costs by some other recognized method. Regardless of the method used, the results obtained may be accepted only if found to be reasonable and equitable.

29. Public information services costs. Costs of news releases pertaining to specific research or scientific accomplishment are unallowable unless specifically authorized by the sponsoring agency.

30. Rearrangement and alteration costs. Costs incurred for ordinary or normal rearrangement and alteration of facilities are allowable. Special arrangement and alteration costs incurred specifically for the project are allowable when such work has been approved in advance by the sponsoring agency concerned.

31. Reconversion costs. Costs incurred in the restoration or rehabilitation of the institution's facilities to approximately the same condition existing immediately prior to commencement of Government research agreement work, fair wear and tear excepted, are allowable.

32. Recruiting costs.

a. Subject to b., c., and d. below, and provided that the size of the staff recruited and maintained is in keeping with workload requirements, costs of "help wanted" advertising, operating costs of an employment office necessary to secure and maintain an adequate staff, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees, are allowable to the extent that such costs are incurred pursuant to a well managed recruitment program. Where the institution uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

b. In publications, costs of help wanted advertising that includes color, includes advertising material for other than recruitment purposes, or is excessive in size (taking into consideration recruitment purposes for which intended and normal institutional practices in this respect), are unallowable.

c. Costs of help wanted advertising, special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel from other institutions that do not meet the test of reasonableness or do not conform with the established practices of the institution, are unallowable.

d. Where relocation costs incurred incident to recruitment of a new employee have been allowed either as an allocable direct or indirect cost, and the newly hired employee resigns for reasons within his control within 12 months after hire, the institution will be required to refund or credit such relocation costs to the Government.

33. Royalties and other costs for use of patents.

Royalties on a patent or amortization of the cost of acquiring a patent or invention or rights thereto, necessary for the proper performance of the research agreement and applicable to tasks or processes thereunder, are allowable unless the Government has a license or the right to free use of the patent, the patent has been adjudicated to be invalid or has been administratively determined to be invalid, the patent is considered to be unenforceable, or the patent has expired.

34. Sabbatical leave costs. Costs of leave of absence to employees for performance of graduate work or sabbatical study, travel, or research are allowable provided the institution has a uniform policy on sabbatical leave for persons engaged in instruction and persons engaged in research. Such costs will be allocated on an equitable basis among all appertaining activities of the institution. Where sabbatical leave is included in fringe benefits for which a cost is determined for assessment as a direct charge, the aggregate amount of such assessments applicable to all work

of the institution during the base period must be reasonable in relation to the institution's actual experience under its sabbatical leave policy.

35. Scholarships and student aid costs. Costs of scholarships, fellowships and other forms of student aid apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs. However, in the case of students actually engaged in work under research agreements, any tuition remissions to such students for work performed are allocable to such research agreements provided consistent treatment is accorded such costs. (See section J.39.)

36. Severance pay.

a. Severance pay is compensation in addition to regular salaries and wages which is paid by an institution to employees whose services are being terminated. Costs of severance pay are allowable only to the extent that such payments are required by law, by employer-employee agreement, by established policy that constitutes in effect an implied agreement on the institution's part, or by circumstances of the particular employment.

b. Severance payments that are due to normal, recurring turnover and which otherwise meet the conditions of a. above may be allowed provided the actual costs of such severance payments are regarded as expenses applicable to the current fiscal year and are equitably distributed among the institution's activities during that period.

c. Severance payments that are due to abnormal or mass terminations are of such conjectural nature that allowability must be determined on a case-by-case basis. However, the Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment.

37. Specialized service facilities operated by institution.

a. The costs, including amortization by generally

accepted accounting practice, of institutional services involving the use of highly complex and specialized facilities such as electronic computers, including the cost of adapting computers for use, wind tunnels, and reactors are allowable provided the charges therefor meet the conditions of b. or c. below, and otherwise take into account any items of income or Federal financing that qualify as applicable credits under section C.5.

b. The costs of such institutional services normally will be charged directly to applicable research agreements based on actual usage or occupancy of the facilities on the basis of a schedule of rates that (1) is designed to recover only aggregate costs of providing such services over a long term agreed upon in advance by the cognizant Federal agency on an individual basis, and (2) is applied on a nondiscriminatory basis as between organized research and other work of the institution, including usage by the institution for internal purposes. Commercial or accommodation sales of computer services will be charged at not less than the above rates; however, if the rates charged for these services are greater, the total amount of charges above the scheduled rates when significant may be considered in revising the schedule of rates. Further, within the constraints of this paragraph, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year.

c. In the absence of an acceptable arrangement for direct costing as provided in b. above, the costs incurred for such institutional services may be assigned to research agreements as indirect costs, provided the methods used achieve substantially the same results. Such arrangements should be worked out in coordination with the cognizant Federal agency in order to assure equitable distribution of the indirect costs.

38. Special services costs. Costs incurred for general public relations activities, catalogs, alumni activities, and similar services, are unallowable.

39. Staff benefits.

a. Staff 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, military leave, and the like, are allowable provided such costs are absorbed by all institutional activities, including organized research, in proportion to the relative amount of time or effort actually devoted to each. (See section J.34. for treatment of sabbatical leave.)

b. Staff benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, the pension plan (see section J.23.), tuition or remission of tuition for individual employees or their families (see section J.35.), and the like, are allowable provided such benefits are granted in accordance with established institutional policies, and provided such contributions and other expenses, whether treated as indirect costs or as an increment of direct labor costs, are distributed to particular research agreements and other activities in a manner consistent with the pattern of benefits accruing to the individuals or groups of employees whose salaries and wages are chargeable to such research agreements and other activities.

40. Student activity costs. Costs incurred for intramural activities, student publications, student clubs, and other student activities, apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs.

41. Student services costs. Costs of the deans of students, administration of student affairs, registrar, placement offices, student advisers, student health and infirmary services, and such other activities as are identifiable with student services apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs. However, in the case of students actually engaged in work under research agreements, a proportion of student services costs measured by the relationship between hours of work by students on such

research work and total student hours including all research time may be allowed as a part of research administration expenses.

42. Taxes.

a. In general, taxes which the institution is required to pay and which are paid or accrued in accordance with generally accepted accounting principles, and payments made to local governments in lieu of taxes which are commensurate with the local government services received are allowable, except for (1) taxes from which exemptions are available to the institution directly or which are available to the institution based on an exemption afforded the Government and in the latter case when the sponsoring agency makes available the necessary exemption certificates, and (2) special assessments on land which represent capital improvements.

b. Any refund of taxes, interest, or penalties, and any payment to the institution of interest thereon, attributable to taxes, interest, or penalties which were allowed as research agreement costs, will be credited or paid to the Government in the manner directed by the Government provided any interest actually paid or credited to an institution incident to a refund of tax, interest and penalty will be paid or credited to the Government only to the extent that such interest accrued over the period during which the institution had been reimbursed by the Government for the taxes, interest, and penalties.

43. Transportation costs. Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered, are allowable. When such costs can readily be identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items. Where identification with the materials received cannot readily be made, inbound transportation costs may be charged to the appropriate indirect cost accounts if the institution follows a consistent, equitable procedure in this respect. Outbound freight, if reimbursable under the terms of the research agreement, should be treated as a direct cost.

44. Travel costs.

a. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the institution. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed by the institution in its regular operations.

b. Travel costs are allowable subject to c., d., e., and f. below, when they are directly attributable to specific work under a research agreement or are incurred in the normal course of administration of the institution or a department or research program thereof.

c. The difference in cost between first-class air accommodations and less than first-class air accommodations is unallowable except when less than first-class air accommodations are not reasonably available to meet necessary mission requirements, such as where less than first-class accommodations would (1) require circuitous routing, (2) require travel during unreasonable hours, (3) greatly increase the duration of the flight, (4) result in additional costs which would offset the transportation savings, or (5) offer accommodations which are not reasonably adequate for the medical needs of the traveler.

d. Costs of personnel movements of a special or mass nature are allowable only when authorized or approved in writing by the sponsoring agency or its authorized representative.

e. Foreign travel costs are allowable only when the travel has received specific prior approval. Each separate foreign trip must be specifically approved. For purposes of this provision, foreign travel is defined as "any travel outside of Canada and the United States and its territories and possessions."

f. Expenditures for domestic travel may not exceed \$500, or 125 percent of the amount allotted for such travel by the sponsoring agency, whichever is greater, except with approval.

APPENDIX 2

45. Termination costs applicable to research agreements.

a. Termination of research agreements generally gives rise to the incurrence of costs or to the need for special treatment of costs, which would not have arisen had the agreement not been terminated. Items peculiar to termination are set forth below. They are to be used in conjunction with all other provisions of this Circular in the case of termination.

b. The cost of common items of material reasonably usable on the institution's other work will not be allowable unless the institution submits evidence that it could not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the institution, consideration should be given to the institution's plans and orders for current and scheduled work. Contemporaneous purchases of common items by the institution will be regarded as evidence that such items are reasonably usable on the institution's other work. Any acceptance of common items as allowable to the terminated portion of the agreement should be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

c. If in a particular case, despite all reasonable efforts by the institution, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this Circular, except that any such costs continuing after termination due to the negligent or willful failure of the institution to discontinue such costs will be considered unacceptable.

d. Loss of useful value of special tooling, and special machinery and equipment is generally allowable, provided (1) such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the institution; (2) the interest of the Government is protected by transfer of title or by other means deemed appropriate by the contracting officer or equivalent; and (3) the loss of useful value as to any one terminated agreement is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the agreement bears to

the entire terminated agreement and other Government agreements for which the special tooling, special machinery, or equipment was acquired.

e. Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated agreement, less the residual value of such leases, if (1) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the agreement and such further period as may be reasonable; and (2) the institution makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the agreement, and of reasonable restoration required by the provisions of the lease.

f. Settlement expenses including the following are generally allowable: (1) accounting, legal, clerical, and similar costs reasonably necessary for the preparation and presentation to contracting officers or equivalent of settlement claims and supporting data with respect to the terminated portion of the agreement, and the termination and settlement of subagreements; and (2) reasonable costs for the storage, transportation, protection, and disposition of property provided by the Government or acquired or produced by the institution for the agreement.

g. Claims under subagreements, including the allocable portion of claims which are common to the agreement and to other work of the institution, are generally allowable.

K. Certification of charges. To assure that expenditures for research grants and contracts are proper and in accordance with the research agreement documents and approved project budgets, the annual and/or final fiscal reports or vouchers requesting payment under research agreements will include a certification, signed by an authorized official of the university, which reads essentially as

APPENDIX 2

follows: "I certify that all expenditures reported (or payments requested) are for appropriate purposes and in accordance with the agreements set forth in the application and award documents."

