

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

21 SCOMM 6: SENATE SPECIAL COMM. ON ALCOHOLISM 1977-78

institution from engaging in their duties or pursuing their studies at such institution.

Subgranting and Contracting of Grant-Supported Effort (Chapter PHS:1-430)

None of the principal activities of the grant-supported effort shall be subgranted or contracted out to another organization without specific prior approval by PHS. Where the intention to award subgrants or contracts is made known at the time of application, this approval may be considered granted if these activities are funded as proposed. Subsequent to award, the grantee must request PHS approval as detailed in Prior Approval of Use of Grant Funds Including Rebudgeting under this section.

All such arrangements must be formalized in a contract or other written agreement between the parties involved. The contract or agreement must, at a minimum, state the activities to be performed, the time schedule, the grant policies and requirements that are applicable to the subgrantee, contractor, or other secondary recipient ("flowthrough" requirements), other policies and procedures to be followed, the dollar limitation of the agreement, and the cost principles to be used in determining what costs, both direct and indirect, are to be allowed. The contract or other written agreement must not affect the grantee's overall responsibility for the direction of the project and accountability to the Government.

This section applies to principal activities of a grant but does not apply to contracts within a grant for the routine purchase of supplies, materials, equipment, or general support services.

Third-Party Reimbursement and Other Sources of Health Services Funding (42 CFR 50, Subpart A)

Those project grants supported under programs for the delivery of health services specified in the Health Services Funding Regulations (42 CFR 50, Subpart A) are expected to develop, to the extent possible, independence from PHS grant support. Therefore, these projects will be encouraged and assisted in the development and use of alternate funding sources to supplement or supplant PHS support where possible. These funding sources include third-party payors, other available Federal, State, local, and private funds, and beneficiaries who are able to pay. The Health Services Funding regulations require as a condition of award that each project subject to these regulations establish a plan to (1) institute sound financial management procedures so that it can recover to the maximum extent feasible third-party revenues to which it

is entitled as a result of services provided, (2) garner all other available Federal, State, local, and private funds, and (3) charge beneficiaries according to their ability to pay for services provided without creating a barrier to those services.

Where third-party payors, including Government agencies, are authorized or under legal obligation to pay all or a portion of charges for health care services, all such sources must be billed for covered services and every effort must be made to obtain payment. The grantee must have an operative procedure for identifying all persons served who are eligible for third party reimbursement.

Where a significant percentage of the cost of care and services provided by the project is to be reimbursed by a third party, there should be a written agreement with such third party.

These regulations should be consulted for applicability and additional details concerning project requirements and evaluation criteria.

Waiver of Single State Agency Requirement

Upon request of the Governor or other appropriate executive or legislative authority of the State responsible for determining or revising the organizational structure of State government, the Secretary of HEW may waive the requirement of authorizing legislation that a single State agency or multimember board or commission must administer or supervise any grant program (sec. 204 of the Intergovernmental Cooperation Act of 1968). The request must adequately show that such provision prevents the establishment of the most effective and efficient organizational arrangements within the State government. The Secretary or his designee may approve other State administrative structures or arrangements provided the objectives of the Federal statutes authorizing the grant program will not be endangered by the use of such other State structures or arrangements.

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APPENDIX

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Regional Offices

Region	Address	Telephone	States in Region
I	Regional Health Administrator John F. Kennedy Federal Bldg. Government Center Boston, Massachusetts 02203	(617) 223-6827	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
II	Regional Health Administrator 26 Federal Plaza, Room 1005 New York, New York 10007	(212) 264-2560	New Jersey, New York, Puerto Rico, Virgin Islands
III	Regional Health Administrator Post Office Box 13716 Philadelphia, Pennsylvania 19101	(215) 596-6637	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia
IV	Regional Health Administrator 50 7th St., N.E., Room 866 Atlanta, Georgia 30323	(404) 526-5007	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee

- | | | | |
|------|--|----------------|--|
| V | Regional Health
Administrator
300 South Wacker
Drive
26th Floor
Chicago, Illinois
60606 | (312) 353-1385 | Illinois, Indiana,
Michigan,
Minnesota,
Ohio, Wisconsin |
| VI | Regional Health
Administrator
1200 Main Tower
Building
Dallas, Texas
75202 | (214) 655-3879 | Arkansas,
Louisiana,
New Mexico,
Oklahoma,
Texas |
| VII | Regional Health
Administrator
601 East 12th Street
Kansas City,
Missouri 64106 | (816) 374-3291 | Iowa, Kansas,
Missouri,
Nebraska |
| VIII | Regional Health
Administrator
9017 Federal Office
Building
19th & Stout Streets
Denver, Colorado
80202 | (303) 837-4461 | Colorado,
Montana,
North Dakota,
South Dakota,
Utah, Wyoming |
| IX | Regional Health
Administrator
50 United Nations
Plaza
San Francisco,
California 94102 | (415) 556-5810 | Arizona, California,
Hawaii, Nevada,
American Samoa,
Guam, Trust
Territory |
| X | Regional Health
Administrator
1321 Second Avenue
Seattle, Washington
98101 | (206) 442-0430 | Alaska, Idaho,
Oregon,
Washington |

DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE
Public Health Service

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DHEW

Guide for Non-Profit Institutions

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A GUIDE FOR NON-PROFIT INSTITUTIONS

PREFACE

The Department of Health, Education, and Welfare recognizes that careful determination of costs is essential to the continued vigor of its programs conducted under grants and contracts in non-profit institutions.

The Department recognizes, too, that there are both direct and indirect costs and that the determination of indirect costs is a matter of critical importance in the sponsored project relationship. For this reason, it wishes to encourage the fullest understanding of statutory, procedural, or other requirements in relation to costing, believing that such understanding will facilitate the administration of programs that are of great importance to the Department, to the institutions performing them and to the nation.

Within the Department, responsibility for the development and issuance of cost policies applicable to grants and contracts conducted at non-profit institutions is assigned to the Division of Financial Management Standards and Procedures, Office of the Assistant Secretary, Comptroller. Centralization of the cost policy function within that Division ensures the continual evolution of a uniform set of cost principles applicable to all grants and contracts awarded by any of the Department's agencies.

Responsibility for reviewing and negotiating indirect cost, fringe benefit, and other special rates for grants and contracts is delegated to the Regional Comptroller in each of ten Departmental regional offices. Each Regional Comptroller is responsible for the determination of indirect cost, fringe benefit, and other special rates for those non-profit institutions located within the geographical confines of his region that receive Department grants and contracts. The rates determined by the Regional Comptroller will be used by all of the Department's agencies in determining the amount of indirect costs, fringe benefits, and other special costs applicable to its grants and contracts.

This guide, in addition to containing the cost principles which apply to DHEW grants and contracts performed in non-profit institutions, describes in general terms the process of indirect cost rate determinations and sets forth instructions for the submission of rate proposals by grantees and contractors.

Section I contains information on basic considerations involved in rate determination and on Departmental views and practices.

Section II sets forth guidelines for preparation of an indirect cost rate proposal.

Section III sets forth guidelines for preparation of fringe benefit and other special rate proposals.

Section IV contains the DHEW cost principles applicable to non-profit institutions other than educational institutions, hospitals, and State and local government agencies.

Section V contains sample indirect cost rate proposal formats, a guide for the use of fixed rates with carry forward, a sample summary indirect cost settlement sheet and a sample negotiation agreement.

This brochure is published as an aid to non-profit institutions to help them become aware of and understand DHEW requirements. The contents of the brochure are authoritative and reflect DHEW policy in summary form in effect as of the date of issuance.

However, policies and procedures change and institutions performing under DHEW grants and contracts are cautioned to refer to the Department's official policies contained in the DHEW Grants Administration Manual, the DHEW Procurement Manual, and the appropriate DHEW regulations as the ultimate authoritative policy documents. They may be purchased from the Government Printing Office, Washington, D.C. 20402.

SECTION I—INDIRECT COSTS AND DHEW

The Nature of Indirect Costs

Indirect costs are those costs of an institution which are not readily identifiable with a particular project or activity but nevertheless are necessary to the general operation of the institution and the conduct of its activities. The costs of operating and maintaining buildings, grounds, and equipment, depreciation, administrative salaries, general telephone expenses, general travel, and supplies expenses are types of expenses usually considered as indirect costs.

In theory, all such costs might be charged directly; practical difficulties, however, preclude such an approach. Therefore, they are usually grouped into a common pool(s) and distributed to those institutional activities benefited through a cost allocation process. The end product of this allocation process is an indirect cost rate(s) which is then applied to individual grant and contract awards to determine the amount of indirect costs chargeable to the awards.

Indirect Cost Rates

An indirect cost rate, then, is simply a device for determining fairly and expeditiously, within the boundaries of sound administrative principles, that proportion of an institution's indirect costs each of its projects or activities, including grants and contracts, should bear.

The indirect cost rate is the ratio, expressed as a percentage, between the indirect costs and a direct cost base, commonly either direct salaries and wages or total direct costs exclusive of capital expenditures and other distorting base costs. An indirect cost rate is established on the basis of an indirect cost proposal submitted by a non-profit institution to the DHEW Office of the Regional Comptroller for the region in which the institution is located. A listing of Regional Comptroller offices appears later in this Section. Indirect costs are reimbursed to an institution based on its established rate, subject to administrative and legislative limitations, as part of the costs of individual grants and contracts awarded by the Department.

Provisional

A provisional indirect cost rate is a temporary rate. It is used by Department of Health, Education, and Welfare awarding agencies as a basis for estimating and funding the amount of indirect costs applicable to a grant or contract until actual indirect costs can be determined and a final indirect cost rate estab-

lished. Provisional indirect cost rates are subject to adjustment at some future date. A provisional rate is used to compute indirect costs on grant applications and contract proposals and on grant reports of expenditures and contract public vouchers pending the development of a rate based on an institution's actual costs during the period of grant or contract performance. Normally, an institution's last final indirect cost rate is used as its current provisional rate. For example, a final indirect cost rate established for the period July 1, 1973 through June 30, 1974 would also be used as the provisional indirect cost rate beginning July 1, 1974. However, if a significant change in the type or level of an institution's activities is anticipated, the provisional indirect cost rate should be based on a projection of the ensuing period's activity.

Final

A final indirect cost rate is established after an institution's actual costs for a given accounting period (normally its fiscal year) are known. Once established, a final indirect cost rate is not subject to adjustment. The final indirect cost rate is used to adjust the costs reported through use of provisional indirect cost rates on grant reports of expenditures and contract public vouchers. Methods of adjustment are described in Section V, Appendix 2.

Predetermined

A predetermined indirect cost rate is a permanent rate, negotiated and agreed to for a specified future period, usually one year. Such rates are established when there is reasonable assurance, normally based on experience and a reliable projection of an institution's probable level of activity, that the rate agreed to will approximate the institution's actual rate. Except in very unusual circumstances, a predetermined indirect cost rate is not subject to adjustment. Predetermined indirect cost rates may only be used where the institution performs solely under grants. It cannot be used where the institution performs solely under contracts or performs under both grants and contracts.

Fixed Rate With Carry-Forward

A fixed rate with carry-forward provision has characteristics of both the provisional rate and the predetermined indirect cost rate. A rate is computed and fixed for a specified future period based on an

estimate of that future period's level of operations. The rate is not subject to adjustment. However, when the actual costs of that period are known, the difference between the estimated costs and the actual costs is carried forward as an adjustment to a subsequent period for which a rate is established. The adjustment cannot be made in the fiscal period immediately following because the fixed rate for the immediately following fiscal period will already have been determined. An adjustment generally will be carried forward to the second or third fiscal period following the period being adjusted. A fixed rate should be selected that will most closely approximate the actual rate to be incurred. An accurate forecast will confine carry-forward amounts to minimal differences. Carry-forward procedures are described in Section V, Appendix 4.

Applying Rates to Grants and Contracts Awarded by DHEW

The Department of Health, Education, and Welfare awards hundreds of grants and contracts annually to scores of institutions. The awards are generally for a period of one year but that year does not usually coincide with a recipient institution's fiscal year. When a grant or contract period does not coincide with the institution's fiscal year, two indirect cost rates are used, one for each of the institution's fiscal years in which the award is performed. For example, assume that final rates of 35% and 30% have been established for the two fiscal periods ending June 30, 1973 and June 30, 1974, respectively, and that a one-year grant that includes \$50,000 for direct salaries and wages was awarded effective March 1, 1973. If \$30,000 of the direct salaries and wages were expended by June 30, 1973 and \$20,000 during the last eight months of the grant year, the 35% rate would be applied to the \$30,000 and the 30% rate would apply to the \$20,000.

Statutory and Administrative Limitations

A few DHEW programs have legislative or administrative limitations on the amount of indirect costs which can be reimbursed.

Indirect costs applicable to grants awarded under programs having legal prohibitions or limitations are reimbursed in accordance with the legal restrictions.

Indirect costs are not reimbursed on fellowships and similar awards under which Federal financing is exclusively in the form of fixed amounts or the published tuition rates of an institution, on construction grants, or on staffing grants.

Indirect costs on training awards are limited to the lesser of an institution's actual costs or 8% of total allowable direct costs.

Some grants programs, notably research, have cost sharing requirements. An institution may satisfy its requirements through indirect costs. For example, if an institution had to cost share an amount of \$50,000 under a given grant and the amount of indirect costs, computed via the indirect cost rate, applicable to that grant was \$75,000, the institution could satisfy its cost sharing by waiving reimbursement of all but \$25,000 of its indirect cost entitlement.

Requirement for Submission of Indirect Cost Proposals

Each institution claiming reimbursement for indirect costs must submit an indirect cost rate proposal to document how it derived the rate(s) it used to compute its claim.

The failure of an institution to submit timely proposals may result in the disallowance of costs previously awarded. Further, awards made during a period for which an institution does not have a current indirect cost rate will not include an amount for indirect costs. If a rate is subsequently established, based on the late submission of an indirect cost proposal, indirect costs on DHEW awards will be provided only for the period beginning with the first day of the month in which the proposal is submitted.

The Department recognizes that occasionally, extenuating circumstances may preclude compliance with the time period within which proposals must be submitted. When the due date for submission of proposals cannot be met, a formal request for an extension, stating the reasons, should be made to the Regional Comptroller prior to the due date. If the request is approved and the proposal is subsequently submitted in accordance with the conditions of approval, no penalty will be assessed.

Indirect cost proposals need not be submitted if:

1. An institution has waived indirect cost entitlement on its grants or contracts.
2. An institution is awarded only training awards subject to an indirect cost limitation of 8% of total direct costs and its indirect cost rate exceeds that limitation.

Proposals should be sent to the appropriate Regional Comptroller,* Department of Health, Education, and Welfare at the following addresses:

*The Regional Comptroller is officially titled the Assistant Regional Director for Financial Management.

Regional Comptroller's Address

John Fitzgerald Kennedy Federal Building
Government Center
Boston, Massachusetts 02203

Federal Office Building
26 Federal Plaza
New York, New York 10007

Federal Office Building
3535 Market Street
P.O. Box 13716
Philadelphia, Pa. 19101

Peachtree-Seventh Building
50 Seventh Street, N.E.
Atlanta, Georgia 30223

Federal Office Building
300 S. Wacker Drive
Chicago, Illinois 60607

Federal Office Building
1114 Commerce Street
Dallas, Texas 75202

Federal Office Building
601 East 12th Street
Kansas City, Missouri 64108

Federal Office Building
1961 Stout Street
Denver, Colorado 80202

Federal Office Building
60 Fulton Street
San Francisco, California 94102

Arcade Building
1321 Second Avenue
Seattle, Washington 98101

An institution that has not previously established an indirect cost rate with the Department must submit its initial proposal to the appropriate Office of the Regional Comptroller immediately after being notified that an award providing reimbursement for indirect costs will be made. Where possible, this proposal should be submitted prior to the date of the award, and, in no event, later than three months after such date. If initial proposals are submitted within the three month period, indirect costs will be reimbursed for the full award year. If initial proposals are not submitted within the three month period, indirect costs will be irrevocably lost for all months prior to the month that the indirect cost proposal is submitted. The proposal, which will be used

For Institutions Located In

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

New Jersey, New York, Canada, Puerto Rico, Virgin Islands, England, Beirut

Delaware, Maryland, Pennsylvania, Washington, D.C., West Virginia, Virginia

Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee

Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin

Arkansas, Louisiana, Texas, New Mexico, Oklahoma

Iowa, Kansas, Missouri, Nebraska

Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming

American Samoa, Arizona, California, Guam, Hawaii, Nevada, Wake Island Trust Territories of Pacific Islands

Alaska, Idaho, Oregon, Washington

to establish a rate to permit funding under the award, should normally be based on the institution's actual costs for its most recently completed fiscal year. However, if the institution is aware of factors that are expected to result in a significant change in the rate during the fiscal year during which the award is to be performed, the proposal should be based on the projected costs of that year.

An institution that has previously established an indirect cost rate(s) with the Department must submit a new proposal to the appropriate Office of the Regional Comptroller within six months after the close of each

year in which a grant or contract is performed. The rate(s) reflected in the proposal and the fiscal year on which it should be based will be governed by the specific circumstances involved:

If a provisional rate(s) was previously established for the most recently completed fiscal year, the proposal must reflect (1) a final rate(s) for the completed year based on the actual costs of that year, and (2) a fixed, predetermined, or provisional rate(s) for the subsequent year. Normally, the rate(s) for the subsequent year should be based on actual costs for the most recently completed year. However, if the institution is aware of factors that are expected to result in a significant change in the rate(s) during the subsequent year, the rate computation must be based on projected costs of that year.

If a fixed or predetermined rate(s) was previously established, the proposal must reflect a rate(s) for the fiscal year immediately following the year covered by the last negotiation. This rate(s) should be based on the actual costs for the most recently completed year, or, if the factors described in "a." above are present, projected costs for the fiscal year covered by the rate(s).

A proposal should be prepared in accordance with the guidelines set forth in Section II. It should be accompanied by the following supporting data:

1. A copy of the audited financial statements for the fiscal year on which the proposal is based, cross-referenced and reconciled to the proposal.

2. a. The total amount of direct costs incurred by the institution under all Federal grants and contracts except construction grants, during the fiscal year on which the proposal is based.

b. The total direct salaries and wages or total direct costs incurred under Federal grants and contracts that are included in the base for rate calculation purposes. If more than one rate is proposed, provide the appropriate amount included in each rate base. Direct salaries and wages or total direct costs incurred under grants and contracts which limit indirect cost reimbursement should be so indicated and shown separately from the amounts incurred under other grants and contracts.

3. If an off-site or other special rate(s) is being proposed, the following information should be submitted with the indirect cost proposal:

a. A reasonably precise, comprehensive statement of the circumstances under which activities are

considered off-site, where possible, in terms of: (1) ownership of the facilities in which the activities are conducted; or (2) distance of the activities from the institution's principal place(s) of business; or (3) geographical location of the activities; or (4) a combination of ownership, distance or location.

b. The treatment accorded projects partially performed off-site.

c. A listing of specific off-site facilities or locations. (This is not required if the number of such facilities or locations exceeds ten.)

Coordination Among Federal Agencies

Many institutions that receive grants and contracts from DHEW also receive awards from other Federal Departments or agencies. These other Federal agencies establish indirect cost rates with the institution for use on their grants and contracts that may be appropriate for use on DHEW awards as well. The DHEW Regional Comptroller will determine if rates established by other Federal agencies are appropriate for use on DHEW awards.

If the institution has established a rate(s) with another Federal agency it should submit to the DHEW Regional Comptroller a copy of the negotiation agreement issued by the other Federal agency at the time it submits its indirect cost proposal to the Regional Comptroller. In these cases, the Regional Comptroller will coordinate its negotiations with those of the other Federal agency.

Formalization and Dissemination of Indirect Cost Rate Agreements

A Negotiation Agreement, DHEW Form NA-1(N) (See Section V, Appendix 3) is used by DHEW to formalize the results of a rate negotiation and to disseminate those results to personnel within the Department of Health, Education, and Welfare and to other Federal agencies responsible for the award and settlement of grants and contracts. The Agreement is signed by an authorized representative of the institution and by a designated representative of the Regional Comptroller. Copies of the agreement are duplicated and distributed to the various concerned parties.

Award and Settlement of Indirect Costs

Subject to any restrictions on the recovery of indirect costs for a particular program, indirect costs will be awarded using the latest established indirect cost rate applicable to the period of performance of the award. An institution seeking reimbursement of indirect costs on a proposed grant or contract should show the amount requested in its grant application or contract proposal.

The amount requested should be computed using the indirect cost rate reflected in the institution's most recent negotiation agreement. The rate itself, should be cited in the application or proposal.

Commonly, grant applications and contract proposals need to be submitted far in advance of the date of award. In the interim, indirect cost rates which were current at the date of application or proposal may be superseded by more current rates as of the date of award. When this occurs, DHEW awarding agencies will use the negotiated indirect cost rate in effect when the award is made. Institutions which have not established a current indirect cost rate with the Regional Comptroller at the time a grant or contract is awarded will not be awarded indirect costs until a rate has been established. Where the indirect cost proposal has not been submitted on time, and a rate is established after the award is made, indirect costs will be recognized only for the period beginning from the first day of the month in which the indirect cost proposal is submitted.

When indirect costs are awarded on the basis of a provisional rate, adjustments to the indirect costs awarded will not be made until a final rate reflecting an institution's actual costs is established, sometime after completion of the institution's fiscal year. Occasionally, because of unforeseen major fluctuations in an institution's activities, revision of the established provisional indirect cost rate may be necessary. But even in such cases, interim adjustments generally will not be made to awards already made unless the net effect of the rate revision on all DHEW grants and contracts affected exceeds either \$100,000 or 20% of the total costs of the grants/contracts to which the rate applies.

Adjustments to grants and contract public vouchers resulting from the finalization of indirect cost rates for periods when provisional indirect cost rates were used must be initiated by the grantee/contractor institution. A summary report of expenditures sheet, for use in adjusting all affected DHEW grants, is presented in Section V, Appendix 2 of this brochure. This summary must be submitted, within one year after the date of execution of the Negotiation Agreement, to the Indirect Cost Management Section, Office of Financial Management, National Institutes of Health, Bethesda, Maryland 20014. Adjustments to public vouchers must be in accordance with the Department's procurement regulations.

Disputes

On rare occasions, the DHEW Regional Comptroller and an institution may not be able to reach agreement on what constitutes an acceptable indirect cost rate(s). In that event, the Regional Comptroller will make a unilateral determination of the rate(s) deemed acceptable to the Department and will notify the institution of

that determination. The institution may appeal the determination in accordance with either the Department's Grants Appeals Regulation (45 CFR, Part 16) and implementing procedures or the special and general provisions of affected contracts, if any, but not both.

The Regional Comptroller will notify the institution of its right to appeal and the procedures to follow upon request by the institution. Notification will also be given at the time the institution is advised of the Regional Comptroller's unilateral determination.

Community Action Agencies

General

Community Action Agencies (CAA) have generally established their accounting systems in conformance with Office of Economic Opportunity guidelines. Those guidelines contained a chart of accounts and account descriptions which tended to maximize direct charging to programs and to minimize amounts treated as indirect costs. Under that system, generalized administrative costs (Section 221, Economic Opportunity Act of 1964, as amended) were accumulated in an account designated as 01, administration. Charges to this account as well as charges to accounts designated 02, 03, and 04, program development, CAA planning, and CAA evaluation, respectively, were reimbursed directly and entirely by OEO using funds specifically provided for that purpose. Hence, CAA's had no need for and were not reimbursed for their indirect costs through the usual rate mechanism by other Federal agencies that also made awards to CAA's. While this arrangement may have been satisfactory in the past, the transfer of programs from OEO to other Federal agencies, changes in the level of Federal funding of those programs, and the uncertain status of future OEO funding has severely complicated the situation. It is probable that in the future, Community Action Agencies will need to be less reliant on OEO for recovery of its administrative costs and will need to recover those costs against sponsors of individual programs. The best procedure for doing this is through the establishment and use of an indirect cost rate. However, whether or not a rate is necessary will depend upon whether (a) OEO or its successor organization continues to reimburse CAA administrative costs through direct funding, and (b) the level of funds appropriated for individual CAA programs transferred to DHEW and other Federal agencies from OEO. To the extent possible without detriment to short term program accomplishment, DHEW will follow its general policy of reimbursing full indirect costs on grants and contracts that it awards. However, appropriation constraints may require limitations or exceptions to the general policy for specific programs or in given situations. Therefore, until such time as uniform Federal policies are established and followed by all major Federal funding agencies, CAA's are advised to seek counsel from the appropriate

Regional Comptroller's office on whether an indirect cost rate is necessary, and if so, how to compute it.

Determining Costs

Federal agencies which award grants and contracts to Community Action agencies differ in the types of costs they are willing to reimburse. Therefore, CAA's will usually find that a costing system which results in maximum direct costing, such as that contained in the *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*, published by the National Health Council and the National Social Welfare Assembly, is especially suitable. Appendix 1, Exhibit C—Direct Allocation Method, of Section V illustrated in this brochure is compatible with that method. The costs identified in that Exhibit as general and administrative are those costs previously identified by OEO as Section 221-01 costs. It does not include Section 221-02, 03, or 04 costs. These costs if incurred, must be treated as direct costs and are subject to programmatic evaluation as to need and benefit to individual programs.

Donated or In-Kind Goods and Services

Donated services must be recognized for indirect cost rate computation purposes when the following circumstances exist: (1) The services performed are a normal part of a program or supporting service and would otherwise be performed by salaried personnel, (2) the organization exercises control over the employment and duties of the donors of the service, and (3) the organization has a clearly measurable basis for the amount.

The value of donated services is not allowable as a reimbursable direct or indirect cost. However, the value of donated services or goods utilized in the performance of a direct cost activity shall be considered in the determination of the indirect cost rate(s) and, accordingly, shall be allocated a proportionate share of indirect costs.

With one exception, the value of donated goods also is not allowable as a reimbursable direct or indirect cost. Depreciation or a use allowance on assets donated by third parties is allowable but subject to any restrictions contained in paragraph G.10. of the cost principles contained in Section IV of this brochure.

SECTION II—GUIDELINES FOR PREPARING INDIRECT COST PROPOSALS

Methods of Calculation

Because of the wide variety of situations to which they apply, the cost principles in Section IV describe the development of indirect cost rates in somewhat general terms. There are, however, three basic techniques in general use for distributing (prorating) the various types of indirect costs. These are known as the simplified method, the multiple distribution base method, and the direct allocation method.

Simplified Method

This method is used where all of an institution's direct program activities receive services from all of its indirect or administrative activities in approximately the same degree, or where the amount of Federal funds received by an institution is not material in relation to its other operating revenue, or where the institution has only a single direct function or activity with multiple sources of funding.

Under this method, it is not necessary to make a series of indirect cost distributions. Instead, an institution simply categorizes each of its activities as either direct or indirect and a single rate is computed by relating the costs associated with its indirect activities to the costs associated with its direct activities.

There are three basic steps involved in this method:

1. The segregation of the institution's activities and their costs as either direct or indirect. The costs are taken from the institution's financial statements.
2. The elimination of capital expenditures and unallowable costs. However, note paragraph C.2. of Section IV.
3. The computation of the rate by dividing the adjusted indirect costs by a rate base. The rate base may be the direct costs identified in steps 1 and 2, or an element thereof, such as direct salaries and wages or direct salaries and wages plus applicable fringe benefits.

Multiple Distribution Base Method

This method is used when an institution's direct activities do not all benefit from its indirect activities to the same relative degree.

Under this method, indirect costs are initially grouped into various functional categories, or pools, such as General Administration, Building Occupancy, etc. Each pool is then distributed to direct institutional activities by means of a base which best measures the relative degree of benefit which each activity derives from that pool. Careful judgment is required to establish the appropriate number of pools, giving consideration to whether the dollar amounts involved are sufficient to warrant separate pools.

The method involves six basic steps:

1. Segregation of the institution's activities and their costs as direct activities and indirect activities.
2. The elimination of capital expenditures and unallowable costs. However, note paragraph C.2. of Section IV.
3. Further segregation of the indirect activities into functional cost groupings (pools) which benefit the institution's various direct activities in significantly different proportions.
4. Selection of an appropriate distribution base for each pool of indirect costs, in accordance with the criteria in paragraph D.2., of Section IV.
5. Distribution of each indirect cost pool to those activities represented in its distribution base.
6. Calculation of the indirect cost rate(s) by totaling the amounts distributed to each activity in step 4 and dividing by a rate base as described in step 3 of the simplified method.