APPENDIX 2

Federal Management Circular 73-8
Attachment B

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO TRAINING
AND OTHER EDUCATIONAL SERVICES UNDER GRANTS
AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

APPENDIX 2

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO TRAINING AND
OTHER EDUCATIONAL SERVICES UNDER GRANTS AND CONTRACTS WITH
EDUCATIONAL INSTITUTIONS

TABLE OF CONTENTS

	<u>Page</u>
A. <u>PURPOSE</u>	1
B. <u>APPLICATION</u>	1
C. <u>TERMINOLOGY</u>	1
1. Educational service agreement.....	1
2. Instruction.....	1
D. <u>STUDENT ADMINISTRATION AND SERVICES</u>	2
E. <u>DIRECT COSTS OF EDUCATIONAL SERVICE AGREEMENTS</u> ...	3
F. <u>INDIRECT COSTS OF THE INSTRUCTION ACTIVITY</u>	3
G. <u>INDIRECT COSTS APPLICABLE TO EDUCATIONAL SERVICE AGREEMENTS</u>	3
H. <u>INDIRECT COST RATES FOR EDUCATIONAL SERVICE AGREEMENTS</u>	3
J. <u>GENERAL STANDARDS FOR SELECTED ITEMS OF COST</u>	4
1. Commencement and convocation costs (J.5.)....	4
2. Compensation for personal services (J.7.)....	4
3. Scholarships and student aid costs (J.35.)...	5
4. Student activity costs (J.40.).....	5
5. Student services costs (J.41.).....	5



APPENDIX 2

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO TRAINING AND OTHER EDUCATIONAL SERVICES UNDER GRANTS AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

A. Purpose. This Attachment extends the scope of FMC 73-8 to cover the determination of costs incurred by educational institutions under Federal grants and contracts for training and other educational services.

B. Application. All Federal agencies will use FMC 73-8, including this Attachment, as a basis for determining allowable costs under grants and cost reimbursement type contracts with educational institutions for work performed under federally-supported educational service agreements.

C. Terminology. The following definitions are to be used in determining the indirect cost of federally-sponsored training and other educational services under this Attachment:

1. Educational service agreement means any grant or contract under which Federal financing is provided on a cost reimbursement basis for all or an agreed portion of the costs incurred for training or other educational services. Typical of the work covered by educational service agreements are summer institutes, special training programs for selected participants, professional or technical services to cooperating countries, the development and introduction of new or expanded courses, and similar instructional oriented undertakings, including special research training programs, that are separately budgeted and accounted for by the institution.

The term does not extend to (a) grants or contracts for organized research, (b) arrangements under which the Federal financing is exclusively in the form of scholarships, fellowships, traineeships, or other fixed amounts such as a cost of education allowance or the normal published tuition rates and fees of an institution, or (c) construction, facility and exclusively general resource or institutional type grants.

2. Instruction means all of the academic work other than organized research, carried on by an institution, including

the teaching of graduate and undergraduate courses, departmental research (see section B.2. of Attachment A) and all special training or other instructional oriented projects sponsored by the Federal Government or others under educational service agreements.

D. Student administration and services. In addition to the five major functional categories of indirect costs described in section F of Attachment A, there is established an additional category under the title "Student administration and services" to embrace the following:

1. The expenses in this category are those that have been incurred for the administration of student affairs and for services to students, including expenses of such activities as deans of students, admissions, registrar, counseling and placement services, student advisers, student health and infirmary services, catalogs, and commencements and convocations. The salaries of members of the academic staff whose academic appointments or assignments involve the performance of such administrative or service work may also be included to the extent that the portion so charged is supported pursuant to section J.2. The student administration and services category also includes the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the cost of the operation and maintenance of the physical plant, and charges representing use allowance or depreciation applicable to the buildings and equipment utilized in the performance of the functions included in this category.

2. The expenses in this category are generally applicable in their entirety to the instruction activity. They should be allocated to applicable cost objectives within the instruction activity, including educational service agreements, when such agreements reasonably benefit from these expenses. Such expenses should be allocated on the basis of population served (computed on the basis of full-time equivalents including students, faculty, and others as appropriate) or other methods which will result in an equitable distribution to cost objectives in relation to the benefits received and be consistent with guides provided in section E.2. of Attachment A.

E. Direct costs of educational service agreements. Direct costs of work performed under educational service agreements will be determined consistent with the principles set forth in section D of Attachment A.

F. Indirect costs of the instruction activity. The indirect costs of the instruction activity as a whole should include its allocated share of administrative and supportive costs determined in accordance with the principles set forth in section D above and in section F of Attachment A. Such costs may include other items of indirect cost incurred solely for the instruction activity and not included in the general allocation of the various categories of indirect expenses. Costs incurred for the institutions by State and local governments are allowable as provided for in section C.6. of Attachment A.

G. Indirect costs applicable to educational service agreements. The individual items of indirect costs applicable to the instruction activity as a whole should be assigned to (1) educational service agreements, and (2) all other instructional work through use of appropriate cost groupings, selected distribution bases, and other reasonable methods as outlined in section E.2. of Attachment A. A single indirect pool may be used for all educational service agreements provided this results in a reasonably equitable distribution of costs among agreements in relation to indirect support services provided. However, when the level of indirect support significantly varies for work performed either on campus or off campus under a particular agreement or group of agreements, separate cost pools should be established consistent with the principles set forth in section G.1.b. of Attachment A. Where direct charges are provided for under educational service agreements for such things as commencement fees, student fees, and tuition, the related indirect costs, through separate cost groupings, should be excluded from the indirect costs allocable to the service agreements.

H. Indirect cost rates for educational service agreements. An indirect cost rate should be determined for the educational service agreement pool or pools, as established under section G above. The rate in each case should be stated as the percentage which the amount of the particular educational service agreement pool is of the total direct salaries and wages of

all educational service agreements identified with such pool. Indirect costs should be distributed to individual agreements by applying the rate or rates established to direct salaries and wages for each agreement. When a fixed rate is negotiated in advance of a fiscal year, the over- or under-recovery for that year may be included as an adjustment to the indirect cost for the next rate negotiation as in sections G.4. and G.5. of Attachment A.

J. General standards for selected items of cost. The standards for selected items of cost as set forth in sections J.1. through J.46. of Attachment A applicable to research agreements will also be applied to educational service agreements with the following modifications:

1. Commencement and convocation costs (J.5.). Expenses incurred for convocations and commencements apply to the instruction activity as a whole. Such expenses are unallowable as direct costs of educational service agreements unless specifically authorized in the agreement or approved in writing by the sponsoring agency. For eligibility of allocation as indirect costs, see section D.

2. Compensation for personal services (J.7.). Charges to educational service agreements for personal services will normally be determined and supported consistent with the provisions of section J.7. of Attachment A. However, the provision for stipulated salary support will not be used for educational service agreements. Also, charges may include compensation in excess of the base salary of a faculty member for the conduct of courses outside the normal duties of such member provided that: (a) extra charges are determined at a rate not greater than the basic salary rate of the member; (b) salary payments for such work follow practices consistently applied within the institution; and (c) specific authorization for such charges is included in the educational service agreement.

3. Scholarships and student aid costs (J.35.). Expenses incurred for scholarships and student aid are unallowable as either direct costs or indirect costs of educational service agreements, unless specifically authorized in the educational service agreement or approved in writing by the sponsoring agency.

APPENDIX 2

4. Student activity costs (J.40.). Expenses incurred for student activities are unallowable as either direct costs or indirect costs of educational service agreements, unless specifically authorized in the educational service agreement or approved in writing by the sponsoring agency.

5. Student services costs (J.41.). Expenses incurred for student services are unallowable as direct costs of educational service agreements unless specifically authorized in the agreement or approved in writing by the sponsoring agency. For eligibility of allocation as indirect costs, see section D.



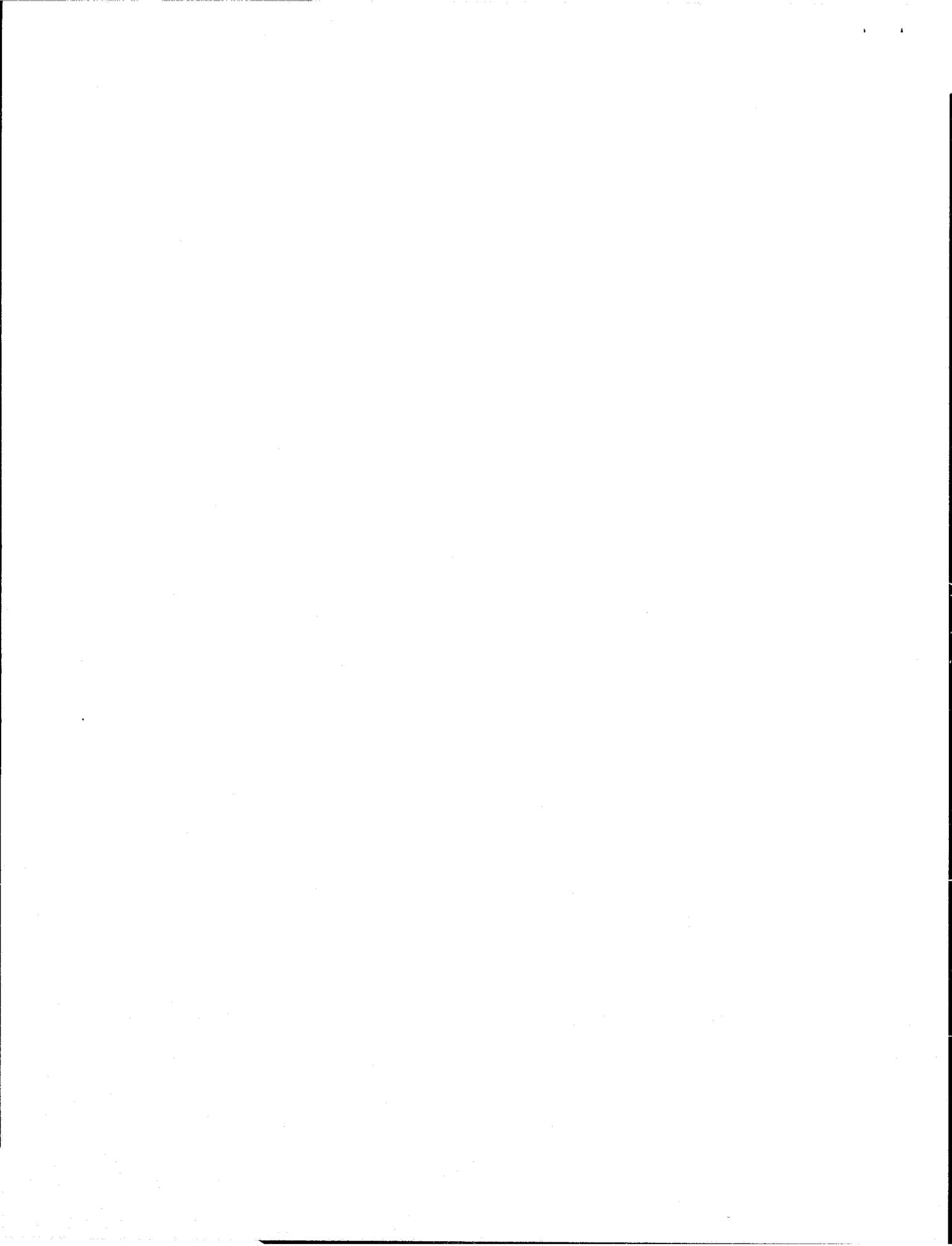
APPENDIX 2

Federal Management Circular 73-8
Attachment C

COST ACCOUNTING STANDARDS ISSUED BY THE COST
ACCOUNTING STANDARDS BOARD UNDER THE AUTHORITY
OF PUBLIC LAW 91-379 (50 U.S.C. APP. 2168)

This Attachment incorporates Subchapter G, Parts 400, 401, and 402 of the Federal Register, Vol. 37, No. 40 - Tuesday, February 29, 1972, as part of FMC 73-8.