Direct Allocation Method

Many non-profit institutions, particularly voluntary health and welfare agencies, elect to direct charge their programs for all costs except those specifically identifiable with general administration functions and fund raising. Such institutions typically segregate their expenditures into:

1. General and administrative costs,
2. Fund raising, and
3. Other direct programs and activities.

To the maximum extent practical, they identify each expenditure specifically with one of these functions.

such as occupancy, telephone services, etc., usually cannot be specifically identified to a given project or activity, are prorated as direct costs to each function benefited on a consistent and rational basis on a base most appropriate to the joint cost(s) incurred.

This method, properly implemented, produces accurate direct costs of grants and contracts. Under this method the indirect costs of the institution are simply the residue of direct costs classified as general and administrative. Indirect cost rate is computed by dividing the total indirect administrative costs by a rate base as determined in the previously noted methods. The direct cost method must be used by those institutions as defined in the *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations* reporting to non-Federal agencies.

Proposals and the Cost Principles

Proposal formats are presented in Appendix I. Intended merely to illustrate the mechanics of preparation in some of the most common situations and they normally will require adaptation to the circumstances of individual institutions.

The Principles for Determining Costs Applicable to Grants and Contracts with Non-Profit Institutions are presented in Section IV.

Substantiation of Indirect Costs on Training Awards

Department policy currently limits the recovery of indirect costs on training awards to the lesser of actual indirect costs or indirect costs computed at 8% of total direct costs. To avoid the imposition of unnecessary administrative burdens on institutions, the submission of a formal indirect cost proposal from institutions which have only training awards subject to the limitation, will not normally be required. However, institutions must have documentation available to permit verification by a representative of DHEW that its actual rate equals or exceeds the 8% limitation.

Where the institution's calculation results in an indirect cost rate of less than 8% of total direct costs, a formal indirect cost proposal must be submitted to the Office of the Regional Comptroller.

SECTION III—FRINGE BENEFIT AND OTHER SPECIAL RATES

Fringe Benefit and Other Special Rates

Fringe Benefits

Fringe benefits are allowances and services provided by an institution to its employees as compensation, in addition to regular wages and salaries. It also includes payments made by an employer on behalf of employees. Costs of fringe benefits are allowable:

- a. To the extent required by law,
- b. To the extent required by employer-employee agreement,
- c. Provided that benefits are granted in accordance with established institutional policies,
- d. If together with all other compensation paid to an employee is reasonable in amount, and
- e. Provided they are absorbed by all institutional functions and activities in a manner consistent with the pattern of benefits accruing to the individuals or groups of employees whose salaries and wages are included in each function or activity.

There are many types of fringe benefits. Among the most common are pay for vacation, sick, and military leave, holidays, and contributions by the employer for social security, employee health and life insurance, workmen's compensation, and pension plans. The treatment of fringe benefits vary from institution to institution. Some institutions treat all fringe benefits as indirect costs. Others treat some fringe benefits as direct costs and others as indirect costs. The Department of Health, Education, and Welfare will recognize these variations of treatment if they otherwise meet the requirements for allowability listed above.

The direct costing of fringe benefits may be accomplished by identifying the specific cost of each fringe benefit of each individual employee and allocating that cost to each project or activity in proportion to the time or effort that an employee charges to it. Practical difficulties usually preclude this approach, however. Instead, institutions normally accumulate the costs associated with fringe benefits in one or more cost groupings. These cost groupings are then distributed to benefiting direct activities and projects in proportion to

the direct salaries and wages charged to those activities and projects through a fringe benefit rate(s).

A fringe benefit rate(s) may be used to assess individual Federal grants and contracts for the fringe benefits applicable to charged direct salaries and wages.

Institutions which charge Federal grants or contracts for fringe benefits must substantiate the amount claimed. If fringe benefits are treated as indirect costs, the documentation must be submitted as part of the indirect cost proposal. If fringe benefits are treated as direct costs, a fringe benefit proposal will be required when requested by the Regional Comptroller. The proposals, when requested, must be submitted yearly and should accompany the institution's indirect cost proposal that is submitted to the Office of the Regional Comptroller at the address listed elsewhere in this brochure. The Office of the Regional Comptroller will evaluate the institution's fringe benefit proposal and negotiate a rate(s) for use on Federal programs. The negotiated fringe benefit rate(s) will be shown on the same negotiation agreement used for indirect costs.

The fringe benefit proposal should contain sufficient information on each benefit, each base used to distribute the cost, and on adjustments to prior years' costs, to allow the Federal negotiator to make an informed evaluation of the proposal. Existing written fringe benefit policies should be submitted together with an institution's initial proposal. Thereafter, only policy changes need be submitted with subsequent proposals. Institutions whose fringe benefits include pension costs must submit a copy of the pension plan(s) together with pertinent actuarial reports, if any, with their initial proposal. Thereafter only changes to the plan(s) and current actuarial reports need be submitted. The information submitted must describe the class of employees covered, employee vesting rights, whether the plan is contributory or non-contributory, defined contribution or defined benefit, and the treatment of:

- (a) Past service pension costs,
- (b) Realized and unrealized gains and losses on pension fund investments,
- (c) Funding policies and practices including the actuarial or other basis for the amount funded.

Special Cost Centers

Many institutions operate computer, animal care or other service centers, units or facilities whose output is susceptible of measurement on a workload or other quantitative basis. The costs associated with these units or facilities, where material in amount, should be set aside as a separate cost grouping and charged to activities and projects in proportion to services rendered. Commonly, such charges are made through hourly rates or service fees. The cost of these centers includes their

direct costs (staff, supplies, supervision, travel, etc) and their proportionate share of indirect costs. Institutions must be prepared to substantiate their charges for special service centers through the submission of a cost proposal.

The Regional Comptroller for the region in which an institute is located has been designated as the responsible official for the approval of service center charges. Institutions should submit their proposals to the Regional Comptroller at his request.

SECTION IV

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND CONTRACTS WITH NON-PROFIT INSTITUTIONS

(For grants, these principles are cited in Section 74.174, Subtitle A of 45 CFR, Part 74, Subpart Q. The same principles will be incorporated by reference in the general provisions of each DHEW contract to which they apply.)

NOTE

The principles contained herein were in effect as of the publication date of the brochure. The principles are subject to change, however, and non-profit institutions are advised to consult the official policies of the Department as contained in the Code of Federal Regulations, the HEW Procurement Regulations and the DHEW Grants Administration Manual.

Non-profit institutions may also readily ascertain if revisions have been made at any point in time by contacting the Office of the Regional Comptroller listed in Section I.

Department of Health, Education, and Welfare . . . Office of the Secretary

**PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO
GRANTS AND CONTRACTS WITH NON-PROFIT INSTITUTIONS**

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE OFFICE OF THE SECRETARY

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND CONTRACTS WITH NON-PROFIT INSTITUTIONS

A. PURPOSE AND SCOPE

1. Objectives

This document provides principles for determining the costs applicable to grants and contracts awarded by the Department of Health, Education, and Welfare and performed by non-profit organizations other than educational institutions, hospitals and State and local Government organizations. 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 work under generally accepted accounting principles. No provision for profit or other increment above cost is provided for in these principles.

2. Definition of Non-Profit Institution

(a) A non-profit institution for purposes of this document is any corporation, foundation, trust, association, cooperative or other organization other than (i) educational institutions, (ii) hospitals and (iii) State and local Governmental agencies, bureaus or departments, which is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest, which is not organized primarily for profit and which uses all income exceeding costs to maintain, improve and/or expand its operations.

The charter or other legally binding authority for the existence of the institution must provide that no part of the net earnings, properties or other assets of the institution, on dissolution or otherwise, shall inure to the benefit of any private person or individual including any member, employee, officer, director or trustee of the institution, and that, on liquidation or dissolution all properties and assets remaining after providing for all debts and obligations shall be distributed and paid over to such other fund, foundation or other organization formed and operated as a non-profit institution, as defined herein, as the Board of Directors or Trustees may determine. Institutions which have received tax exemptions as non-profit institutions from the U.S. Internal Revenue Service shall be considered to have met the criteria of this definition.

(b) For purposes of this document, the terms non-profit and not-for-profit as they are descriptively

applied to institutions shall be considered synonymous provided the requirements of 2 (a) are met.

3. Policy Guides

The successful application of these principles requires development of mutual understanding between representatives of non-profit institutions and of the Federal Government as to their scope, applicability, and interpretation. It is recognized that the arrangements for agency and institutional participation in the financing of a project are properly subject to negotiation between the agency and the institution concerned in accordance with such Government-wide criteria as may be applicable, that each institution should be expected to employ sound management practice in the fulfillment of its obligation, and that each grantee or contractor organization in recognition of its own unique combination of staff, facilities and experience should be responsible for employing whatever form of organization and management techniques as may be necessary to assure proper efficient administration.

4. Application

These principles shall be applied in determining cost incurred in the performance of all grants and cost-reimbursement type contracts awarded by the Department of Health, Education, and Welfare. The principles shall also apply to cost-reimbursement type contracts performed under DHEW grants and cost-reimbursement type subcontracts and shall be used as a guide in the pricing of fixed price contracts and subcontracts. The principles do not apply to construction grants or contracts.

B. BASIC CONSIDERATIONS

1. Composition of Total Cost

The total cost of a contract or grant is the sum of the allowable direct and indirect costs allocable to the grant/contract less any applicable credits. In ascertaining what constitutes costs, any generally accepted accounting method of determining or estimating costs that is equitable under the circumstances may be used.

2. Factors Affecting Allowability of Costs

Factors to be considered in determining the allowability of individual items of cost include

(a) reasonableness, (b) allocability, (c) application of those generally accepted accounting principles and practices appropriate to the particular circumstances, and (d) any limitations or exclusions set forth in this document or otherwise included in the grant/contract as to types or amounts of cost items.

3. Definition of Reasonableness

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 competitive business. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with institutions or separate divisions thereof which may not be subject to effective competitive restraints. 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 operation of the institution or the performance of the grant/contract.

(b) The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and grant/contract terms and specifications;

(c) The action that a prudent businessman would take in the circumstances, considering his responsibilities to the public at large, the Government, his employees, his clients, shareholders or members and the fulfillment of the purposes for which the institution was organized; and

(d) Significant deviations from the established practices of the institution which may unjustifiably increase the grant/contract costs.

4. Definition of Allocability

A cost is allocable if it is assignable or chargeable to a particular cost objective, such as a grant/contract, project, product, service, process, or other major activity, in accordance with the relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government grant/contract if it:

(a) Is incurred specifically for the grant/contract;

(b) Benefits both the grant/contract and other work and can be distributed to them in reasonable proportion to the benefits received; or

(c) Is necessary to the overall operation of the institution, although a direct relationship to any particular cost objective cannot be shown.

Where an organization utilizes the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations (or comparable generally accepted accounting standards peculiar to its particular organizational structure or activity) to allocate costs to non-HEW supported activities it must also use such standards to allocate costs to HEW grants/contracts.

5. Applicable Credits

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 grants or contracts 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. The applicable portion of any income, rebate, allowance, and other credit relating to any allowable cost, received by or accruing to the grantee/contractor shall be credited to the Government either as a cost reduction or by cash refund, as appropriate.

C. DIRECT COSTS

1. A direct cost is any cost which can be identified specifically with a particular cost objective. Direct costs are not limited to items which are incorporated in the end product as materiel or labor. Costs identified specifically with the grant/contract are direct costs of the grant/contract and may be charged directly thereto. Costs identified specifically with other work of the institution are direct costs of that work and are not to be charged to the grant/contract either directly or indirectly. Items charged as direct cost to Government supported projects must be charged in a uniform manner to all other work of the institution in order to preclude an overcharge to the Government as a result of the Government's participation in the indirect cost pool. Conversely, where the institution's established accounting system provides for the treatment of certain items of cost as direct costs of the institution, then the same items must be considered direct costs to Government-supported projects and may not be included in the indirect cost pool.

2. Certain types of cost, or costs associated with certain activities are not reimbursable as a charge to a DHEW grant/contract. These unallowable costs or activities are identified in Section G. Even though a

particular activity or cost is designated as unallowable for purposes of computing costs charged to Government work, it nonetheless must be treated as a direct cost or activity if a portion of the institution's indirect cost (as defined in Section D) is properly allocable to it. The amount of indirect cost allocated must be in accordance with the principles set forth in Section D-2. In general, an unallowable institutional activity shall be treated as a direct function when it (1) includes salaries of personnel, (2) occupies space, and (3) is serviced by an indirect cost grouping(s). Thus the costs associated with the following types of activities when normal or necessary to an institution's primary mission shall be treated as direct costs:

(a) Maintenance of membership rolls, subscriptions, publications and related functions.

(b) Providing services and information to members, legislative or administrative bodies or the public.

(c) Promotion, lobbying and other forms of public relations.

(d) Meetings and conferences except those held to conduct the general administration of the institution.

(e) Fund raising.

(f) Maintenance, protection and investment of special funds not used in operation of institutions.

(g) Administration of group benefits on behalf of members or clients including life and hospital insurance, annuity or retirement plans, financial aid, etc.

(h) Other activities performed primarily as a service to a membership, clients, or the public.

3. This definition shall be applied to all items of cost of significant amount unless the institution demonstrates that the application of any different current practice achieves substantially the same results. Direct cost items of minor amount may be distributed as indirect costs as provided in Section D.

D. INDIRECT COSTS

1. An indirect cost is one which, because of its incurrence for common or joint objectives, is not readily subject to treatment as a direct cost. Minor direct cost items may be considered to be indirect costs for reasons of practicality. After direct costs have been determined and charged directly to the grant/contract or other work as appropriate, indirect costs are those remaining to be allocated to the several classes of work. The overall objective of the allocation process is to distribute the indirect costs of the institution to its various major

activities or cost objectives in reasonable proportions with the benefits provided to those activities or cost objective. Because of the diverse natures and purposes of organizations falling within the definition of a non-profit organization, it is impractical to specifically identify those functions which constitute major activities for purposes of identifying and distributing indirect costs. Such identification will be dependent upon an institution's purpose-in-being, the services it renders to the public, its clients and/or members, the amount of effort devoted to fund raising activities, public relations, and membership activities, etc. (See Section C-2).

2. Indirect costs shall be accumulated by logical cost groupings with due consideration of the reasons for incurring the costs. Each grouping should be determined so as to permit distribution of the grouping on the basis of the benefits accruing to the several cost objectives. Sub-grouping may be required where there is no single equitable distribution base for all the elements of cost comprising a group. Actual conditions must be taken into account in selecting the method or base to be used in distributing the expenses assembled under each of the individual cost groupings established to applicable cost objectives. 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 the cost objectives should be made through use of a selected base which will produce results which 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 (1) 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 (2) it is common to the cost objectives during the base period. 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 the 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. The number and composition of the groupings should be governed by practical considerations and should be such as not to complicate unduly the allocation where substantially the same results are achieved through less precise methods.

4. 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.

E. DETERMINATION AND APPLICATION OF INDIRECT COST RATE OR RATES

1. Indirect cost pools

(a) Subject to (b) below, indirect costs allocable to an institution's direct functions should be treated as a common pool, and the costs in such common pool should then be distributed to the individual projects benefiting therefrom by use of a single rate.

(b) In some instances a single rate for use across the board on all activities at an institution may not be appropriate, since it would not take into account those different environmental factors which may affect substantially the indirect costs applicable to a particular segment of work at the institution. For this purpose, a particular segment of work may be that performed under a single grant/contract or it may consist of work under a group of grants/contracts 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 work 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 been obtained under (a) above, and (2) the volume of work to which such rate would apply is material in relation to other activity at the institution.

2. The distribution base. Indirect costs should be distributed to each applicable project on the basis of direct salaries and wages, total direct costs or other basis which results in an equitable distribution. For this purpose, an indirect cost rate should be determined for each of the separate indirect cost pools developed pursuant to Section E.1. The rate in each case should be stated as the percentage which the amount of the particular indirect cost pool is of the base selected.

F. APPLICATION OF PRINCIPLES AND PROCEDURES

1. Costs shall be allowed to the extent that they are reasonable (see B.3) allocable (see B.4) and determined

to be allowable in view of the other factors set forth in paragraph B.2. and Section G. These criteria apply to all of the selected items of cost which follow notwithstanding that particular guidance is provided in connection with certain specific items for emphasis or clarity.

2. Costs of all subcontracts under a grant or cost-reimbursement type contract are subject to those Federal cost regulations and policies appropriate to the subcontract involved. Thus, if the subcontract is for supplies or services with a non-profit institution other than an educational institution, hospital, or State and local Governmental unit this document would apply; if the subcontract is for supplies or services with a commercial organization, Federal Procurement Regulation Part 1.15.2 would apply; if the subcontract is with an educational institution, Bureau of the Budget Circular A-21 (Federal Procurement Regulation Part 1.15.3) would apply; if the subcontract is with a hospital, the Department of Health, Education, and Welfare's Cost Principles for Hospitals would apply; etc.

3. Selected items of cost are treated in Section G. However, Section G does not cover every element of cost and every situation that might arise in a particular case. Failure to treat any item of cost in Section G is not intended to imply that it is either allowable or unallowable. With respect to all items, whether or not specifically covered, determination of allowability shall be based on the principles and standards set forth in this document and, where appropriate, the treatment of similar or related selected items.

G. GENERAL STANDARDS FOR SELECTED ITEMS OF COST

Sections G-1 through G-46 provide standards to be applied in establishing the allowability of certain items involved in determining costs. 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 a discrepancy between the provisions of a specific grant/contract and the applicable standards provided, the provisions of the grant/contract shall govern. Under any given grant/contract the reasonableness and allocability of certain items of costs may be difficult to determine. This is particularly true in connection with non-profit institutions which are so diverse in nature and not subject to effective competitive restraints. In order to avoid possible subsequent disallowance or dispute based on unreasonableness or nonallocability, it is important that institutions entering into grants or contracts with the Government seek agreement in advance of the

incurrence of special or unusual costs in categories where reasonableness or allocability are difficult to determine. Such action may also be initiated by the Government. Examples of costs on which advance agreements may be particularly important are:

1. Compensation for personal services;
2. Consultant fees;
3. Deferred maintenance costs;
4. Excess facility costs;
5. Materials, services and supplies sold between organizations or divisions under common control;
6. Pre-award costs;
7. Publication and public information costs;
8. Royalties;
9. Training and educational costs;
10. Travel costs, as related to special or mass personnel movement, and to the class of air-travel accommodations allowable;
11. Use charge for fully depreciated assets;
12. Depreciation or use charge on assets donated to the institution by third parties.

1. Advertising costs

(a) Advertising costs mean the costs of advertising media and corollary administrative costs. Advertising media include magazine, newspapers, radio and television programs, direct mail, trade papers, outdoor advertising, dealer cards and window displays, conventions, exhibits, free goods and samples, and the like.

(b) The only advertising costs allowable are those which are solely for (1) the recruitment of personnel required for the performance by the institution of obligations arising under the grant/contract, when considered in conjunction with all other recruitment costs, as set forth in G.36; (2) the procurement of scarce items for the performance of the grant/contract or (3) the disposal of scrap or surplus materials acquired in the performance of the project. Costs of this nature, if incurred for more than one Government award or for both Government work and other work of the institution, are allowable to the extent that the principles in Paragraph B-3, B-4, and Section D are observed.

2. Bad Debts

Bad debts, including losses (whether actual or estimated) arising from uncollectible customers' accounts and other claims, related costs, and related legal costs, are unallowable.

3. Bidding or Proposal Costs

Bidding or proposed costs are the immediate costs of preparing bids or proposals on potential Government

and non-Government contracts or projects or applications for financial assistance under Federal grant and contract programs, including development of scientific, engineering and cost data necessary to support the institution's bids, proposals or applications. Bidding costs of the current accounting period are allowable as part of the indirect cost pool. Costs of past accounting periods are unallowable. Bidding costs do not include any of those costs described in Section G-16 and G-30.

4. Bonding Costs

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

(b) Costs of bonding required pursuant to the terms of the grant/contract are allowable.

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

5. Civil Defense Costs

(a) 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 and equipment, 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 allocated to all work of the institution.

(b) Costs of capital assets under (a) above are allowable through depreciation or use charges in accordance with G-10.

(c) Contributions to local civil defense funds and projects are unallowable.

6. Compensation for Personal Services

(a) *Definition.* Compensation for personal services includes all remuneration paid currently or accrued in whatever form and whether paid immediately or deferred for services rendered by employees of the institution during the period of grant/contract performance. It includes, but is not limited to, salary,

wages, directors' and executive committee members' fees, bonuses, incentive awards, employee insurance, fringe benefits, and contributions to pension, annuity, and management employee incentive compensation plans.

(b) *Allowability.* Except as otherwise specifically provided in this subsection, the costs of compensation for personal services are to be treated as allowable to the extent that:

(1) Compensation is paid in accordance with policy, programs, and procedures that effectively relate individual compensation to the individual's contribution to the performance of grant or contract work, result in internally consistent treatment of employees in like situations, and effectively relate compensation paid within the organization to that paid for similar services outside the organization;

(2) Total compensation of individual employees is reasonable for the services rendered; and

(3) Costs are not in excess of those costs which are allowable by the Internal Revenue Code and regulations thereunder.

(c) *Reasonableness*

(1) When the institution is predominantly engaged in activities other than those sponsored by the Federal Government, compensation for employees on Federally-sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the institution's other activities;

(2) When the institution is predominantly engaged in Federally-sponsored activities, and in cases where the kind of employees required for the Federally-sponsored activities are not found in the institution's other activities, compensation for employees on Federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the institution competes for the kind of employees involved.

(d) *Review and Approval of Compensation of Individual Employees.* In determining the reasonableness of compensation, the compensation of each individual employee normally need not be subject to review and approval. Reviews and approvals of individuals need be made only in those cases in which a general review reveals amounts or types of compensation which appear unreasonable or otherwise out of line.

(e) *Special Considerations in Determining Allowability.* Certain conditions require special consideration and possible limitation as to allowability for grant

and contract cost purposes where amounts appear excessive. Among such conditions are the following:

(1) Compensation to share holders, members, trustees, directors, associates, officers or members of the immediate families thereof, or to persons who are contractually committed to acquire a substantial financial interest in the enterprise. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

(2) Any change in an institution's compensation policy resulting in a substantial increase in the institution's level of compensation, particularly when it was concurrent with an increase in the ratio of Government awards to other business, or any change in the treatment of allowability of specific types of compensation due to changes in Government policy.

(3) The institution's activities are such that its compensation levels are not subject to the restraints normally occurring in the conduct of competitive business.

(f) Notwithstanding any other provisions of this subsection, costs of compensation are not allowable to the extent that they result from provisions of labor-management agreements that, as applied to work in the performance of Government grants or contracts are determined to be unreasonable either because they are unwarranted by the character and circumstances of the work or because they are discriminatory against the Government. The application of the provisions of a labor-management agreement designed to apply to a given set of circumstances and conditions of employment (for example, work involving extremely hazardous activities or work not requiring recurrent use of overtime) is unwarranted when applied to a Government grant or contract involving significantly different circumstances and conditions of employment, (for example, work involving less hazardous activities or work continually requiring use of overtime). It is discriminatory against the Government if it results in individual personnel compensation (in whatever form or name) in excess of that being paid for similar non-Government work under comparable circumstances. Disallowance of costs will not be made under this subparagraph unless:

(1) The institution has been permitted an opportunity to justify the costs; and

(2) Due consideration has been given to whether there are unusual conditions pertaining to the Government work which impose burdens, hardships, or hazards on the institution's employees, for which compensation that might otherwise appear unreasonable is required to attract and hold necessary personnel.

(g) (1) In addition to the general requirements set forth in (a) through (f) of this subsection, certain forms of compensation are subject to further requirements as specified in (2) through (9) below.

(2) *Salaries and wages*

Salaries and wages for current services include gross compensation paid to employees in the form of cash, products, or services, and are allowable. However, see G.25 as it relates to compensation for overtime.

(3) *Incentive Compensation*

Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc. are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the institution and the employees before the services were rendered, or pursuant to an established plan followed by the institution so consistently as to imply, in effect, an agreement to make such payment. Awards, and incentive compensation when deferred are allowable to the extent provided in (4) below.

(4) *Deferred Compensation*

(a) As used herein, deferred compensation includes all remuneration, in whatever form, for which the employee is not paid until after the lapse of a stated period of years or the occurrence of other events as provided in the plans; except that it does not include normal end of accounting period accruals for regular salaries and wages. It includes (i) contributions to pension and annuity plans, (ii) contributions to disability, withdrawal, insurance, survivorship, and similar benefit plans, and (iii) other deferred compensation.

(b) Deferred compensation is allowable to the extent that (i) except for past service pension and retirement costs, it is for services rendered during the grant/contract period; (ii) it is, together with all other compensation paid to the employee, reasonable in amount; (iii) it is paid pursuant to an agreement entered into in good faith between the institution and its employees before the services are rendered, or pursuant to an established plan followed by the institution so consistently as to imply, in effect, an agreement to make such payments; (iv) the benefits of the plan are vested in the employees or their designated beneficiaries and no part of the deferred compensation reverts to the employer institution; (v) in the case of past service pension costs, it is amortized over a period of ten years or more; and (vi) for a plan which is subject to approval by the Internal Revenue Service, it falls within the

criteria and standards of the Internal Revenue Code and the regulations of the Internal Revenue Service.

(c) In determining the cost of deferred compensation allowable under the grant or contract, appropriate adjustments shall be made for credits or gains, including those arising out of both normal and abnormal employee turnover, or any other contingencies that can result in a forfeiture by employees of such deferred compensation. Adjustments shall be made only for forfeitures which directly or indirectly inure to the benefit of the institution; forfeitures which inure to the benefits of other employees covered by a deferred compensation plan with no reduction in the institution's costs will not normally give rise to an adjustment in grant/contract costs. Adjustments for normal employee turnover shall be based on the institution's experience and on foreseeable prospects, and shall be reflected in the amount of cost currently allowable. Such adjustments will be unnecessary to the extent that the institution can demonstrate that its contributions take into account normal forfeitures. Adjustments for possible future abnormal forfeitures shall be effected according to the following rules:

(i) Abnormal forfeitures that are foreseeable and which can be currently evaluated with reasonable accuracy, by actuarial or other sound computation shall be reflected by an adjustment of current costs otherwise allowable; and

(ii) Abnormal forfeitures, not within (i) above, may be made the subject of agreement between the Government and the institution either as to an equitable adjustment or a method of determining such adjustment.

(d) In determining whether deferred compensation is for services rendered during the agreement period or is for future services, consideration shall be given to conditions imposed upon eventual payment, such as requirements of continued employment, consultation after retirement, and covenants not to compete.

(5) *Fringe Benefits*

Fringe benefits are allowances and services provided by the institution to its employees as compensation in addition to regular wages and salaries. Costs of fringe benefits, such as pay for vacations, holidays, sick leave, military leave, employee insurance, and supplemental unemployment benefit plans are allowable to the extent required by law, employer-employee agreement, or an established policy of the institution.

(6) Severance pay. See G.40.

G.44. (7) Training and education expenses. See

(8) Location allowances.

(a) "Location allowances", sometimes called "supplemental pay" or "incentive pay", are compensation in addition to normal wages or salaries and are paid by institutions to especially compensate or induce employees to undertake or continue work at locations which may be isolated or in an unfavorable environment. Location allowances include extra wage or salary payments in the form of station allowances, extended per diem, or mileage payments for daily commuting; they also include such benefits as institution-furnished housing. Payment of location allowances shall be allowed as costs under grants and cost-reimbursement type contracts, or recognized in pricing fixed-price type contracts, only with prior approval in writing from the awarding agency and only where and so long as the isolation or unfavorable environment of the site makes such payments necessary to the accomplishment of the work without unacceptable delays. Whether the site is so isolated, or its environment is so unfavorable, as to require location allowances is to be determined in the light of (a) its location and climate; (b) the availability and adequacy of housing within reasonable commuting distance; and (c) the availability and adequacy of education, recreational, medical, and hospital facilities. The extent to which compensation includes location allowances is to be determined by comparing it with (a) the institution's normal compensation policy, including pay scales at its principal operating locations; (b) pay scales of other organizations and concerns operating at or near the site; and (c) compensation paid by other concerns within the same field for similar services elsewhere.