These parts contain regulations promulgated by the Cost Accounting Standards Board, which have the full force and effect of law.



RULES AND REGULATIONS

4171

3821 *Mechanical Measuring and Controlling Instruments, Except Automatic Temperature Controls.*

3822 *Automatic Temperature Controls* Automatic temperature controls activated by pressure, temperature, level, flow, time, or humidity (including pneumatic controls) of the type principally used as components of air conditioning, refrigeration, and comfort heating, or as components of household appliances. Excludes industrial electric controls (Code 3820).

3831 *Optical Instruments and Lenses.* Optical lenses and prisms, and optical instruments such as microscopes, telescopes, field and opera glasses, and optical measuring and testing instruments such as refractometers, spectrometers, spectroscopes, colorimeters, polariscopes.

3840 *Surgical, Medical, and Dental Instruments and Supplies.*

3851 *Ophthalmic Goods.*

3861 *Photographic Equipment and Supplies.* Photographic apparatus, equipment, parts, attachments, and accessories, such as still and motion picture cameras and projection apparatus; photocopy and microfilm equipment; blueprinting and diazotype (white printing) apparatus and equipment; and other photographic equipment; and sensitized film, paper, cloth, and plates, and prepared photographic chemicals for use therewith.

3871 *Watches, Clocks, Clockwork Operated Devices, and Parts Except Watch-cases.* Clocks (including electric) watches, mechanisms for clockwork operated devices, and clock and watch parts.

39. MISCELLANEOUS MANUFACTURERS

3900 Manufacture of products not classified in any other major manufacturing groups, i.e., from Code 1911 through 3871. Includes jewelry, silverware, musical instruments, toys, sporting and athletic goods and other miscellaneous manufactured products.

II.—CONSTRUCTION AND SERVICES

Code Description
15. BUILDING CONSTRUCTION—GENERAL CONTRACTORS

1600 Construction of residential, farm, industrial, commercial, public or other buildings.

10 CONSTRUCTION OTHER THAN BUILDING CONSTRUCTION—GENERAL CONTRACTORS

1800 Heavy construction, such as highways and streets, bridges, sewers, railroads, airports, and other types of construction work, except buildings.

17 CONSTRUCTION—SPECIAL TRADE CONTRACTORS

1700 Specialized construction activities, such as plumbing, painting, plastering, carpentering, electrical, etc.

40. RAILROAD TRANSPORTATION

4000 Transportation by line-haul railroad and certain services allied to rail transportation, such as sleeping and dining car services, railway express, and switching and terminal services.

42. MOTOR FREIGHT TRANSPORTATION AND WAREHOUSING

4200 Local or long-distance trucking, transfer, and draying services, or storage of farm products, furniture and other household goods, or commercial goods of any nature. Also

includes operation of terminal facilities for handling freight, with or without maintenance facilities.

44. WATER TRANSPORTATION

4463 *Marine Cargo Handling.*—Services directly related to marine cargo handling from the time cargo, for or from a vessel, arrives at shipside, dock, pier, terminal, staging area, or intransit area until cargo loading or unloading operations are completed. Includes the operation and maintenance of piers, docks, and associated buildings and facilities.

4400 *Water Transportation, Except Marine Cargo Handling.*—Freight and passenger transportation on the open seas or inland waters, and incidental services such as lighterage, towing, and canal operation. Also includes excursion boats, sightseeing boats, and water taxis.

45. TRANSPORTATION BY AIR

4582 *Airports and Flying Fields.*—Operation and maintenance of airports and flying fields and/or the servicing, repairing (except on a factory basis), and storing of aircraft at such airports. Excludes modification and factory type overhaul of aircraft (Code 3721).

4500 *Transportation by Air, Except Airports and Flying Fields.* Domestic and foreign transportation by air and also terminal services.

47. TRANSPORTATION SERVICES

4700 Services incidental to transportation, such as forwarding, packing and crating, and rental of railroad cars.

48. COMMUNICATION

4800 Point-to-point communication service whether by wire or radio, and whether intended to be received aurally or visually; and radio broadcasting and television. Services for the exchange or recording of messages are also included.

73. MISCELLANEOUS BUSINESS SERVICES

7391 *Commercial Research and Development Laboratories.* Research and development activities on a fee or contract basis. Research and development laboratories of companies which manufacture the products developed from their research activities are classified as auxiliary to the manufacturing establishments served.

7392 *Business, Management, Administrative and Consulting Services.* Business and management administrative and consulting services, such as business analyzing business research, efficiency experts, fashion designing and consulting, industrial management, market research, personnel management, public relations counselors, sales engineers, statistical services, tax consultation, and traffic consultants.

7394 *Equipment Rental and Leasing Services.* Includes electronic equipment rental.

7300 Other miscellaneous business services, such as advertising, mailing, stenographic, employment agency, commercial testing and protective services.

80. MEDICAL AND OTHER HEALTH SERVICES

8000 Medical, surgical, and other health service to persons.

82. EDUCATIONAL SERVICES

8221 *Colleges, Universities, and Professional Schools.* Tuition fees at colleges, universities, and professional schools granting academic degrees and requiring for admission at least a high school diploma or equivalent general academic training.

8200 *Other Educational Services.* Excludes services involving colleges, universities, and professional schools and also excludes research and development activities of such institutions (Code 8921).

89. MISCELLANEOUS SERVICES

8911 *Engineering and Architectural Services.* Services of a professional nature in the fields of engineering and architecture.

8921 *Nonprofit Educational and Scientific Research Agencies.* Research at nonprofit establishments including educational institutions.

8900 *Other Miscellaneous Services.*

SUBCHAPTER G—COST ACCOUNTING STANDARDS

PART 400—DEFINITIONS

Sec.

400.1 Definitions.

400.2 Effective date [Reserved]

AUTHORITY: The provisions of this Part 400 are issued under 84 Stat. 798, sec. 103; 50 U.S.C. App. 2168.

§ 400.1 Definitions.

(a) This part defines various terms used in standards promulgated by the Cost Accounting Standards Board. Unless the text of a particular standard demands a different definition or the definition is expressly modified for a particular standard, terms defined herein whenever used in any standard shall have the meanings ascribed to them in this part. For convenience, the definitions of terms which are prominent in an individual standard are reprinted in that standard. The selection or non-selection of a particular definition to be reprinted in an individual standard, however, does not affect the applicability of all definitions in this part to that standard.

Accumulating Costs. The collecting of cost data in an organized manner, such as through a system of accounts.

Actual Costs. Amounts determined on the basis of costs incurred as distinguished from forecasted costs. Includes standard costs properly adjusted for applicable variances.

Allocate. To assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the re-assignment of a share from an indirect cost pool.

Cost Objective. A function, organizational subdivision, contract or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

Direct Cost. Any cost which is identified specifically with a particular final cost objective. Direct costs are not limited to items which are incorporated in the end product as material or labor.

Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.

Estimating Costs. The process of forecasting a future result in terms of cost, based upon information available at the time.

Final Cost Objective. A cost objective which has allocated to it both direct and indirect costs, and, in the contractor's accumulation system, is one of the final accumulation points.

Indirect Cost. Any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

Indirect Cost Pools. Groupings of incurred costs identified with two or more cost objectives but not identified specifically with any final cost objective.

Pricing. The process of establishing the amount or amounts to be paid in return for goods or services.

Proposal. Any offer or other submission used as a basis for pricing a contract, contract modification or termination settlement or for securing payments thereunder.

Reporting Costs. Provision of cost information to others. The reporting of costs involves selecting relevant cost data and presenting it in an intelligible manner for use by the recipient.

§ 400.2 Effective date [Reserved]

PART 401—COST ACCOUNTING STANDARD—CONSISTENCY IN ESTIMATING, ACCUMULATING AND REPORTING COSTS

Sec.	
401.10	General applicability.
401.20	Purpose.
401.30	Definitions.
401.40	Fundamental requirement.
401.50	Techniques for application.
401.60	Illustrations.
401.70	Exemptions.
401.80	Effective date.

AUTHORITY: The provisions of this Part 401 are issued under 84 Stat. 798, sec. 103; 50 U.S.C. App. 2168.

§ 401.10 General applicability.

This standard shall be used by defense contractors and subcontractors under Federal contracts entered into after the effective date hereof and by all relevant Federal agencies in estimating, accumulating, and reporting costs in connection with the pricing, administration and settlement of all negotiated prime contract and subcontract national defense procurements with the United States in excess of \$100,000, other than contracts or subcontracts where the price negotiated is based on: (a) Established catalog or market prices of commercial items sold

in substantial quantities to the general public, or (b) prices set by law or regulation.

§ 101.20 Purpose.

The purpose of this Cost Accounting Standard is to insure that each contractor's practices used in estimating costs for a proposal are consistent with cost accounting practices used by him in accumulating and reporting costs. Consistency in the application of cost accounting practices is necessary to enhance the likelihood that comparable transactions are treated alike. With respect to individual contracts, the consistent application of cost accounting practices will facilitate the preparation of reliable cost estimates used in pricing a proposal and their comparison with the costs of performance of the resulting contract. Such comparisons provide one important basis for financial control over costs during contract performance and aid in establishing accountability for costs in the manner agreed to by both parties at the time of contracting. The comparisons also provide an improved basis for evaluating estimating capabilities.

§ 401.30 Definitions.

(a) The following definitions of terms which are prominent in this standard are reprinted from Part 400 of this chapter for convenience. Other terms which are used in this standard and are defined in Part 400 of this chapter have the meanings ascribed to them in that part unless the text demands a different definition or the definition is modified in subparagraph (b) of this paragraph.

(1) **Accumulating Costs.** The collecting of cost data in an organized manner, such as through a system of accounts.

(2) **Actual Cost.** Amounts determined on the basis of costs incurred as distinguished from forecasted costs. Includes standard costs properly adjusted for applicable variances.

(3) **Estimating Costs.** The process of forecasting a future result in terms of cost, based upon information available at the time.

(4) **Indirect Cost Pools.** Groupings of incurred costs identified with two or more cost objectives but not identified specifically with any final cost objectives.

(5) **Pricing.** The process of establishing the amount or amounts to be paid in return for goods or services.

(6) **Proposal.** Any offer or other submission used as a basis for pricing a contract, contract modification or termination settlement or for securing payments thereunder.