(b) Locations for which location allowances are paid shall be reviewed at least once a year to determine whether such allowances should continue to be allowed.

(9) Support of Salaries and Wages

(a) Direct charges for professionals must be supported by either:

(i) an adequate appointment and workload distribution system, accompanied by monthly reviews performed by responsible officials and a reporting of any significant change in workload distribution of each professional (i.e., an exception reporting system) or

(ii) a monthly after-the-fact certification system which will require persons in supervisory

positions having firsthand knowledge of the services performed to report the distribution of effort (i.e., a positive reporting system). Such reports must account for the total salaried effort of the persons covered. Consequently, a system which provides for the reporting only of effort applicable to federally-sponsored activities is not acceptable.

(b) Direct charges for salaries and wages of non-professionals will be supported by time and attendance and payroll distribution records.

(c) Allowable indirect personal services costs will be supported by the institution's accounting system maintained in 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 representatives.

7. 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 grant/contract.

8. Contingencies

(a) A contingency is a possible future event or condition arising from presently known or unknown causes, the outcome of which is indeterminable at the present time.

(b) In historical costing, contingencies are not normally present since such costing deals with costs which have been incurred and recorded on the institution's books. Accordingly, contingencies are generally unallowable for historical costing purposes. However, in some cases, as for example, terminations, a contingency factor may be recognized which is applicable to a past period to give recognition to minor unsettled factors in the interest of expeditious settlement.

(c) In connection with estimates of future costs, contingencies fall into two categories:

(1) Those which may arise from presently known and existing conditions, the effects of which are foreseeable within reasonable limits of accuracy; e.g., pension funds, sick leave and vacation accruals, etc. In such situations where they exist, contingencies of this category are to be included in the estimates of future cost so as to provide the best estimate of performance costs; and

(2) Those which may arise from presently known or unknown conditions, the effect of which

cannot be measured so precisely as to provide equitable results to the institution and to the Government; e.g., results of pending litigation, and other general business risks. Contingencies of this category are to be excluded from cost estimates under the several items of cost, but should be disclosed separately, including the basis upon which the contingency is computed in order to facilitate the negotiation of appropriate contractual coverage (see, for example, G-17, G-21, and G-40).

9. Contributions and Donations

(a) Contributions and donations by the grantee/contractor are unallowable.

(b) The value of donated services or goods provided by individual volunteers or members of volunteer organizations is not an allowable cost; however, the fair market value of donated services or goods utilized in the performance of a direct cost activity as defined in C.1 and C.2 shall be considered in the determination of the indirect cost rate(s) and, accordingly, shall be allocated a proportionate share of indirect cost.

10. Depreciation and Use Allowances

(a) Institutions may be compensated for the use of buildings, capital improvements and usable equipment on hand through depreciation or use allowances. Depreciation is a charge to current operations which distributes the cost of a tangible capital asset, less estimated residual value, over the estimated useful life of the asset in a systematic and logical manner. It does not involve a process of valuation. Useful life has reference to the prospective period of economic usefulness in the particular institution's operations as distinguished from physical life. Use allowances are the means of allowing compensation when depreciation or other equivalent costs are not considered.

(b) Depreciation or a use allowance on assets donated by third parties is allowable. However, any limitations on the amount of depreciation which would have applied to the donor as a result of restrictions contained in this Section shall also apply to the recipient organization.

(c) 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 grounds, 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 in the institution's books of account, based on reasonable determinations of the probable useful lives of the individual items involved, and the share allocated to the grant or contract is developed from the amount thus amortized for the base period involved.

(d) Normal depreciation on an institution's plant, equipment, and other capital facilities, except as excluded by (d) below, is an allowable element of cost provided that the amount thereof is computed:

(1) Upon a property cost basis which could have been used by the institution for Federal Income Tax purposes, had such institution been subject to the payment of income tax; and

(2) By the consistent application to the assets concerned of any generally accepted accounting method, and subject to the limitations of the Internal Revenue Code of 1954 as amended, including—

(a) The straight line method;

(b) The declining balance method, using a rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method described in (a) above;

(c) The sum-of-the-years-digits method; and

(d) Any other consistent method productive of an annual allowance which, when added to all allowances for the period commencing with the use of the property and including the current year, does not during the first two-thirds of the useful life of the property exceed the total of such allowances which would have been used had such allowances been computed under the method described in (b) above.

(e) Where the depreciation method is followed, adequate property records must be maintained. 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, nature of the equipment used, technological developments in the particular 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.

(f) Depreciation on idle or excess facilities shall not be allowed except on such facilities as are reasonably necessary for standby purposes. (See G.13).

(g) 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 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.

(h) 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 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 equipment which may be used to compute the use allowance at an annual rate not exceeding six and two-thirds percent of such estimate.

(i) Depreciation and/or use charges should usually be allocated to all activities as an indirect cost.

11. Employee Morale, Health, Welfare Costs and Credits

(a) Employee morale, health and welfare activities are those services or benefits provided by the institution to its employees to improve working conditions, employer-employee relations, employee morale and employee performance. Such activities include house publications, health or first-aid clinics, recreation, employee counseling services and, for the purpose of this

paragraph, food and dormitory services. Food and dormitory services include operating or furnishing facilities for cafeterias, dining rooms, canteens, lunch wagons, vending machines, living accommodations or similar types of services for the institution's employees at or near its facilities.

(b) Except as limited by (c) below, the aggregate of costs incurred on account of all activities mentioned in (a) above, less income generated by all such activities is allowable to the extent that the net amount is reasonable.

(c) Losses from the operation of food and dormitory services may be included as cost incurred under (b) above, only if the institution's objective is to operate such services on a break-even basis. Losses sustained because food services or lodging accommodations are furnished without charge or at prices or rates which obviously would not be conducive to accomplishment of the above objective, are not allowable, except that a loss may be allowed to the extent the institution can demonstrate that unusual circumstances exist (e.g., (i) where the institution must provide food or dormitory services at remote locations where adequate commercial facilities are not reasonably available or (ii) where it is necessary to operate a facility at a lower volume than the facility could economically support) such that, even with efficient management, operation of the services on a break-even basis would require charging inordinately high prices or prices or rates higher than those charged by commercial establishments offering the same services in the same geographical areas.

(d) In those situations where the institution has an arrangement authorizing an employee association to provide or operate a service such as vending machines in the institution's plant, and retain the profits derived therefrom, such profits shall be treated in the same manner as if the institution were providing the service (but see (e)).

(e) Contributions by the institution to an employee organization, including funds set over from vending machine receipts or similar sources, may be included as cost incurred under (b) above only to the extent that the institution demonstrates that an equivalent amount of the costs incurred by the employee organization would be allowable if incurred by the institution directly.

12. Entertainment Costs

Costs of amusement, diversion, social activities, ceremonials, and incidental costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities, are unallowable (but see G-11 and G-43).

13. Excess Facility Costs

(a) As used in this paragraph, the words and phrases defined in this subparagraph (a) shall have the meanings set forth below.

(1) Facilities means plant or any portion thereof (inclusive of land integral to the operation); equipment individually or collectively; or any other tangible capital asset, wherever located, and whether owned or leased by the institution.

(2) Idle Facilities means completely unused facilities that are excess to the institution's current needs.

(3) Idle Capacity means the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time on a one shift basis* less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demands during the accounting period.

(4) Costs of Idle Facilities or Idle Capacity are costs such as maintenance, repair, housing, rent, and other related costs, e.g., property taxes, insurance, and depreciation.

(b) The cost of idle facilities are unallowable except to the extent that:

(i) they are necessary to meet fluctuations in workload; or

(ii) although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, grantee/contractor efforts to produce more economically, reorganization, termination, or other causes which could not have been reasonably foreseen.

Under the exception stated in (ii) of this subparagraph (b), costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending upon the initiative taken to use, lease, or dispose of such facilities (but see G.42(b) and (e)).

(c) The costs of idle capacity are normal costs of doing business and are a factor in the normal

* A multiple shift basis may be used if it can be shown that this amount of usage could normally be expected for the type of facility involved.

fluctuations of usage or overhead rates from period to period. Such costs are allowable, provided the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. Widespread idle capacity throughout an entire plant or among a group of assets having substantially the same function may be idle facilities.

14. Fines and Penalties

Costs of fines and penalties resulting from violation 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 grant or contract instructions in writing from the awarding agency.

15. Fringe Benefits

See G-6-(g)-(5).

16. Independent Research and Development

(a) An institution's independent research and development (IR&D) is that research and development which is not sponsored by the Government or a non-Government organization or agency under a grant/contract or other arrangement.

(b) Basic research, for the purpose of this document, is that type of research which is directed toward increase of knowledge within a particular discipline. In such research, the primary aim of the investigator is a fuller knowledge or understanding of the subject under study, rather than any practical application thereof. Applied research, for the purpose of this document consists of that type of effort which (1) is normally derived from the results of basic research, but may not be severable from the related basic research, (2) attempts to determine and expand the potentialities of new scientific discoveries or improvements in technology, materials, processes, methods, devices, and techniques, and (3) attempts to "advance the state of the art." Applied research, does not include any such efforts when their principal aim is the design, development, or test of specific articles or services to be offered for sale, which are within the definition of the term development as defined in (c) below. Census research, for the purpose of this document, is that type of activity devoted to the compilation and interpretation of statistical and other analytical information acquired through survey (e.g. interview, circularization of questionnaires), observations or from books, treatises, articles or other sources relative to specifically defined activities, occurrences or conditions for the purpose of accomplishing some scientific end.

(c) "Development" is the systematic use of scientific knowledge which is directed toward the production of, or improvements in, useful products to meet specific performance requirements, but exclusive of manufacturing and production engineering.

(d) Independent research and development will be treated in a manner consistent with the treatment of sponsored research and development. Accordingly, an institution's I R & D shall be allocated its proportionate share of indirect costs on the same basis that indirect costs are allocated to sponsored research and development.

(e) The cost of an institution's I R & D, including its proportionate share of indirect costs, is unallowable.

17. Insurance and Indemnification

(a) Insurance includes insurance which the institution is required to carry, or which is approved, under the terms of the grant or contract and any other insurance which the institution maintains in connection with the general conduct of its business.

(1) Costs of insurance required or approved, and maintained, pursuant to the grant or contract are allowable.

(2) Costs of other insurance maintained by the institution in connection with the general conduct of its business are allowable subject to the following limitations:

(a) Types and extent of coverage shall be in accordance with sound business practice and the rates and premiums shall be reasonable under the circumstances;

(b) Costs allowed for business interruption or other similar insurance shall be limited to exclude coverage of profit;

(c) Costs of insurance or of any provision for a reserve covering the risk of loss of or damage to Government property are allowable only to the extent that the institution is liable for such loss or damage and such insurance or reserve does not cover loss or damage which results from willful misconduct or lack of good faith on the part of any of the institution's trustees, directors or officers, or other equivalent representatives, who has supervision or direction of (i) all or substantially all of the institution's business, or (ii) all or substantially all of the institution's operations at any one separate location in which the grant or contract is being performed, or who are specifically identified as the project director in the project or otherwise primarily

responsible for the direction and/or execution of the project supported by the grant or contract.

(d) Provisions for a reserve under an approved self-insurance program are allowable to the extent that types of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks; and

(e) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibilities are allowable only to the extent that the insurance represents additional compensation. (See G-6).

(3) 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 or contract, except:

(a) Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice, are allowable; and

(b) Minor losses not covered by insurance, such as spoilage, breakage, and disappearance of supplies, which occur in the ordinary course of doing business, are allowable.

(b) Indemnification includes securing the institution against liabilities to third persons and any other loss or damage, not compensated by insurance or otherwise. The Government is obligated to indemnify the institution only to the extent expressly provided in (a) (3) above.

18. Interest and Other Financial 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 unallowable.

(c) Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.

(d) Where substantial effort or time is devoted to fund raising and investment activities as described in (b) and (c) in relation to other functions of an institution, such activities shall be considered as a major activity of the institution and shall be allocated its share

of indirect costs in accordance with Section D. (See also C-2).

19. Labor Relations Costs

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

20. Losses on Other Grants or Contracts

Any excess of costs over income on any grant or contract is unallowable as a cost of any other grant or contract.

21. Maintenance and Repair Costs

(a) Costs necessary for the 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 to be treated as follows (but see G-10):

(1) Normal maintenance and repair costs are allowable:

(2) Extraordinary maintenance and repair costs are allowable, provided such are allocated to the periods to which applicable for purposes of determining grant or contract costs.

(b) Expenditures for plant and equipment, including rehabilitation thereof, which, according to generally accepted accounting principles as applied under the institution's established policy, should be capitalized and subjected to depreciation, are allowable only on a depreciation basis.

22. Materials Costs

(a) The cost of consumable supplies, serum, drugs, fabricated parts and other materials necessary to carry out the objectives of a grant or contract, whether purchased outside or manufactured by the institution are allowable subject to the provisions (b) through (e) below. The cost may include such collateral items as inbound transportation and intransit insurance.

In computing these costs consideration will be given to reasonable overruns, spoilage, or defective work if consistent with the nature of the project being performed and the recognized practice of the industry.

(b) Costs of material shall be suitably adjusted for applicable portions of income and other credits,

including available trade and cash discounts, refunds, rebates, allowances, and credits for scrap and salvage and material returned to vendors. Such income and other credits shall either be credited directly to the cost of the material involved or be allocated (as credits) to indirect costs. However, where the institution can demonstrate that failure to take cash discounts was due to reasonable circumstances, such lost discounts need not be so credited.

(c) Reasonable adjustments arising from differences between periodic physical inventories and book inventories may be included in arriving at costs, provided such adjustments relate to the period of performance of the grant or contract.

(d) When the materials are purchased specifically for and identifiable solely with performance under a grant or contract, the actual purchase cost thereof should be charged to that grant or contract. If material is issued from stores, any generally recognized method of pricing such material is acceptable if that method is consistently applied and the results are equitable. When estimates of material costs to be incurred in the future are required, either current market price or anticipated acquisition cost may be used, but the basis of pricing must be disclosed.

(e) Allowance for all materials, supplies and services which are sold or transferred between any division, subsidiary or affiliate of the institution under a common control shall be on the basis of cost incurred in accordance with these principles, except that when it is the established practice of the transferring organization to price interorganization transfers of materials, supplies and services at other than cost for non-Government work of the institution or any division, subsidiary or affiliate of the institution under a common control, allowance may be at a price when:

(1) It is or is based on an "established catalog or market price of commercial items sold in substantial quantities to the general public"; or

(2) It is the result of "adequate price competition" and is the price at which an award was made to the affiliated organization after obtaining quotations on an equal basis from such organization and one or more outside sources which normally produce the item or its equivalent in significant quantity;

provided that in either case:

(1) The price is not in excess of the transferor's current sales price to his most favored customer (including any division, subsidiary or affiliate of the institution under a common control) for a like quantity under comparable conditions, and

(2) The price is not determined to be unreasonable by the awarding agency;

The price determined in accordance with (1) above should be adjusted, when appropriate, to reflect the quantities being procured and may be adjusted upward or downward to reflect the actual cost of any modifications necessary because of grant or contract requirements.

23. Organization Costs

Expenditures, such as incorporation fees, attorney's fees, accountant's fees, brokers' fees, fees to promoters and organizers, in connection with (a) organization or reorganization of a business, or (b) raising capital, are unallowable unless specified otherwise in the grant or contract.

24. Other Business Expenses

Included in this item are such recurring expenses as preparation and publication of reports to members and trustees, preparation and submission of required reports and forms to taxing and other regulatory bodies; and incidental costs of directors and committee meetings. The above and similar costs are allowable when allocated on an equitable basis.

25. Overtime, Extra-Pay Shift and Multi-Shift Premiums

Premiums for overtime, extra-pay shifts, and multi-shift work are allowable only to the extent approved by the awarding agency except:

(a) When necessary to cope with emergencies, such as those resulting from accidents, natural disasters, breakdowns of production equipment, or occasional production bottlenecks of a sporadic nature;

(b) When by indirect labor employees such as those performing duties in connection with administration, protection, transportation, maintenance, standby plant protection, operation of utilities, or accounting;

(c) In the performance of tests, laboratory procedures, or other similar operations which are continuous in nature and cannot reasonably be interrupted or otherwise completed; or

(d) When lower overall cost to the Government will result.

Overtime premiums and shift premiums may be considered proper for approval when determined in writing by the awarding agency that approval:

(a) Is necessary to meet delivery or performance schedules, and such schedules are determined to be extended to the maximum consistent with essential program objectives;

(b) Is necessary to make up for delays which are beyond the control and without the fault or negligence of the institution;

(c) Is necessary to eliminate foreseeable bottlenecks of an extended nature which cannot be eliminated in any other way.

Approvals should ordinarily be prospective, but may be retroactive where justified by the circumstances. Such approvals may be for an individual grant- or contract project, or program, or for a division, department, or branch, as most practicable.

Overtime for which overtime premiums would be at Government expense should not be approved under an award where the institution is already obligated, without the right to additional compensation, to meet the required delivery date.

Where overtime premiums or shift premiums are being paid at Government expense in connection with the performance of a Government grant or contract; the continued need therefor should be subject to periodic review by the awarding agency.

26. Patent and Copyright Costs

Costs of preparing disclosures, reports, and other documents required by the grant/contract and of searching the art to the extent necessary to make such disclosures, are allowable. In accordance with the conditions of the grant or contract relating to patents or copyrights, costs of preparing documents and any other costs, in connection with the filing of a patent application or copyright where title is conveyed to the Government, are allowable. However, similar costs incurred in connection with patents or copyrights where title is not conveyed to the Government are unallowable. (See G-39)

27. Pension Plans

(See G-6(g)-(4))

28. Plant Protection Costs

Costs of items such as (a) wages, uniforms, and equipment of personnel engaged in plant protection, (b) depreciation on plant protection capital assets, and (c) necessary expenses to comply with security requirements are allowable.

29. Plant Reconversion Costs

Plant reconversion costs are those incurred in the restoration or rehabilitation of the institutions' facilities to approximately the same condition existing immediately prior to the commencement of the grant or contract work, fair wear and tear excepted. Reconversion costs are unallowable except for the cost of removing Government property and the restoration or rehabilitation costs caused by such removal. However, in special circumstances where equity so dictates, additional costs may be allowed to the extent agreed upon in writing before the costs are incurred. Whenever such costs are given consideration, care should be exercised to avoid duplication through allowance as contingencies, as additional profit or fee, or in other grants or contracts.

30. Pre-Award Costs

Pre-award costs are those incurred prior to the effective date of the grant or contract directly pursuant to the negotiation and in anticipation of the award of the grant or contract where such incurrence is necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the prior written approval of the awarding agency.

31. Professional Service Costs—Legal, Accounting, Scientific and Other

(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), (c) and (d) below, when reasonable in relation to the services rendered. (but see G-23)

(b) Factors to be considered in determining the allowability of costs in a particular case include:

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

(2) the necessity of contracting for the service considering the institution's capability in the particular area;

(3) the past pattern of such costs, particularly in years prior to the award of Government work;

(4) the impact of Government work on the institution's business (i.e., what new problems have arisen);

(5) whether the proportion of Government work to the institution's total business 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 grants/contracts;

(6) whether the service can be performed more economically by employment rather than by contracting;

(7) the qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-government grants/contracts;

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

(c) Retainer fees to be allowable must be reasonably supported by evidence of bona fide services available or rendered.

(d) Costs of legal, accounting, and consulting service, and related costs, incurred in connection with organization and reorganization, defense of anti-trust suits, and the prosecution of claims against the Government, are unallowable. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with patent or copyright infringement litigation, are unallowable unless otherwise provided for in the grant or contract.

32. 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 be excluded in computing grant or contract costs.

33. Public Information Services Costs

Public information services cost includes the cost associated with promotions, public relations, pamphlets, news releases, and other forms of information services. Such costs are normally incurred to:

(a) Inform or instruct individuals, groups or the general public about health or social problems.

(b) Interest individuals or groups in participating in a service program of the institution.

(c) Provide stewardship reports to State and local Government agencies, benefactor foundations and associations, etc.

(d) Appeal for funds.

(e) Disseminate the results of sponsored and non-sponsored research or other activity to the scientific community.

To the extent that the costs incurred for any of these purposes are identifiable with a particular cost objective they should be charged to the objective to which they relate.

If these costs are not identifiable with a particular cost objective they should be allocated as indirect costs to all major activities of the institution except that costs related to fund raising appeals are unallowable as costs of grants and contracts.

Public information service costs are unallowable as a direct cost of grants and contracts unless formally approved by the awarding agency.

34. Publication and Printing Costs

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

Publication costs are unallowable as a direct cost of grants and contracts unless formally approved by the awarding agency.

35. 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 written approval has been given in advance by the awarding agency.

36. Recruitment Costs

(a) Subject to (b), (c) and (d) of the G-36, 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 labor force, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, and travel costs of applicants for interviews for prospective employment 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 (1) includes color, (2) includes advertising material for other than recruitment purposes, or (3) is excessive in size (taking into consideration recruitment purposes for which intended and normal business practices in this respect) are unallowable.

(c) Costs of (1) help-wanted advertising and (2) excessive salaries, fringe benefits, and special emoluments that have been offered to prospective employees, designed to attract personnel from another institution performing as grantee or contractor to the Government, or in excess of the standard practices in comparable institutions; 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 twelve months after hire, the institution shall be required to refund or credit such relocation costs to the Government.

37. Relocation Costs

(a) Relocation costs, for the purpose of this document, are costs incident to the permanent change of duty assignment (for an indefinite period, or for a stated period of no less than 12 months) of an existing employee or upon recruitment of a new employee. These costs may include, but are not limited to cost of (i) transportation of the employee, members of his immediate family and his household and personal effects to the new location; (ii) finding a new home, such as advance trips by employees and spouses to locate living quarters and temporary lodging during the transition period; (iii) closing costs (i.e., brokerage fees, legal fees, appraisal fees, etc.), incident to the disposition of housing; (iv) other necessary and reasonable expenses normally incident to relocation, such as cost of cancelling an unexpired lease, disconnecting or reinstalling household appliances, and purchase of insurance against damages to personal property; (v) loss on sale of home; and (vi) acquisition of a home in a new location (i.e., brokerage fees, legal fees, appraisal fees, etc.).

(b) Subject to (c) below, relocation costs of the type covered in (a) (i), (ii), (iii), and (iv) above are allowable, provided (i) the move is for the benefit of the employer; (ii) reimbursement is in accordance with an established policy or practice consistently followed by the employer, and such policy or practice is designed to motivate employees to relocate promptly and economically; (iii) the costs are not otherwise unallowable under the provisions of G-36 or any other paragraph of this document, and (iv) amounts to be reimbursed shall not exceed the employee's actual (or reasonably estimated) expenses.

(c) Costs otherwise allowable under (b) above are subject to the following additional provisions: (i) the transition period for incurrence of costs of the type covered in (a) (ii) above shall be kept to the minimum number of days necessary under the circumstances, but shall not, in any event, exceed a cumulative total of 30 days including advance trip time; and (ii) allowance for cost of the type covered in (a) (iii) above shall not exceed 8% of the sales price of the property sold. Costs of the type covered in (a) (iii) and (iv) above are allowable only in connection with the relocation of existing employees, and are not allowable for newly recruited employees.

(d) Costs of the type covered in (a) (v) and (vi) above are not allowable.

38. Rental Costs (Including Sale and Leaseback of Facilities)

(a) Rental costs of land, building, and equipment and other personal property are allowable if the rates are reasonable in light of such factors as rental costs of comparable facilities and market conditions in the area, the type, life expectancy, condition, and value of the facilities leased, options available, and other provisions of the rental agreement. Application of these factors, in situations where rentals are extensively used, may involve among other considerations, comparison of rental costs with the amount which the institution would have received had it owned the facilities.

(b) Charges in the nature of rent between plants, divisions, or organizations under common control are allowable in the extent such charges do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, and maintenance; provided that no part of such costs shall duplicate any other allowed costs.

(c) Unless otherwise specifically provided in the grant or contract, rental costs specified in sale and leaseback agreements, incurred by institutions through selling plant facilities to investment organizations, such as insurance companies, associate institutions, or to private investors, and concurrently leasing back the same facilities, are allowable only to the extent that such rentals do not exceed the amount which the grantee/contractor would have received had it retained legal title to the facilities.

(d) Rentals for land, building and equipment and other personal property owned by affiliated organizations including corporations or by stockholders, members, directors, trustees, officers or other key personnel of the institution or their families either directly or through corporations, trusts or other similar arrangements in which they hold a more than token interest are allowable only to the extent that such rentals do not

exceed the amount the institution would have received had legal title to the facilities been vested in it.

(e) The allowability of rental costs under unexpired leases in connection with terminations is treated in G-42(e).

39. Royalties and Other Costs for Use of Patents and Copyrights

(a) Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent or rights thereto, necessary for the proper performance of the grant or contract applicable to grant products or processes, are allowable unless:

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

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

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

(4) The patent or copyright is expired.

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

(1) Royalties paid to persons, including corporations, affiliated with the institution;

(2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Government grant or contract would be awarded; or

(3) Royalties paid under an agreement entered into after the award of the grant or contract.

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

40. Severance Pay

(a) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by institutions to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that, in each case, it is required by (1) law, (2) employer-employee agreement,

(3) established policy that constitutes, in effect, an implied agreement on the institution's part, or (4) circumstance of the particular employment.

(b) Costs of severance payments are divided into two categories as follows:

(1) Actual normal turnover severance payments shall be allocated to all work performed in the institution's facilities; or, where the institution provides for accrual of pay for normal severances such method will be acceptable if the amount of the accrual is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts accrued are allocated to all work performed in the institution's facilities; and

(2) Abnormal or mass severance pay is of such a conjectural nature that measurement of costs by means of an accrual will not achieve equity to both parties. Thus accruals for this purpose are not allowable. However, the Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Thus, allowability will be considered on a case by case basis in the event of occurrence.

41. Taxes

(a) Taxes are certain charges levied by Federal, State, or local Governments. They do not include fines and penalties except as otherwise provided herein. In general, taxes which the institution is required to pay and which are paid or accrued in accordance with generally accepted accounting principles are allowable, except for:

(1) Federal income taxes and similar levies against income of the institution derived from activities unrelated to the project supported by the grant or contract.

(2) Taxes in connection with financing, refinancing, or refinancing operations (see G-1B).

(3) Taxes from which exemptions are available to the institution directly or available to the institution based on an exemption afforded the Government except when the awarding agency determines that the administrative burden incident to obtaining the exemption outweighs the corresponding benefits accruing to the Government;

(4) Special assessments on land which represent capital improvements; and

(5) Taxes on any category of property which is used solely in connection with work other than on Government grants or contracts. (Taxes on property

used solely in connection with either non-Government or Government work should be considered directly applicable to the respective category of work unless the amounts involved are insignificant or comparable results would otherwise be obtained.)

(b) Taxes otherwise allowable under paragraph (a) of this section, but upon which a claim of illegality or erroneous assessment exists, are allowable provided the institution, prior to payment of such taxes:

(1) Promptly requests instructions from the awarding agency concerning such taxes, and

(2) Takes all action directed by the awarding agency arising out of subparagraph (1) of this paragraph or an independent decision of the Government as to the existence of a claim of illegality or erroneous assessment, including cooperation with and for the benefit of the Government to (i) determine the legality of such assessment, or (ii) secure a refund of such taxes.

Reasonable costs of any such action undertaken by the institution at the direction or with the concurrence of the awarding agency are allowable. Interest and penalties incurred by an institution by reason of the non-payment of any tax at the direction of the awarding agency or by reason of the failure of the awarding agency to issue timely direction after prompt request therefor, are also allowable.

(c) 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 project costs, shall 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 or penalty shall 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 or penalties.

42. Termination Costs

Grants and contracts terminations generally give rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the project not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the remainder of this document in termination situations.

(a) Common Items

The cost of items reasonably usable on the institution's other work shall 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, the awarding agency should consider the institution's plans and orders for current and scheduled production. Contemporaneous purchases of common items by the institution shall be regarded as evidence that such items are reasonably usable on the institution's other work. Any acceptance of common items as allocable to the terminated portion of the project 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.