(7) **Reporting Costs.** Provision of cost information to others.

The reporting of costs involves selecting relevant cost data and presenting it in

an intelligible manner for use by the recipient.

(b) The following modifications of definitions set forth in Part 400 of this chapter are applicable to this standard: None.

§ 101.40 Fundamental requirement.

(a) A contractor's practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.

(b) A contractor's cost accounting practices used in accumulating and reporting actual costs for a contract shall be consistent with his practices used in estimating costs in pricing the related proposal.

(c) The grouping of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices under paragraphs (a) and (b) of this section when such costs are accumulated and reported in greater detail on an actual cost basis during contract performance.

§ 101.50 Techniques for application.

(a) The standard allows grouping of homogeneous costs in order to cover those cases where it is not practicable to estimate contract costs by individual cost element or function. However, costs estimated for proposal purposes shall be presented in such a manner and in such detail that any significant cost can be compared with the actual cost accumulated and reported therefor. In any event the cost accounting practices used in estimating costs in pricing a proposal and in accumulating and reporting costs on the resulting contract shall be consistent with respect to: (1) The classification of elements or functions of cost as direct or indirect; (2) the indirect cost pools to which each element or function of cost is charged or proposed to be charged; and (3) the methods of allocating indirect costs to the contract.

(b) Adherence to the requirement of § 401.40(a) of this standard shall be determined as of the date of award of the contract, unless the contractor has submitted cost or pricing data pursuant to Public Law 87-853, in which case adherence to the requirement of § 401.40(a) shall be determined as of the date of final agreement on price, as shown on the signed certificate of current cost or pricing data. Notwithstanding § 401.40 (b), changes in established cost accounting practices during contract performance may be made when authorized by standards, rules, and regulations issued by the Cost Accounting Standards Board.

RULES AND REGULATIONS

1173

§ 401.60 Illustrations.

(a) The following examples are illustrative of applications of cost accounting practices which are deemed to be consistent.

<i>Practices used in estimating costs for proposals</i>	<i>Practices used in accumulating and reporting costs of contract performance</i>
1. Contractor estimates an average direct labor rate for manufacturing direct labor by labor category or function.	1. Contractor records manufacturing direct labor based on actual cost for each individual and collects such costs by labor category or function.
2. Contractor estimates an average cost for minor standard hardware items, including nuts, bolts, washers, etc.	2. Contractor records actual cost for minor standard hardware items based upon invoices or material transfer slips.
3. Contractor uses an estimated rate for manufacturing overhead to be applied to an estimated direct labor base. He identifies the items included in his estimate of manufacturing overhead and provides supporting data for the estimated direct labor base.	3. Contractor accounts for manufacturing overhead by individual items of cost which are accumulated in a cost pool allocated to final cost objectives on a direct labor base.

(b) The following examples are illustrative of application of cost accounting practices which are deemed not to be consistent.

<i>Practices used for estimating costs for proposals</i>	<i>Practices used in accumulating and reporting costs of contract performance</i>
4. Contractor estimates a total dollar amount for engineering labor which includes disparate and significant elements or functions of engineering labor. Contractor does not provide supporting data reconciling this amount to the estimates for the same engineering labor cost functions for which he will separately account in contract performance.	4. Contractor accounts for engineering labor by cost function, i.e., drafting, designing, production engineering, etc.
5. Contractor estimates engineering labor by cost function, i.e., drafting, production engineering, etc.	5. Contractor accumulates total engineering labor in one undifferentiated account.
6. Contractor estimates a single dollar amount for machining cost to cover labor, material and overhead.	6. Contractor records separately the actual cost of machining labor and material as direct costs, and factory overhead as indirect costs.

§ 401.70 Exemptions.

None for this standard.

§ 401.80 Effective date [Reserved]

PART 402—COST ACCOUNTING STANDARD—CONSISTENCY IN ALLOCATING COSTS INCURRED FOR THE SAME PURPOSE

Sec	
402.10	General applicability.
402.20	Purpose.
402.30	Definitions.
402.40	Fundamental requirement.
402.50	Techniques for application.
402.60	Illustrations.
402.70	Exemptions.
402.80	Effective date.

Authority: The provisions of this Part 402 are issued under 64 Stat. 798, sec. 103; 60 U.S.C. App. 2168.

§ 402.10 General applicability.

This standard shall be used by defense contractors and subcontractors under Federal contracts entered into after the effective date hereof, and by all relevant Federal agencies in estimating, accumulating and reporting costs in connection with the pricing, administration, and settlement of all negotiated prime contract and subcontract national defense procurements with the United States in excess of \$100,000, other than contracts or subcontracts where the price negotiated is based on (a) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (b) prices set by law or regulation.

§ 402.20 Purpose.

The purpose of this standard is to require that each type of cost is allocated only once and on only one basis to any contract or other cost objective. The criteria for determining the allocation of costs to a product, contract, or other cost objective should be the same for all similar objectives. Adherence to these cost accounting concepts is necessary to guard against the overcharging of some cost objectives and to prevent double counting. Double counting occurs most commonly when cost items are allocated directly to a cost objective without eliminating like cost items from indirect cost pools which are allocated to that cost objective.

§ 402.30 Definitions.

(a) The following definitions of terms which are prominent in this standard are reprinted from Part 400 of this chapter for convenience. Other terms which are used in this standard and are defined in Part 400 of this chapter have the meanings ascribed to them in that part unless the text demands a different definition or the definition is modified in paragraph (b) of this section.

(1) *Allocate.* To assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the

reassignment of a share from an indirect cost pool.

(2) *Cost Objective.* A function, organizational subdivision, contract or other work unit for which cost data are desired and for which provision is made to accumulate and measure the costs of processes, products, jobs, capitalized projects, etc.

(3) *Direct Cost.* Any cost which is identified specifically with a particular final cost objective. Direct costs are not limited to items which are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.

(4) *Final Cost Objective.* A cost objective which has allocated to it both direct and indirect costs, and, in the contractor's accumulation system, is one of the final accumulation points.

(5) *Indirect Cost.* Any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

(6) *Indirect Cost Pools.* Groupings of incurred costs identified with two or more cost objectives but not identified specifically with any final cost objective.

(b) The following modifications of definitions set forth in Part 400 of this chapter are applicable to this standard: None.

§ 402.40 Fundamental Requirement.

All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

§ 402.50 Techniques for application.

(a) The Fundamental Requirement is stated in terms of cost incurred and is equally applicable to estimates of costs to be incurred as used in contract proposals.

(b) The Disclosure Statement to be submitted by the contractor will require that he set forth his cost accounting practices with regard to the distinction between direct and indirect costs. In addition, for those types of cost which are sometimes accounted for as direct and sometimes accounted for as indirect, the contractor will set forth in his Disclosure Statement the specific criteria and circumstances for making such distinctions. In essence, the Disclosure Statement submitted by the contractor, by distinguishing between direct and indirect costs, and by describing the criteria and circumstances for allocating those items which are sometimes direct and sometimes indirect, will be determinative as to

whether or not costs are incurred for the same purpose. Disclosure Statement as used herein refers to the statement required to be submitted by contractors as a condition of contracting as set forth in Part 351 of this chapter.

(c) In the event that a contractor has not submitted a Disclosure Statement the determination of whether specific costs are directly allocable to contracts shall be based upon the contractor's cost accounting practices used at the time of contract proposal.

(d) Whenever costs which serve the same purpose cannot equitably be indirectly allocated to one or more final cost objectives in accordance with the contractor's disclosed accounting practices, the contractor may either: (1) Use a method for reassigning all such costs which would provide an equitable distribution to all final cost objectives, or (2) directly assign all such costs to final cost objectives with which they are specifically identified. In the event the contractor decides to make a change for either purpose the Disclosure Statement shall be amended to reflect the revised accounting practices involved.

(e) Any direct cost of minor dollar amount may be treated as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently applied to all final cost objectives, provided that such treatment produces results which are substantially the same as the results which would have been obtained if such cost had been treated as a direct cost.

§ 402.60 Illustrations.

(a) Illustrations of costs which are incurred for the same purpose:

(1) Contractor normally allocates all travel as an indirect cost and previously

disclosed this accounting practice to the Government. For purposes of a new proposal, contractor intends to allocate the travel costs of personnel whose time is accounted for as direct labor directly to the contract. Since travel costs of personnel whose time is accounted for as direct labor working on other contracts are costs which are incurred for the same purpose, these costs may no longer be included within indirect cost pools for purposes of allocation to any covered Government contract. Contractor's Disclosure Statement must be amended for the proposed changes in accounting practices.

(2) Contractor normally allocates planning costs indirectly and allocates this cost to all contracts on the basis of direct labor. A proposal for a new contract requires a disproportionate amount of planning costs. The contractor prefers to continue to allocate planning costs indirectly. In order to equitably allocate the total planning costs, the contractor may use a method for allocating all such costs which would provide an equitable distribution to all final cost objectives. For example, he may use the number of planning documents processed rather than his former allocation base of direct labor. Contractor's Disclosure Statement must be amended for the proposed changes in accounting practices.

(b) Illustrations of costs which are not incurred for the same purpose:

(1) Contractor normally allocates special tooling costs directly to contracts. The costs of general purpose tooling are normally included in the indirect cost pool which is allocated to contracts. Both of these accounting practices were previously disclosed to the Government.

Since both types of costs involved were not incurred for the same purpose in accordance with the criteria set forth in the contractor's Disclosure Statement, the allocation of general purpose tooling costs from the indirect cost pool to the contract, in addition to the directly allocated special tooling costs is not considered a violation of the standard.

(2) Contractor proposes to perform a contract which will require three firemen on 24-hour duty at a fixed-post to provide protection against damage to highly inflammable materials used on the contract. Contractor presently has a fire fighting force of 10 employees for general protection of the plant. Contractor's costs for these latter firemen are treated as indirect costs and allocated to all contracts; however, he wants to allocate the three fixed-post firemen directly to the particular contract requiring them and also allocate a portion of the cost of the general firefighting force to the same contract. He may do so but only on condition that his disclosed practices indicate that the costs of the separate classes of firemen serve different purposes and that it is his practice to allocate the general firefighting force indirectly and to allocate fixed-post firemen directly.

§ 102.70 Exemption.

None for this standard.

§ 402.80 Effective date [Reserved]

Effective date. Unless a different date is established in connection with a specific part or section, the regulations promulgated herein shall be effective July 1, 1972.

ARTHUR SCHOENHAUT,
Executive Secretary.

[FR Doc.72-3001 Filed 2-28-72;8:54 am]

September 13, 1974

Federal Management Circular 74-7
Attachment N

PROPERTY MANAGEMENT STANDARDS

1. This attachment prescribes uniform standards governing the utilization and disposition of property furnished by the Federal Government or acquired in whole or in part with Federal funds by State and local governments. Federal grantor agencies shall require State and local governments to observe these standards under grants from the Federal Government and shall not impose additional requirements unless specifically required by Federal law. The grantees shall be authorized to use their own property management standards and procedures as long as the provisions of this attachment are included.