(b) Costs continuing after termination

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 document, except that any such costs continuing after termination due to the negligent or willful failure of the institution to discontinue such costs shall be considered unallowable.

(c) Initial costs

Initial costs, including starting load and preparatory costs, are allowable, subject to the following:

(1) Starting load costs are costs of a non-recurring nature arising in the early stages of operation, investigation or production and not fully absorbed because of the termination. Such costs may include the cost of labor and material, and related indirect cost attributable to such factors as:

(a) Excessive spoilage resulting from inexperienced labor;

(b) Idle time and subnormal production occasioned by testing and changing methods of processing;

(c) Employee training; and

(d) Unfamiliarity or lack of experience with the product, materials, manufacturing processes and techniques.

(2) Preparatory costs are costs incurred in preparing to perform the terminated project including costs of initial plant rearrangement and alterations, management and personnel organization, production planning and similar activities, but excluding special machinery and equipment and starting load costs.

(3) If initial costs are claimed and have not been segregated on the institution's books, segregation for settlement purposes shall be made from cost reports and schedules which reflect the high unit cost incurred during the early stages of the project.

(4) When the settlement proposal is on the inventory basis, initial costs should normally be allocated on the basis of total end items called for by the project immediately prior to termination; however, if the project includes end items of a diverse nature, some other equitable basis may be used, such as machine or labor hours.

(5) When initial costs are included in the settlement proposal as a direct charge, such costs shall not also be included in overhead.

(6) Initial costs attributable to only one project shall not be allocated to other projects.

(d) Loss of useful value

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

(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 awarding agency and

(3) The loss of useful value as to any one terminated project 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 project bears to the entire terminated project and other Government projects for which the special tooling and special machinery and equipment was acquired.

(e) Rental costs

Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated project 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 project 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 project, and of reasonable restoration required by the provisions of the lease.

(f) Settlement expenses

Settlement expenses including the following are generally allowable:

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

(a) The preparation and presentation to awarding agency of settlement claims and supporting data with respect to the terminated portion of the project, and

(b) The termination and settlement of subcontracts; and

(2) Reasonable costs for the storage, transportation, protection, and disposition of property acquired or produced for the project.

(g) Subcontractor claims

Subcontractor claims, including the allocable portion of claims which are common to the project and to other work of the institution are generally allowable.

43. Trade, Business, Technical, and Professional Activity Costs

(a) Memberships

This category includes costs of memberships in trade, business, technical, and professional organizations. Such costs are allowable.

(b) Subscriptions

This item includes cost of subscriptions to trade, business, professional, or technical periodicals. Such costs are allowable.

(c) Meetings and conferences

This item includes costs of meals, transportation, rental of facilities for meetings, and costs incidental thereto, when the primary purpose of the incurrence of such costs is the dissemination of technical information or stimulation of production. Such costs are allowable.

44. Training and Educational Costs

(a) The costs of training courses taken by a bona fide employee to acquire basic skills which he should bring to the job or to qualify a person for duties other than those related to an institution's goals are allowable.

(b) Costs of on the job training and part-time education, at an undergraduate or postgraduate college level, related to the job requirements of bona fide employees, identified in (1) through (5) below, are allowable.

(1) Training materials;

(2) Textbooks;

(3) Fees charged by the educational institution;

(4) Tuition charged by the educational institution, or in lieu of tuition, instructors' salaries and the related share of indirect cost of the educational institution to the extent that the sum thereof is not in excess of the tuition which would have been paid to the participating educational institution; and

(5) Straight-time compensation of each employee for time spent attending classes during working hours not in excess of 156 hours per year where circumstances do not permit the operation of classes or attendance at classes after regular working hours.

(c) Costs of tuition, fees, training materials and textbooks (but not subsistence, salary, or any other emoluments) in connection with full time scientific and medical education at a post-graduate (but not undergraduate) college level related to the job requirements of bona fide-employees for a total period not to exceed one school year for each employee so trained, are allowable when approved in writing by the awarding agency.

(d) Grants to educational or training institutions, including the donation of facilities or other properties, scholarships, or fellowships, are considered contributions and are allowable.

45. Transportation Costs

Transportation costs include freight, express, cartage, and postage charges relating either to goods purchased, in process, or delivered. These costs are allowable. When such costs can readily be identified with the items involved, they may be directly costed as transportation costs or added to the cost of such items (see G-22).

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 grant or contract shall be treated as a direct cost.

46. Travel Costs

(a) Travel costs include costs of transportation, lodging, subsistence, and incidental expenses, incurred by institution personnel in a travel status while on official business.

(b) Travel costs may be based upon actual costs incurred, or on a per diem or mileage basis in lieu of actual costs, or on a combination of the two, provided the method used does not result in an unreasonable charge. The difference in cost between first-class and less than first-class air accommodations is allowable 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.

(c) Travel costs incurred in the normal course of overall administration of the business are allowable and shall be treated as indirect costs.

(d) Travel costs directly attributable to specific grant or contract performance are allowable and may be charged to the grant or contract in accordance with the principle of direct costing (see Section C).

(e) Costs of personnel movement of a special or mass nature are allowable only when authorized or approved in writing by the sponsoring agency.

SECTION V
APPENDICES

APPENDIX 1

SAMPLE INDIRECT COST RATE PROPOSAL FORMATS

Page No.

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2. Multiple Distribution Base Method

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EXPLANATION OF EXHIBIT A
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT
SIMPLIFIED METHOD

This Exhibit illustrates the computation of an indirect cost rate where one of the following conditions exist:

1. All of an Institution's direct program activities are serviced by and receive benefits from all of its indirect activities in approximately the same degree.
2. The amount of Federal funds received by an Institution is not material in relation to its other operating revenues and the work performed with Federal funds receives administrative services in approximately the same degree as work performed with non-Federal funds.
3. The Institution has only a single direct activity or function with multiple sources of funding.

Under this method, an Institution should first identify all those activities and functions which it performs and the costs associated with them. It should then categorize these activities and costs as direct or indirect. Thirdly, it should make eliminations for unallowable costs and capital expenditures. Finally, it should compute its indirect cost rate as shown on Exhibit A-1.

The amounts used in the computation should be supported by and reconciled to the Institution's financial statements, preferably certified by an Independent licensed accountant.

EXHIBIT A
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - SIMPLIFIED METHOD*
A NON-PROFIT INSTITUTION
SUMMARY OF DIRECT AND INDIRECT COSTS
FOR THE YEAR ENDED _____

	Total Costs	Less: Exclusions		Direct Costs	Indirect Costs	Notes
		Capital Expenditures	Other			
<i>General (Unrestricted) Funds</i>	\$130,000	-	-	-	\$130,000	(1)
General and Administrative Costs:	5,000	5,000	-	-	-	(2)
Salaries and Wages	125,000	-	-	-	125,000	(3)
Equipment & Other Capital Expenditures	100,000	30,000	-	-	70,000	(4)
Fringe Benefits	20,000	-	5,000	-	15,000	
Other Expenses	70,000	-	-	-	70,000	(1)
Depreciation	5,000	5,000	-	-	-	(1)
Occupancy Costs:	50,000	-	-	-	50,000	(2)
Salaries	90,000	-	-	90,000	-	(2)
Equipment and Other Capital Expenditures	30,000	-	-	30,000	-	(2)
Other Expenses	900,000	-	-	900,000	-	(1)
Public Relations and Fund Raising:	15,000	15,000	-	-	-	(1)
Salaries and Wages	380,000	-	-	380,000	-	(1)
Other Expenses	300,000	-	-	300,000	-	(1)
Direct Programs (Incl. Community Services, Public Information Services, etc.):	40,000	-	-	40,000	-	(1)
Salaries and Wages	300,000	-	-	300,000	-	(1)
Equipment and Other Capital Expenditures	40,000	40,000	-	-	-	(1)
Other Expenses	60,000	-	60,000	-	-	(4)
<i>Grants, Contracts, and Other Restricted Funds</i>	100,000	-	-	100,000	-	(1)
Salaries and Wages	\$2,420,000	\$65,000	-	\$1,900,000	\$460,000	
Equipment and Other Capital Expenditures		\$95,000	-			
Other Expenses						
Total						

1 Equipment and other capital expenditures, such as major renovations and alterations, are excluded from the rate computation because they distort cost allocations. In this illustration, it is assumed that all fringe benefits (except vacation, sick leave, and holidays) are treated consistently by the institution as indirect costs, and that none are charged directly.

2 The \$30,000 of excluded costs consists of various categories of unallowables such as interest expense, entertainment, charitable contributions, etc. to which indirect costs are not allocable, per Para. C.2 of the Cost Principles.

3 The \$5,000 of depreciation excluded is the amount attributable to assets purchased with Federal funds, or on assets used for cost sharing purposes.

4 Public relations and fund raising costs represent unallowable activities to which indirect costs are allocable, in accordance with Para. C.2 of the Cost Principles and are therefore classified as direct costs.

5 Charge: for indirect cost reimbursement to the institution's general fund (often called Applied Overhead) represent amounts "earned" during the year, and were computed by applying the current indirect cost rate to the appropriate direct cost elements at periodic intervals. This in effect accomplishes a transfer of funds from the grant or contract accounts to the general fund, and is a widely used accounting procedure. However, in order to compute the actual indirect cost rate for the year, such transfers should be reversed in the proposal.

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT A
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT
SIMPLIFIED METHOD

This Exhibit illustrates the computation of an indirect cost rate where one of the following conditions exist:

1. All of an institution's direct program activities are serviced by and receive benefits from all of its indirect activities in approximately the same degree.
2. The amount of Federal funds received by an institution is not material in relation to its other operating revenues and the work performed with Federal funds receives administrative services in approximately the same degree as work performed with non-Federal funds.
3. The institution has only a single direct activity or function with multiple sources of funding.

Under this method, an institution should first identify all those activities and functions which it performs and the costs associated with them. It should then categorize these activities and costs as direct or indirect. Thirdly, it should make eliminations for unallowable costs and capital expenditures. Finally, it should compute its indirect cost rate as shown on Exhibit A-1.

The amounts used in the computation should be supported by and reconciled to the institution's financial statements, preferably certified by an independent licensed accountant.

EXHIBIT A
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - SIMPLIFIED METHOD*
A NON-PROFIT INSTITUTION
SUMMARY OF DIRECT AND INDIRECT COSTS
FOR THE YEAR ENDED _____

	Total Costs	Less: Exclusions		Direct Costs	Indirect Costs	Notes
		Capital Expenditures	Other			
General (Unrestricted) Funds						
General and Administrative Costs:						
Salaries and Wages	\$130,000	-	-	-	\$130,000	(1)
Equipment & Other Capital Expenditures	5,000	5,000	-	-	-	(2)
Fringe Benefits	125,000	-	-	-	125,000	(3)
Other Expenses	100,000	-	\$30,000	-	70,000	(4)
Depreciation	20,000	-	5,000	-	15,000	(4)
Occupancy Costs:						
Salaries	70,000	-	-	-	70,000	(1)
Equipment and Other Capital Expenditures	5,000	5,000	-	-	-	(2)
Other Expenses	50,000	-	-	-	50,000	(5)
Public Relations and Fund Raising:						
Salaries and Wages	90,000	-	-	\$90,000	-	(5)
Other Expenses	30,000	-	-	30,000	-	(5)
Direct Programs (Incl. Community Services, Public Information Services, etc.):						
Salaries and Wages	900,000	-	-	900,000	-	(1)
Equipment and Other Capital Expenditures	15,000	15,000	-	-	-	(2)
Other Expenses	380,000	-	-	380,000	-	(5)
Grants, Contracts, and Other Restricted Funds (Incl. Research)						
Salaries and Wages	300,000	-	-	300,000	-	(1)
Equipment and Other Capital Expenditures	40,000	40,000	-	-	-	(2)
Charges for Indirect Cost Reimbursement to General Funds	60,000	-	60,000	-	-	(6)
Other Expenses	100,000	-	-	100,000	-	(5)
Total	\$2,420,000	\$65,000	\$95,000	\$1,800,000	\$460,000	

¹ Equipment and other capital expenditures, such as major renovations and alterations, are excluded from the rate computation because they distort cost allocations.

² In this illustration, it is assumed that all fringe benefits (except vacation, sick leave, and holidays) are treated consistently by the institution as indirect costs, and that none are charged directly.

³ The \$10,000 of excluded costs consists of various categories of unallowables such as interest expense, entertainment, charitable contributions, etc. to which indirect costs are not allocable, per Para. C.2 of the Cost Principles.

⁴ The \$5,000 of depreciation excluded is the amount attributable to assets purchased with Federal funds, or on assets used for cost sharing purposes.

⁵ Public relations and fund raising costs represent unallowable activities to which indirect costs are allocable, in accordance with Para. C.2 of the Cost Principles and are therefore classified as direct costs.

⁶ Charges for indirect cost reimbursement to the institution's general fund (often called Applied Overhead) represent amounts "earned" during the year, and were computed by applying the current indirect cost rate to the appropriate direct cost elements at periodic intervals. This in effect accomplishes a transfer of funds from the grant or contract accounts to the general fund, and is a widely used accounting procedure. However, in order to compute the actual indirect cost rate for the year, such transfers should be reversed in the proposal.

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT A-1
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT
SIMPLIFIED METHOD

The column totals from Exhibit A are brought forward to this Exhibit. Indirect costs (\$460,000) are divided by direct costs (\$1,800,000) to produce the rate of 25.6%. This rate is expressed as a percentage of total direct costs, less capital expenditures.

If considered more appropriate, the rate could be expressed as a percentage of direct salaries and wages. To do this, indirect costs would be divided by only the salaries and wages included in total direct costs. For example, the salaries and wages shown in the direct costs column of Exhibit A is \$1,290,000. Dividing this amount into the indirect costs of \$460,000 on the same Exhibit would result in an indirect cost rate of 35.7%.

Because all fringe benefits were treated as indirect costs in this sample proposal, there should be no direct charges for fringe benefits on the grants and contracts to which the rate applies.