2. The following definitions apply for the purpose of this attachment:

a. Real property. Real property means land, land improvements, structures and appurtenances thereto, excluding movable machinery and equipment.

b. Personal property. Personal property means property of any kind except real property. It may be tangible -- having physical existence, or intangible -- having no physical existence, such as patents, inventions, and copyrights.

c. Nonexpendable personal property. Nonexpendable personal property means tangible personal property having a useful life of more than one year and an acquisition cost of \$300 or more per unit. A grantee may use its own definition of nonexpendable personal property provided that such definition would at least include all tangible personal property as defined above.

d. Expendable personal property. Expendable personal property refers to all tangible personal property other than nonexpendable property.

e. Excess property. Excess property means property under the control of any Federal agency which, as determined by the head thereof, is no longer required for its needs.

September 13, 1974

3. Each Federal grantor agency shall prescribe requirements for grantees concerning the use of real property funded partly or wholly by the Federal Government. Unless otherwise provided by statute, such requirements, as a minimum, shall contain the following:

a. The grantee shall use the real property for the authorized purpose of the original grant as long as needed.

b. The grantee shall obtain approval by the grantor agency for the use of the real property in other projects when the grantee determines that the property is no longer needed for the original grant purposes. Use in other projects shall be limited to those under other Federal grant programs, or programs that have purposes consistent with those authorized for support by the grantor.

c. When the real property is no longer needed as provided in a. and b., above, the grantee shall return all real property furnished or purchased wholly with Federal grant funds to the control of the Federal grantor agency. In the case of property purchased in part with Federal grant funds, the grantee may be permitted to take title to the Federal interest therein upon compensating the Federal Government for its fair share of the property. The Federal share of the property shall be the amount computed by applying the percentage of the Federal participation in the total cost of the grant program for which the property was acquired to the current fair market value of the property.

4. Standards and procedures governing ownership, use, and disposition of nonexpendable personal property furnished by the Federal Government or acquired with Federal funds are set forth below:

a. Nonexpendable personal property acquired with Federal funds. When nonexpendable personal property is acquired by a grantee wholly or in part with Federal funds, title will not be taken by the Federal Government except as provided in paragraph 4a(4), but shall be vested in the grantee subject to the following restrictions on use and disposition of the property:

(1) The grantee shall retain the property acquired with Federal funds in the grant program as long as there is a need for the property to accomplish the purpose of the grant program whether or not the program continues to be supported by Federal funds. When there is no longer a need for the property to accomplish the purpose of the grant program, the grantee shall

September 13, 1974

FMC 74-7
Attachment N

use the property in connection with other Federal grants it has received in the following order of priority:

(a) Other grants of the same Federal grantor agency needing the property.

(b) Grants of other Federal agencies needing the property.

(2) When the grantee no longer has need for the property in any of its Federal grant programs, the property may be used for its own official activities in accordance with the following standards:

(a) Nonexpendable property with an acquisition cost of less than \$500 and used four years or more. The grantee may use the property for its own official activities without reimbursement to the Federal Government or sell the property and retain the proceeds.

(b) All other nonexpendable property. The grantee may retain the property for its own use provided that a fair compensation is made to the original grantor agency for the latter's share of the property. The amount of compensation shall be computed by applying the percentage of Federal participation in the grant program to the current fair market value of the property.

(3) If the grantee has no need for the property, disposition of the property shall be made as follows:

(a) Nonexpendable property with an acquisition cost of \$1,000 or less. Except for that property which meets the criteria of (2) (a) above, the grantee shall sell the property and reimburse the Federal grantor agency an amount which is computed in accordance with (iii) below.

(b) Nonexpendable property with an acquisition cost of over \$1,000. The grantee shall request disposition instructions from the grantor agency. The Federal agency shall determine whether the property can be used to meet the agency's requirement. If no requirement exists within that agency, the availability of the property shall be reported to the General Services Administration (GSA) by the Federal agency to determine whether a requirement for the property exists in other Federal agencies. The Federal grantor agency shall issue instructions to the grantee within 120 days and the following procedures shall govern:

September 13, 1974

(i) If the grantee is instructed to ship the property elsewhere, the grantee shall be reimbursed by the benefiting Federal agency with an amount which is computed by applying the percentage of the grantee's participation in the grant program to the current fair market value of the property, plus any shipping or interim storage costs incurred.

(ii) If the grantee is instructed to otherwise dispose of the property, he shall be reimbursed by the Federal grantor agency for such costs incurred in its disposition.

(iii) If disposition instructions are not issued within 120 days after reporting, the grantee shall sell the property and reimburse the Federal grantor agency an amount which is computed by applying the percentage of Federal participation in the grant program to the sales proceeds. Further, the grantee shall be permitted to retain \$100 or 10 percent of the proceeds, whichever is greater, for the grantee's selling and handling expenses.

(4) Where the grantor agency determines that property with an acquisition cost of \$1,000 or more and financed solely with Federal funds is unique, difficult, or costly to replace, it may reserve title to such property, subject to the following provisions:

(a) The property shall be appropriately identified in the grant agreement or otherwise made known to the grantee.

(b) The grantor agency shall issue disposition instructions within 120 days after the completion of the need for the property under the Federal grant for which it was acquired. If the grantor agency fails to issue disposition instructions within 120 days, the grantee shall apply the standards of 4a(1), 4a(2)(b), and 4a(3)(b).

b. Federally-owned nonexpendable personal property. Unless statutory authority to transfer title has been granted to an agency, title to Federally-owned property (property to which the Federal Government retains title including excess property made available by the Federal grantor agencies to grantees) remains vested by law in the Federal Government. Upon termination of the grant or need for the property, such property shall be reported to the grantor agency for further agency utilization or, if appropriate, for reporting to the General Services Administration for other Federal agency utilization. Appropriate disposition instructions will be issued to the grantee after completion of Federal agency review.

September 13, 1974

FMC 74-7
Attachment N

5. The grantees' property management standards for nonexpendable personal property shall also include the following procedural requirements:

a. Property records shall be maintained accurately and provide for: a description of the property; manufacturer's serial number or other identification number; acquisition date and cost; source of the property; percentage of Federal funds used in the purchase of property; location, use, and condition of the property; and ultimate disposition data including sales price or the method used to determine current fair market value if the grantee reimburses the grantor agency for its share.

b. A physical inventory of property shall be taken and the results reconciled with the property records at least once every two years to verify the existence, current utilization, and continued need for the property.

c. A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft to the property. Any loss, damage, or theft of nonexpendable property shall be investigated and fully documented.

d. Adequate maintenance procedures shall be implemented to keep the property in good condition.

e. Proper sales procedures shall be established for unneeded property which would provide for competition to the extent practicable and result in the highest possible return.

6. When the total inventory value of any unused expendable personal property exceeds \$500 at the expiration of need for any Federal grant purposes, the grantee may retain the property or sell the property as long as he compensates the Federal Government for its share in the cost. The amount of compensation shall be computed in accordance with 4a(2)(b).

7. Specific standards for control of intangible property are provided as follows:

a. If any program produces patentable items, patent rights, processes, or inventions, in the course of work aided by a Federal grant, such fact shall be promptly and fully reported to the grantor agency. Unless there is prior agreement between the grantee and grantor on disposition of such items, the grantor agency shall determine whether protection on such invention or discovery shall be sought and how the rights in the invention or discovery--including rights under any patent issued thereon--shall be allocated and administered in order to protect the public interest consistent with

September 13, 1974

Attachment N

"Government Patent Policy" (President's Memorandum for Heads of Executive Departments and Agencies, August 23, 1971, and Statement of Government Patent Policy as printed in 36 F.R. 16889).

b. Where the grant results in a book or other copyrightable material, the author or grantee is free to copyright the work, but the Federal grantor agency reserves a royalty-free, nonexclusive and irrevocable license to reproduce, publish, or otherwise use, and to authorize others to use the work for Government purposes.

APPENDIX 4
 U. S. DEPARTMENT OF JUSTICE
 NATIONAL INSTITUTE OF CORRECTIONS
 320 FIRST STREET, N. W., WASHINGTON, D. C. 20534

H-3 Report

REQUEST FOR ADVANCE OR REIMBURSEMENT		1. Federal Agency and Organizational Element U. S. Department of Justice, NATIONAL INSTITUTE OF CORR.	2. Federal Grant No. or Other Identifying No.	
3. Type of Payment Requested a. <input type="checkbox"/> Advance <input type="checkbox"/> Reimbursement		b. <input type="checkbox"/> Final <input type="checkbox"/> Partial		4. Basis of Report <input type="checkbox"/> Cash <input type="checkbox"/> Accrued Expenditures
5. Partial Payment Request No.		6. Employer Identification No.		
7. Grantee Account No. or Identifying No.		8. Period Covered (Month, Day, Year) FROM _____ TO _____		
9. Name of Grantee Organization STREET NO. AND NAME CITY STATE ZIP CODE		10. Name of Payee (if different than Item 9) STREET NO. AND NAME CITY STATE ZIP CODE		
11. COMPUTATION OF AMOUNT REQUESTED				
	PROGRAMS — FUNCTIONS — ACTIVITIES			TOTAL
	(1)	(2)	(3)	
a. Total program outlays to date as of _____	\$	\$	\$	\$
b. Less: Cumulative program income				
c. Net program outlays (Line a minus Line b)				
d. Estimated net cash outlays for advance period.				
e. Total of Lines c and d				
f. Non-Federal share of amount on Line e				
g. Federal share of amount on Line e				
h. Federal payments previously requested				
i. Federal share now requested (Line g minus Line h)				
j. Monthly advance requirements:				
(1) 1st month				
(2) 2nd month				
(3) 3rd month				
12. REMARKS (Attach additional sheets if necessary)				
13. I certify that to the best of my knowledge and belief the data reported above is correct and that all outlays were made in accordance with grant conditions and that payment is due and has not been previously requested.				
Name		Title		TELEPHONE
				Area Code Number Ext.
Signature of Authorized Official			Date Report is Submitted	
FOR AGENCY USE ONLY				
Batch No. _____				
Date Processed _____				
Initials _____				

**INSTRUCTIONS FOR PREPARING THE
REQUEST FOR ADVANCE OR REIMBURSEMENT**

APPENDIX 4

Item 2 - Enter the Federal grant number.

Item 3 - Indicate with an "X" whether the type of payment requested is:

- a. An advance, reimbursement, or both
- b. Final or partial

Item 4 - Indicate with an "X" whether the report is prepared on a cash or accrued expenditure basis. All requests which are for advances only shall be prepared on a cash basis.

Item 5 - Enter the payment request number for this request.

Item 6 - Enter the employer identification number assigned by the U. S. Internal Revenue Service.

Item 7 - Enter "N/A" for not applicable.

Item 8 - Enter the month, day, and year for the beginning and ending of the period covered in this request. If the request is for an advance or for both an advance and reimbursement, show the month that the advance will cover. If the request is for a reimbursement, show the period for which the reimbursement is requested.

Item 9 - Enter the name and complete mailing address, including ZIP Code for the grantee organization.

Item 10 - Enter the name and complete mailing address, including ZIP Code of the payee if it is different than the grantee organization shown in Item 9.

Item 11 - COMPUTATION OF AMOUNT REQUESTED. Only the "Total" column should be used. Vertical columns (1) through (3) are not applicable.

Line a - On the stub enter the month, day, and year of the ending of the accounting period to which this amount applies. Enter program outlays to date in the appropriate columns. For reports which are prepared on a cash basis, outlays are the sum of actual cash disbursements for goods and services, the amount of indirect expenses charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to sub-contractors and subgrantees. For reports prepared on an accrued expenditure basis, outlays are the sum of the actual cash disbursements, the amount of indirect expenses incurred, the value of in-kind contributions applied, amounts owed by the grantee for goods and other property received, amounts owed for services performed by employees, contractors, subgrantees, and other payees, and amounts becoming owed for which no current service or performance is required.

Line b - Enter the cumulative cash income received to date, if reports are prepared on a cash basis. For reports prepared on an accrued expenditure basis, enter the cumulative income earned to date. Under either basis, enter only the amount applicable to program income which was required to be used for the project or program by the terms of the grant.

Line c - This amount should be the difference between the amounts shown on Line a less the amounts shown on Line b.

Line d - Only when making requests for advance payments, enter the total estimated amount of cash outlays that will be made during the period covered by the advance.

Line e - Enter the total of Lines c and d.

Line f - Enter the non-Federal share of the amount shown on Line e.

Line g - Enter the Federal share of the amount shown on Line e.

Line h - Enter the cumulative amount of Federal payments received and amounts included in outstanding requests.

Line i - Enter the Federal share now requested. (Line g minus Line h).

Line j - Enter "0" on each of the lines. Advances shall be requested for only a one month period.

Item 12 - Provide the following information, if applicable:

- a. Requests reflecting both a reimbursement and an advance payment - enter the amount included on line 11, for each type of payment requested.

Item 13 - The contents of this section are self-explanatory.

ADDITIONAL INFORMATION

- A. All credit figures will be shown in parenthesis ().
- B. Submission: On a monthly basis, as needed. Advances shall be requested for only a one month period.
- C. Distribution: Original and one copy to the National Institute of Corrections, 320 First St., N.W. Washington, D. C. 20534. One copy to be retained by grantee.



APPENDIX 5

U. S. DEPARTMENT OF JUSTICE
 NATIONAL INSTITUTE OF CORRECTIONS
 320 FIRST STREET, N.W., WASHINGTON, D. C. 20534

H-1 Report

FINANCIAL STATUS REPORT		1. Federal Agency and Organizational Element U. S. Department of Justice, NATIONAL INSTITUTE OF CORRECTIONS				2. Federal Grant No. or Other Identifying No.						
3. Name and Address of Grantee Organization		4. Employer Identification No.		5. Grantee Account No. or Identifying No.		6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No		7. Basis of Report <input type="checkbox"/> Cash <input type="checkbox"/> Accrued Expenditures				
		8. Project Period (Month, Day, Year) FROM TO 		9. Report Period (Month, Day, Year) FROM TO 								
10. STATUS OF FUNDS		PROGRAMS — FUNCTIONS — ACTIVITIES										
			(1)	(2)	(3)	(4)	(5)	(6)	TOTAL			
		a. Total outlays previously reported (Line 10e from previous report).....										
		b. Total program outlays this period.....										
		c. Less: Program income credits.....										
		d. Net program outlays this period (Line b minus Line c).....										
		e. Total program outlays to date (Sum of Lines a and d).....										
		f. Less: Non-Federal share of program outlays.....										
		g. Total Federal share of program outlays (Line e minus Line f).....										
		h. Total unpaid obligations.....										
i. Less: Non-Federal share of unpaid obligations.....												
j. Federal share of unpaid obligations (Line h minus Line i).....												
k. Total Federal share of outlays and unpaid obligations (Line g plus Line j).....												
l. Total Federal funds authorized.....												
m. Unobligated balance of Federal funds (Line l minus Line k).....												
11. Indirect Expenses: a. Type of rate (Mark box) <input type="checkbox"/> Provisional <input type="checkbox"/> Final <input type="checkbox"/> Predetermined <input type="checkbox"/> Fixed		12. REMARKS (Attach additional sheets if necessary)				13. CERTIFICATION — I certify that to the best of my knowledge and belief this report is correct and complete and that all outlays and unpaid obligations are for the purposes set forth in the grant award documents.						
b. Rate	c. Base									Name		Title
d. Total amount	e. Federal share					Signature of Authorized Official		Date Report is Submitted				

INSTRUCTIONS FOR PREPARING THE FINANCIAL STATUS REPORT

APPENDIX 5

Item 2 - Enter the Federal grant number.

Item 3 - Enter the name and complete mailing address including the ZIP code for the grantee organization.

Item 4 - Enter the employer identification number assigned by the U. S. Internal Revenue Service.

Item 5 - Enter "NA" for not applicable.

Items 6 and 7 - Mark the appropriate block.

Item 8 - Enter the month, day, and year of the beginning and ending period of the grant. The ending period should reflect any approved extension date.

Item 9 - Enter the month, day, and year of the beginning and ending dates of the quarter for which this report is prepared.

Item 10 -

Line a. Enter the total outlays reported on Line 10e of the previous report. Show zero, if this is the initial report for the grant.

Line b. Enter the total gross program outlays for this report period, including disbursements of cash realized as program income. For reports which are prepared on a cash basis, outlays are the sum of the subgrantees' actual cash disbursements for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to contractors. For reports prepared on an accrued expenditure basis, outlays are the sum of the subgrantees' actual cash disbursements, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase (or decrease) in the amounts owed by the subgrantee for goods and other property received and for services performed by employees, contractors, and other payees.

Line c. The report prepared on a cash basis, enter the amount of cash income received during the quarter which is to be used in the project or program in accordance with the terms of the grant. For reports prepared on an accrual basis, enter the amount of the net increase (or decrease) in the amount of accrued income since the beginning of the report period.

Line d. This amount should be the difference between amounts shown on Lines b and c.

Line e. Enter the sum of amounts shown on Lines a and d above. This amount represents the cumulative outlays to date of both Federal and non-Federal funds.

Line f. Enter the cumulative non-Federal share ("Match") of the program outlays included in the amount of Line e.

Line g. Enter the cumulative Federal share of program outlays. The amount should be the difference between Lines e and f.

Line h. For reports prepared on a cash basis, enter the total amount of unpaid obligations for this grant.

For reports prepared on an accrued expenditure basis, enter the amount of undelivered orders and other outstanding obligations. Do not include any amounts that have been included on Lines a through g. On the final report, Line h should have a zero balance.

Line i. Enter the non-Federal share of unpaid obligations included on Line h. On the final report, Line i should have a zero balance.

Line j. Enter the Federal share of unpaid obligations included on Line h. The amount shown on this line should be the difference between the amounts on Lines h and i. On the final report, Line j should have a zero balance.

Line k. Enter the sum of the amounts shown on Lines g and j. If the report is final, the report should not contain any unpaid obligations.

Line l. Enter the total amount of the federal grant.

Line m. Enter the unobligated balance of Federal funds. This amount should be the difference between Lines l and k.

Item 11 - INDIRECT EXPENSE

a. Type of rate - Mark appropriate block.

b. Rate - Enter the rate in effect during the quarter.

c. Base - Enter the amount of the base to which the rate was applied.

d. Total amount - Enter the total amount of the Federal share charged during the quarter.

e. Federal Share - Enter the amount of the Federal share charged during the report period.

(When reporting on Planning or Block Action Grants, complete only items d and e. Enter "N/A" for items a through c.)

If more than one rate was applied during the project period, include a separate schedule which shows the basis against which the indirect cost rates were applied, the respective indirect rates, the month, day, and year the indirect rates were in effect, amounts of indirect expense charged to the project, and the Federal share of indirect expense charged to the project to date. (See Office of Management and Budget Circular No. A-87 which contains principles for determining allowable costs of grants and contracts with State and local governments.)

Item 13 - The contents of this item are self-explanatory

ADDITIONAL INFORMATION

A. All credit figures will be shown in parenthesis ().

B. Due Date: Quarterly, within 30 days after end of quarter. Final reports are due 90 days after end of grant period or after completion.

C. Distribution: ORIGINAL AND ONE COPY TO:
NATIONAL INSTITUTE OF CORRECTIONS
320 FIRST STREET, N.W., WASHINGTON, D.C. 20334

ONE COPY TO BE RETAINED BY GRANTEE.

APPENDIX 6

U. S. DEPARTMENT OF JUSTICE
NATIONAL INSTITUTE OF CORRECTIONS

REPORT OF FEDERAL CASH TRANSACTIONS		1. Federal Agency and Organizational Element U. S. Department of Justice	
2. Name of Grantee Organization		4. Federal Grant No. or Other Identifying No.	5. Grantee's Account No. or Identifying No.
6. Letter of Credit No.		7. Last Payment Voucher No.	
8. Number of Payment Vouchers		9. No. of Treasury Checks Received	
3. Federal Employer Identification No.		10. Report Period (Month, Day, Year) FROM TO	
11. STATUS OF FEDERAL CASH			
a. Cash on hand beginning of period (Line 11 j from previous report)		\$	
b. Letter of credit withdrawals		\$	
c. Treasury check payments		\$	
d. Total receipts (Sum of Lines b and c)		\$	
e. Total cash available (Sum of Lines a and d)		\$	
f. Gross disbursements		\$	
g. Federal share of program income		\$	
h. Net disbursements (Line f minus Line g)		\$	
i. Adjustments of prior periods		\$	
j. Cash on hand end of period (Line e less Line h plus or minus Line i)		\$	
12. The amount in item 11j represents cash requirements for the ensuing <u> </u> days.			
13. OTHER INFORMATION			
a. Interest income		\$	
b. Advances to subgrantees		\$	
14. REMARKS (Attach additional sheets if necessary)			
15. CERTIFICATION — I certify that to the best of my knowledge and belief this report is true in all respects and that all disbursements have been made for the purposes and conditions of the grant.			
Name		Title	
		TELEPHONE	
		Area Code	Number
		Ext.	
Signature of Authorized Official		Date Report is Submitted	
FOR AGENCY USE ONLY			
Batch No. _____			
Date Processed _____			
Initials _____			

APPENDIX 6

INSTRUCTIONS FOR PREPARING PAGE 1
OF THE REPORT OF FEDERAL CASH
TRANSACTIONS

Item 2 - Enter the name and complete mailing address including the Zip Code for the grantee organization.

Item 3 - Enter the employer identification number assigned by the U.S. Internal Revenue Service.

Item 4 - Enter the Federal grant number if this report covers only one grant. If more than one grant is covered by this report, leave this space blank and provide the information on page 2.

Item 5 - Enter "N/A" for not applicable.

Item 6 - Enter the Letter of Credit number which applies to this report. If all Federal funds received were by Treasury check, enter "N/A" for not applicable.

Item 7 - Enter the voucher number of the last letter of credit payment voucher (Form TUS 5401) which was credited to your account as of the end of the reporting month. Do not use the serial number preprinted on the payment vouchers (Form TUS 5401). If all Federal funds received were by Treasury check, enter "N/A" for not applicable.

Item 8 - Enter the total number of letter of credit payment vouchers which were credited to your account during the reporting month. If all Federal funds received were by Treasury check, enter "N/A" for not applicable.

Item 9 - Enter the total number of Treasury checks received during the reporting month whether or not deposited. If all Federal funds received were through payment vouchers (Form TUS 5401), enter "N/A" for not applicable.

Item 10 - Enter the month, day, and year of the beginning and ending dates of the month covered by this report.

Item 11 -

Line a. Enter the total amount of Federal cash on hand at the beginning of the month including all of the Federal funds on deposit, imprest funds, and undeposited Treasury checks. This amount should equal Line 11 j, from the previous month's report.

Line b. Enter the total of all Federal funds received through payment vouchers (Form TUS 5401) which were credited to your account during the reporting month. If all Federal funds received were by Treasury check, enter "-0-".

Line c. Enter the total of all Federal funds received during the reporting month through Treasury checks, whether or not deposited. If all Federal funds received were through payment vouchers (Form TUS 5401), enter "-0-".

Line d. Enter the sum of lines b and c.

Line e. Enter the sum of lines a and d.

Line f. Enter the total Federal cash disbursements made by the grantee during the reporting period. Disbursements include the amount of advances and payments less refunds of Federal funds received.

Line g. Enter the Federal share of program income received by the grantee during the reporting month. Enter only the amount of program income which was required to be used on the project or program by the terms of the grant.

Line h. Enter the net disbursements. This amount is the difference between the amount shown on Line f minus the amount on Line g. If more than one grant is covered by this report, this amount should equal the total of column 6a, shown in item 7, page 2.

Line i. Enter the amount of all adjustments pertaining to prior periods affecting the ending balance (Line 11 j) which have not been included in any lines above. In the "Remarks" section identify by Federal grant number the amount of the adjustment and an explanation.

Line j. Enter the total amount of Federal cash on hand at the end of the reporting month. This amount should equal the net of Lines e, less h, plus or minus i.

Item 12 - Enter the estimated number of days until the cash on hand, shown on Line 11 j, will be expended. If more than seven days cash requirements are on hand, provide an explanation in the "Remarks" section of the amount and reason of the excess cash.

Item 13 -

Line a. Enter "N/A" for not applicable.

Line b. Enter "N/A" for not applicable.

Item 14 - Provide the following information, if applicable:

- The amount and an explanation, identified by Federal grant number, of the adjustment shown on Line 11i.
- The amount and reason of cash on hand in excess of seven days cash requirements.

Item 15 - The contents of this item are self-explanatory.

ADDITIONAL INFORMATION

- One report is prepared per grantee.
- All credit figures will be shown in parenthesis ().
- Due Date: Monthly, on the 15th day of the following month.
- Distribution: Original

NATIONAL INSTITUTE OF CORRECTIONS
320 First Street, N. W., Room 2C
Washington, D. C. 20534
One copy to be retained by grantee.

APPENDIX 6

U. S. DEPARTMENT OF JUSTICE

H-2 Report, Pg. 2

NATIONAL INSTITUTE OF CORRECTIONS

<p>REPORT OF FEDERAL CASH TRANSACTIONS</p>		<p>1. Federal Agency and Organizational Element U. S. Department of Justice,</p>	
<p>2. Name of Grantee Organization</p>		<p>3. Report Period (Month, Day, Year) FROM _____ TO _____</p>	
<p>4. Federal Grant No. or Other Identifying No.</p>	<p>5. Grantee's Account No. or Identifying No.</p>	<p>6. Federal Share of Net Disbursements</p>	
		<p>a. For the Period</p>	<p>b. Cumulative</p>
<p>7. TOTALS</p>		<p>*</p>	

* This total should be the same as the amount shown on Line 11 h on page 3.

APPENDIX

INSTRUCTIONS FOR PREPARING PAGE 2 OF
THE REPORT OF FEDERAL CASH TRANSACTIONS

This page will be used as an attachment to the Report of Federal Cash Transactions when reporting on more than one grant.

Item 2 - Enter only the name of the grantee as shown on Item 2 of page 1.

Item 3 - Enter the reporting month covered by this report as shown in Item 10 of page 1.

Item 4 - Enter the Federal grant number for each grant to which Federal cash disbursements were made and/or refunds of Federal funds were received. Each grant should be shown on a separate line. The Federal grant numbers applicable to disbursements made for refunds returned should be listed last. Draw a line to separate this section and enter "Refunds" before entering the applicable grant numbers.

Item 5 - This item should be left blank.

Item 6 -

Column a. Show the total current month Federal cash disbursements made, less Federal program income and refunds received by the SPA or other grantee for each grant shown under item 4.

Column b. Show the cumulative net Federal Cash disbursements for each grant shown under item 4. This amount should equal the sum of the amount shown in column 5a on this report, plus or minus any adjustments included in Line 11i on page 1, and the cumulative total shown in column 6b on the last report which included this grant. Do not show cumulative amounts for refunds.

Item 7 - Enter the totals for columns 6a and 6b. The total of column 6a must agree with the amount reported on line 11h of page 1.

NOTE: All credit figures will be shown in parenthesis (-).

APPENDIX 7: ACCOUNTING PRINCIPLES AND STANDARDS FOR FEDERAL AGENCIES
(1968 REVISIONS) ISSUED BY THE COMPTROLLER GENERAL OF
THE UNITED STATES.

1. CONTENT OF APPENDIX. This appendix contains an excerpt on "Grants" from Chapter 2, Section 16, - Costs, of the GAO Manual for Guidance of Federal Agencies (Title 2). The following material is part of the larger body of principles and standards for accounting which have been prescribed by the Comptroller General for observance by all federal agencies. It is the full section dealing with accounting for grants and is reproduced here to inform grantees as to prevailing federal concepts on the character and status of grants and the obligations of agencies like the institute charged with grant administration.
2. ADVANCE PAYMENT GRANTS. It should be noted, in the textual discussion, that Title V institute grants fall within the category "advance payment grants" with respect to accounting and reporting responsibilities.

Definition

Except as otherwise expressly authorized by law, Federal grants are payments in cash or in kind made to provide assistance for specified purposes.

The acceptance of a grant from the United States creates a legal duty on the part of the grantee to use the funds or property made available in accordance with the conditions of the grant. Grant payments may be made in advance of work performed or as a reimbursement for work performed or costs incurred by grantees.

The United States generally has a reversionary interest in the unused balances of advance payment grants, in any funds improperly applied whether received as an advance or reimbursable payment, and in property or facilities purchased or otherwise made available under the conditions of the grants, unless title thereto is specifically vested unconditionally in the grantee by the terms of the grant under authority of law.

Responsibility of grantor agency

The grantor department or agency is responsible for seeing that:

Grants are applied solely in accordance with the conditions of the grants.

APPENDIX 7

Unused balances of grants, including funds improperly applied, are returned to the United States.

Property or facilities purchased with such funds, or otherwise made available, are utilized and disposed of in accordance with the terms of the grant or other instructions of the grantor agency.

Advance payments made to grantees under the terms of the grants do not exceed the current or revised needs of grantees.

Accounting and Reporting

Accounting for grants shall include all aspects of grant transactions from approval of the proposed grants to final action by the grantees and grantors.

Accounting for a grant begins with the execution of an agreement or the approval of an application or similar document in which the amount and purposes of the grant, the performance periods, the obligations of the parties to the grant, and other applicable basic terms are set out. This action establishes a commitment of funds and the agreement, application or similar document is the obligating instrument, provided that the United States is bound thereunder to disburse the grant funds either unconditionally or under conditions solely within the control of the grantee.

Payments to grantees in advance of work performed shall be accounted for as advances of the grantor agencies until evidence of performance has been received from the grantees.

Payments to grantees as reimbursement for work performed or costs incurred shall be accounted for as reductions of liabilities to pay for such work or costs.

Payments to grantees under grants where no performance or reporting by grantees is required or where the payments are scheduled to correspond approximately with performance shall be accounted for as liquidations of the obligations and as costs incurred.

APPENDIX 7

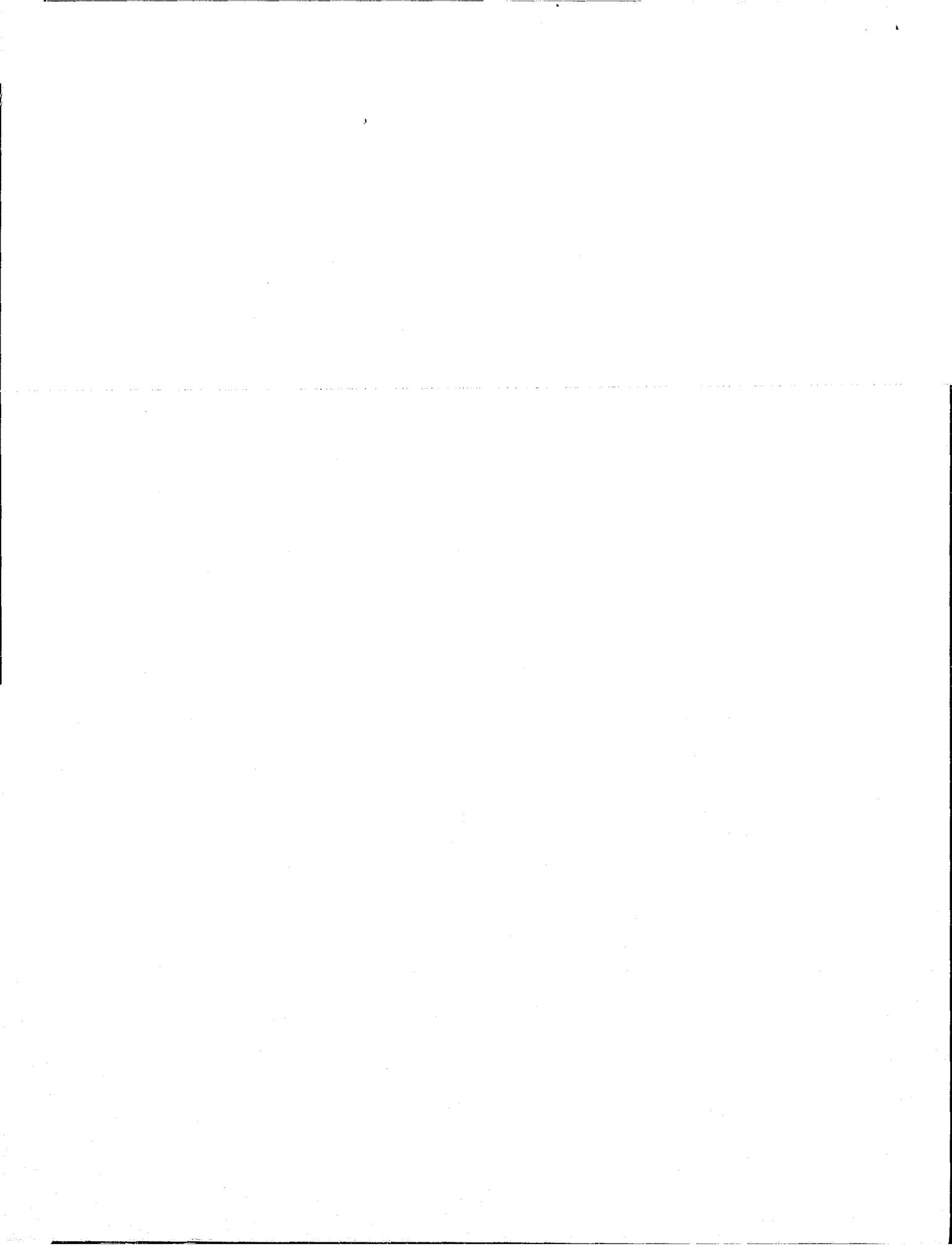
Reports under advance payment grants shall be required of grantees at reasonably frequent periods and to show, as a minimum, how the funds or property were applied, details of property acquired, and unused fund balances. Upon acceptance by the grantor agencies, such reports shall be used as the bases for liquidating obligations, reducing the advance accounts, and making charges to appropriate cost and property accounts.

Reports under reimbursable grants also shall be required at reasonably frequent periods and used as support for recording the agency liability for costs incurred and for liquidating the obligation under the grant.

Estimates may be used in lieu of reports where necessary for monthly reporting purposes.

Where title to grantee-acquired property vests or may vest in the Government, appropriate property records shall be established.

At termination of a grant, unused and improperly applied funds shall be collected by the grantor agency or appropriately adjusted by offset or otherwise utilized in accordance with the conditions of the grant and arrangements shall be made for disposition of Government-owned property.



APPENDIX 8: CURRENT GENERAL CONDITIONS FOR ALL NIC GRANTEES

In accepting a grant from the National Institute of Corrections (NIC), the grantee understands and agrees to the following conditions:

1. Funds awarded are to be expended only for the purposes and activities described in the grantee's approved plan and budget;
2. The grant may be terminated, at any time before the date of completion, in whole or in part by the NIC director for failure to comply with any grant conditions or with project goals, plans, and methodology set forth in the grantee's application or for the convenience of the United States of America. The grantee shall be notified of any decision to terminate for the reasons described and be allowed a reasonable time, where feasible, to terminate project operations or seek support from other sources. No termination shall affect grant obligations or costs incurred prior to receipt of notice of termination, provided such obligations or costs were incurred in good faith and are otherwise allowable. Funds shall not be considered obligated solely by virtue of grantee commitments to participating agencies or project contractors for work or services not yet performed;
3. Project budget formulations and fund expenditures shall conform to the following conditions: (a) unless otherwise specified, travel and subsistence charges shall be limited to levels allowed by the grantee's uniform travel regulations or, in the absence of uniform travel regulations, to levels allowed under current Federal Government travel regulations, including use of less than first-class accommodations in air and rail travel and the current per diem subsistence limit; however, in no case shall travel and subsistence rates exceed current Federal government levels, (b) no funds will be spent for construction costs, real estate purchases, payment of real estate mortgages or taxes, entertainment expenses, and purchase of automobiles and (c) expenditures will be limited to items specifically budgeted in the application and any amendments approved in writing by NIC.
4. Grant funds may not be obligated prior to the effective date of the grant, unless approved in writing by NIC, or subsequent to the termination date of the grant period. Obligations outstanding as of the termination date shall be liquidated within 90 days after the termination of the grant period;

APPENDIX 8

5. All interest or other income earned by the grantee with respect to grant funds or as a result of the conduct of the grant project (sale of publications, registration fees, service charges or fees, etc.) must be accounted for. Interest on grant funds must be returned to the NIC by a check payable to the United States Treasury and other income must be applied either to reduce project costs or to pursue other activities connected with the project;

6. The grantee shall submit programmatic and financial reports to NIC on a regular basis and a final report on completion of the grant project. The grantee may also publish at its own expense, the results of grant activity. Any publications (written, visual, or sound), whether published at the grantee's or government expense, shall contain the following statements:

"Prepared under Grant Number _____ from the National Institute of Corrections, Bureau of Prisons, U. S. Department of Justice.

Points of view or opinions stated in this document are those of the author and do not necessarily represent the official position or policies of the U. S. Department of Justice."

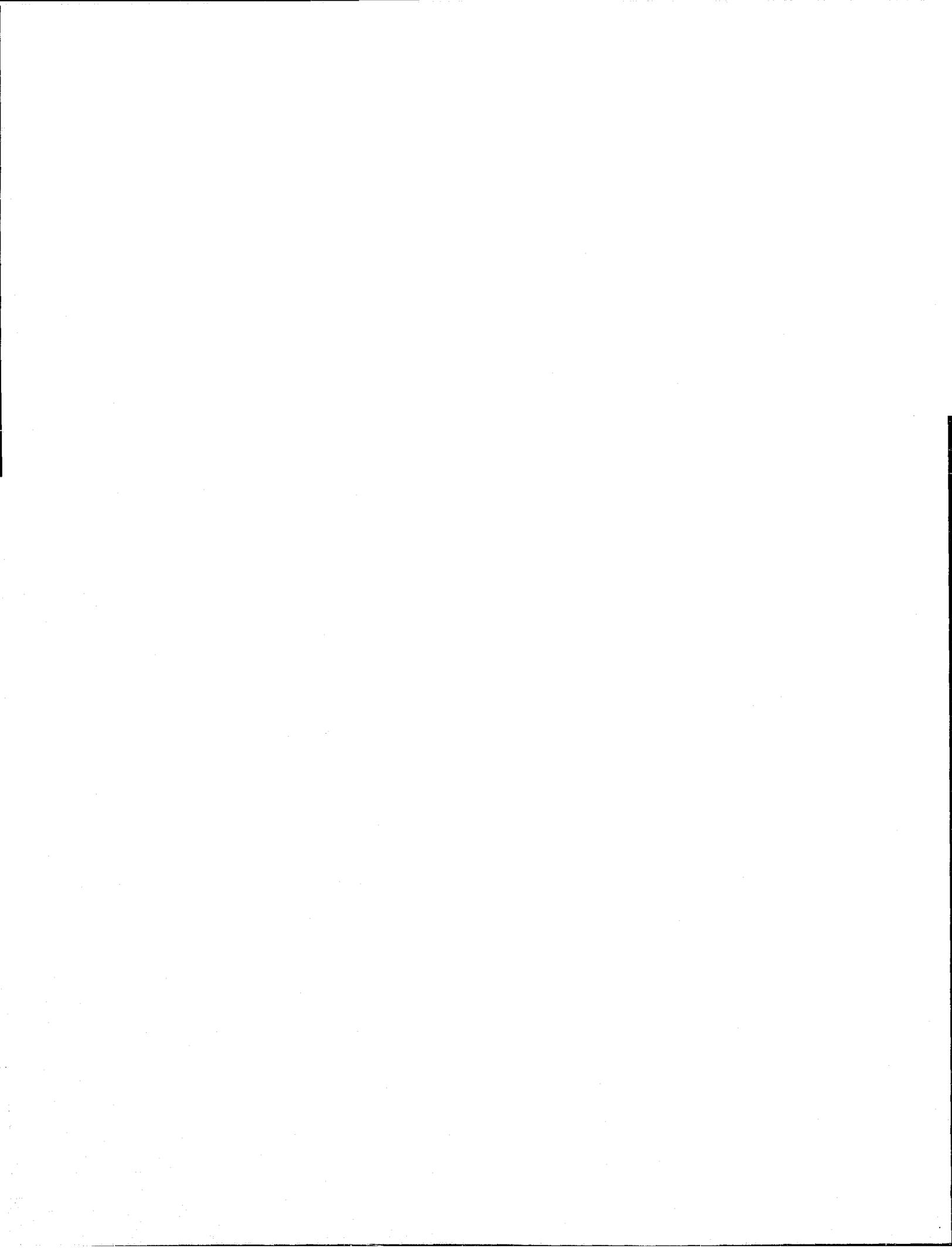
7. All published material and written reports submitted under this grant or in conjunction with third party agreements under this grant must be originally developed material unless otherwise specifically provided in the grant document. When material not originally developed is included in the report it must have the source identified. This identification may be in the body of the report or in a footnote. This provision is applicable whether the material is in a verbatim or extensive paraphrase format;

8. If any discovery or invention arises or is developed in the course of or as a result of work performed under this grant, the grantee shall refer the discovery or invention to NIC, which will determine whether or not patent protection will be sought, how many rights therein, including patent rights, will be disposed of and administered, and whether other action is required to protect the public interest in work supported with Federal funds, all in accordance with "Government Patent Policy" (President's Memorandum for Heads of Executive Departments and Agencies, August 23, 1971, and Statement of Government Patent Policy as printed in 36 F.R. 16889);

APPENDIX 8

9. The Project Director and key program personnel designated in the application shall be replaced only for compelling reasons. Approval for the successor is contingent upon submission of a resume and verified statement of most recent salary to NIC for its approval and concurrence. Prior concurrence is also required for members of an Advisory Board where applicable. Changes in other program personnel, including consultants, only require notification of the Institute with the same documentation as for the Project Director unless otherwise designated in the award document.
10. No research data or statistical data which is identifiable to any specific person and which has been furnished to the grantee by any agency or person in conjunction with work performed under this grant shall be used or disclosed for any purpose other than the research project for which it was obtained. Such data shall not, without the consent of the person furnishing such data, be admitted as evidence or used for any purpose in any action, suit or other judicial or administrative proceedings. This prohibition limits the grantee's using or disclosing such research data identifiable to a specific person for any purpose other than for which it was obtained. The grantee shall conform to the provisions of the Privacy Act of 1974.
11. Potential Post Award Reductions. The following general conditions will be applicable to all grants awarded by NIC:

This grant, or portion thereof, is conditional upon subsequent congressional or executive action which may result from federal budget deferral or rescission actions pursuant to the authority contained in Section 1012(A) and 1013(A) of the Congressional Budget and Impoundment Control Act of 1974, 31 U.S.C. 1301, Pub. L. 93-344, 88 Stat. 297 (July 12, 1974).
12. Copyrights. Where grant projects produce original books, manuals, films, or other copyrightable material, the grantee may copy-right such, but the NIC reserves a royalty-free, non-exclusive and irrevocable license to reproduce, publish, translate, or otherwise use, and to authorize others to publish and use, such materials. Where such license is exercised, appropriate acknowledgement of the grantee's contribution will be made.



END