EXHIBIT A-1
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - SIMPLIFIED METHOD*
A NON-PROFIT INSTITUTION
COMPUTATION OF INDIRECT COST RATE
FOR THE YEAR ENDED _____

	Total Costs	Less: Exclusions		Direct Costs	Indirect Costs
		Capital Expenditures	Other		
Totals (Exhibit B)	\$2,420,000	\$65,000	\$95,000	\$1,800,000	\$460,000
				(B)	(A)

Rate Computation

$$(A) \div (B) = \frac{\$460,000}{\$1,800,000} = 25.6\% \text{ of total direct costs less capital expenditures.}$$

*This is a sample only, and is not intended to prescribe methods of charging costs.

EXPLANATION OF EXHIBIT B
SAMPLE INDIRECT COST PROPOSAL FORMAT
MULTIPLE DISTRIBUTION BASE METHOD

This Exhibit illustrates the computation of an indirect cost rate(s) for an institution with two or more direct program activities which do not all receive services or benefits from its indirect activities to the same relative degree. The total costs of a multiple activity organization are first grouped into the broad categories of direct and indirect costs. The pools of indirect costs are further grouped according to the direct programs/activities they service, i.e., Community Services Activities, Fund Raising, and Research. (For purposes of this illustration, assume that the Federally sponsored research is included in the Research activity.)

Before this grouping is made, capital expenditures and certain unallowable costs are eliminated in columns 2 and 3. In addition, an adjustment is made in the fourth column so that the treatment of fringe benefits in the proposal may be consistent with the institution's treatment of fringe benefits for Research. (This adjustment would not be necessary for institutions which consistently treat all fringe benefits as indirect costs, as in Exhibit A, or which allocate fringe benefits on their books to all activities or functions, as in Exhibit C.)

The fifth column shows the adjusted figures for each cost center. Note that, as a result of the adjustment made in column 4, each line item in column 5 now includes its share of fringe benefits.

The next three columns show the adjusted indirect cost pools grouped according to the distribution method chosen. The last column shows the adjusted direct costs of each of the institution's functions.

See Exhibit B-1 for the actual distribution of the indirect costs and Exhibit B-2 for the computation of the indirect cost rates for Research.

EXHIBIT B

SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-MULTIPLE DISTRIBUTION BASE METHOD*

A NON-PROFIT INSTITUTION

SUMMARY OF DIRECT AND INDIRECT COSTS

FOR THE YEAR ENDED _____

	Total Costs per Books	Less: Capital Expenditures ¹	Less: Unallowable Costs	Adjustment of Fringe Benefits	Adjusted Total Costs	Indirect Costs to Be Distributed on			Direct Costs
						Total Direct Costs	Floor Space	No. of Employees	
Fringe Benefits	¹ \$500,000			(\$500,000)	-				
General & Administrative Costs	500,000	(\$10,000)	⁵ (\$40,000)	41,000	\$491,000	\$491,000	-	-	-
Occupancy Costs	750,000	(5,000)	-	59,000	804,000	-	\$804,000	-	-
Depreciation	200,000	-	⁶ (25,000)	-	175,000	-	175,000	-	-
Loss on Employee Cafeteria	² 25,000	-	-	9,500	34,500	-	-	\$34,500	-
Direct Costs of Community Service Activities	³ 4,000,000	(50,000)	-	352,500	4,302,500	-	-	-	\$4,302,500
Direct Costs of Fund Raising	500,000	-	-	38,000	538,000	-	-	-	538,000
Direct Costs of Research	1,500,000	(80,000)	-	-	1,420,000	-	-	-	1,420,000
	<u>\$7,975,000</u>	<u>(\$145,000)</u>	<u>(\$65,000)</u>	<u>-</u>	<u>\$7,765,000</u>	<u>\$491,000</u>	<u>\$979,000</u>	<u>\$34,500</u>	<u>\$6,260,500</u>

¹ This amount includes all fringe benefits incurred by the institution except those applicable to direct salaries of research. Research fringe benefits are assumed in this illustration to have been charged directly to the projects and are included in the \$1,500,000 shown as direct costs.

² The loss on Employee Cafeteria is the net figure after offsetting cafeteria income.

³ Included in this amount are those types of unallowable costs to which indirect costs are allocable, in accordance with Para. C. 2 of the Cost Principles.

⁴ Only current expenditures should be considered in developing indirect cost rates. Therefore, equipment and other capital items are excluded.

⁵ These unallowable costs include such items as interest expense, entertainment, charitable contributions, etc., to which paragraph C. 2 of the Cost Principles is not applicable.

⁶ The amount excluded is the depreciation attributable to assets financed from Federal funds, or on assets used for cost sharing purposes.

⁷ This adjustment is necessary to maintain consistency of treatment, since only the research projects have been charged directly for their share of fringe benefits. (See note 1, above.) The \$500,000 is distributed in proportion to all other salaries and wages, as follows:

	\$&W	Percent	Fringe Benefits
General & Administrative	\$350,000	8.2%	\$41,000
Occupancy	500,000	11.8	59,000
Cafeteria	80,000	1.9	9,500
Community Services	3,000,000	70.5	352,500
Fund Raising	325,000	7.6	38,000
	<u>\$4,255,000</u>	<u>100.0%</u>	<u>\$500,000</u>

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT B-1

This Exhibit demonstrates how groups of indirect costs (as developed in Exhibit B) may be distributed to the institution's several functions, using for each group the method of apportionment most appropriate to it.

The first three columns show the distribution of general and administrative costs, totaling \$491,000, based on total direct costs exclusive of capital expenditures and any other direct costs that would distort the allocation of indirect costs, for each of the institution's functions.

The next three columns distribute \$979,000 of occupancy costs and depreciation, based on square feet of floor space occupied by the direct activities.

The seventh, eighth and ninth columns distribute the loss on employees' cafeteria based on the number of employees to whom the cafeteria is ordinarily available. This would usually include all employees stationed at the organization's main facility at which the cafeteria is located.

These groupings and methods of apportionment are shown only as illustrations. Other groupings and methods of apportionment may be used, if more appropriate to the actual circumstances of a given non-profit institution.

SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - MULTIPLE DISTRIBUTION BASE METHOD*

A NON-PROFIT INSTITUTION

DISTRIBUTION OF INDIRECT COSTS

FOR THE YEAR ENDED _____

	General and Administrative Costs		Occupancy and Depreciation		Loss on Employees Cafeteria		Total Indirect Costs Distributed
	Total Direct Costs ¹	Percent	Square Feet	Percent of Indirect Costs	Number of employees	Percent of Indirect Costs	
Community Services	\$4,302,500	68.72	48,000	90	543	77.57	\$951,517
Fund Raising	538,000	8.60	8,000	10	8	1.14	140,519
Research	1,420,000	22.68	24,000	30	149	21.29	412,404
Total	<u>\$6,260,500</u>	<u>100.00</u>	<u>90,000</u>	<u>100</u>	<u>700</u>	<u>100.00</u>	<u>\$1,504,500</u>

¹ These amounts are net of capital expenditures and any other direct costs that would distort the allocation of indirect costs.

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXHIBIT B
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-MULTIPLE DISTRIBUTION BASE METHOD*
A NON-PROFIT INSTITUTION
SUMMARY OF DIRECT AND INDIRECT COSTS
FOR THE YEAR ENDED _____

	Total Costs per Books	Less: Capital Expenditures ¹	Less: Unallowable Costs	Adjustment of Fringe Benefits	Adjusted Total Costs	Indirect Costs to Be Distributed on		Direct Costs
						Total Direct Costs	Floor Space	
Fringe Benefits	\$500,000			(\$500,000)	\$491,000	\$491,000	-	-
General & Administrative Costs	500,000	(\$10,000)	\$ (840,000)	41,000	804,000	-	\$804,000	-
Occupancy Costs	750,000	(5,000)	-	59,000	175,000	-	175,000	-
Depreciation	700,000	-	-	-	34,500	-	-	-
Loss on Employee Cafeteria Service	225,000	-	-	9,500	-	-	-	\$34,500
Direct Costs of Community Service Activities	4,000,000	(50,000)	-	352,500	4,302,500	-	-	\$4,302,500
Direct Costs of Fund Raising	500,000	-	-	38,000	538,000	-	-	538,000
Direct Costs of Research	1,500,000	(80,000)	-	-	1,420,000	-	-	1,420,000
	\$7,975,000	(\$145,000)	(\$65,000)	-	\$7,765,000	\$491,000	\$979,000	\$34,500
								\$6,280,500

¹ This amount includes all fringe benefits incurred by the institution except those applicable to direct salaries of research. Research fringe benefits are assumed in this illustration to have been charged directly to the projects and are included in the \$1,500,000 shown as direct costs.
² The loss on Employee Cafeteria is \$2,000 net figure after offsetting cafeteria income.
³ Included in this amount are those types of unallowable costs to which indirect costs are allocable, in accordance with Para. C. 2 of the Cost Principles.
⁴ Only current expenditures should be considered in developing indirect cost rates. Therefore, equipment and other capital items are excluded.
⁵ These unallowable costs include such items as interest expense, entertainment, charitable contributions, etc., to which paragraph C. 2 of the Cost Principles is not applicable.
⁶ The amount excluded is the depreciation attributable to assets financed from Federal funds, or on assets used for cost sharing purposes.
⁷ This adjustment is necessary to maintain consistency of treatment, since only the research projects have been charged directly for their share of fringe benefits. (See note 1, above.) The \$500,000 is distributed in proportion to all other salaries and wages, as follows:

	S&W	Percent	Fringe Benefits
General & Administrative	\$350,000	8.2%	\$41,000
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Community Services	3,000,000	70.5	352,500
Fund Raising	325,000	7.6	38,000
	\$4,255,000	100.0%	\$500,000

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT B-1

This Exhibit demonstrates how groups of indirect costs (as developed in Exhibit B) may be distributed to the institution's several functions, using for each group the method of apportionment most appropriate to it.

The first three columns show the distribution of general and administrative costs, totaling \$491,000, based on total direct costs exclusive of capital expenditures and any other direct costs that would distort the allocation of indirect costs, for each of the institution's functions.

The next three columns distribute \$979,000 of occupancy costs and depreciation, based on square feet of floor space occupied by the direct activities.

The seventh, eighth and ninth columns distribute the loss on employees' cafeteria based on the number of employees to whom the cafeteria is ordinarily available. This would usually include all employees stationed at the organization's main facility at which the cafeteria is located.

These groupings and methods of apportionment are shown only as illustrations. Other groupings and methods of apportionment may be used, if more appropriate to the actual circumstances of a given non-profit institution.

EXHIBIT B-1
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - MULTIPLE DISTRIBUTION BASE METHOD*
A NON-PROFIT INSTITUTION
DISTRIBUTION OF INDIRECT COSTS
FOR THE YEAR ENDED _____

	General and Administrative Costs			Occupancy and Depreciation			Loss on Employees Cafeteria			Total Indirect Costs Distributed
	Total Direct Costs	Percent	Distribution of Indirect Costs	Square feet	Percent	Distribution of Indirect Costs	Number of employees	Percent	Distribution of Indirect Costs	
Community Services	\$4,302,500	68.72	\$337,418	48,000	60	\$587,400	543	77.57	\$26,782	\$951,577
Fund Raising	538,000	8.60	47,228	8,000	10	97,900	8	1.14	393	140,518
Research	1,420,000	22.68	111,359	24,000	30	293,700	149	21.20	7,348	412,404
Total	\$6,260,500	100.00	\$491,000	80,000	100	\$979,000	700	100.00	\$34,500	\$1,504,500

*These amounts are net of capital expenditures and any other direct costs that would distort the allocation of indirect costs.

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT B-2

This Exhibit shows how separate rates for an activity (research) conducted at an Institution's main facility (on-site) and at remote locations (off-site) may be developed. The assumption is made that occupancy costs have been charged directly to the off-site research projects, in the form of rent. In addition, it is assumed that the employees stationed at off-site locations do not use the employees' cafeteria to any significant extent.

A rate component is computed for each of the three indirect cost groups applicable to research. The amounts were taken directly from Exhibit B-1. Since General and Administrative costs (\$111,359) are allocable to all research projects, the base for the rate component includes all direct research salaries and wages (\$994,000). This results in a rate component of 11.2%. Occupancy and Depreciation (\$293,700) and the Loss of Employee Cafeteria (\$7,345) are related only to the on-site direct research salaries and wages, resulting in rate components of 36.7% and .9% respectively.

The on-site research rate, 48.8%, is the sum of all three rate components. The off-site rate, 11.2%, is simply the General and Administrative rate component.

These rates are all expressed as percentages of direct research salaries and wages. Other rate bases, such as direct research salaries and wages plus applicable fringe benefits, or total direct research costs less capital expenditures, may be used if more appropriate.

If there were no off-site research, or if the amount of off-site research were relatively small, a single composite rate for all research projects would be developed by relating total research indirect costs to the single rate base chosen.

This Exhibit reflects the development of the research indirect cost pool and rate only. Should an indirect cost rate be required for either Community Services or Fund Raising, similar schedules should be prepared substituting the distributions to each of the functions as reflected in Schedule B-1.

EXHIBIT B-2

SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - MULTIPLE-DISTRIBUTION BASE METHOD*

A NON-PROFIT INSTITUTION

COMPUTATION OF INDIRECT COST RATES FOR RESEARCH

FOR THE YEAR ENDED _____

	Indirect Costs Distributed to Research	Direct Research Salaries and Wages Base	On-site Rate	Off-site Rate
General and Administrative Costs	\$111,359	\$994,000 ²	11.2%	11.2%
Occupancy and Depreciation	293,700	800,000 ²	36.7	--
Loss on Employees' Cafeteria	7,345	800,000 ²	.9	--
Total	\$412,404		48.8%	11.2%

¹Includes vacations, sick leave, and holidays (Note: If any other fringe benefits are to be included in the rate base, details should be provided.)

²The \$994,000 direct research salaries and wages used in the calculation of the General Administrative rate component includes both on-site and off-site salaries and wages. Off-site direct research salaries and wages of \$194,000 are not included in the base for calculation of the Occupancy and Depreciation and Loss on Employees' Cafeteria rate components as explained above.

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT C

SAMPLE INDIRECT COST PROPOSAL FORMAT - DIRECT ALLOCATION METHOD

The proposal format illustrated in this Exhibit is suitable for those non-profit institutions which elect to charge directly to their programs and activities all costs except those identifiable with the general administration and fund raising functions. The system used by such institutions is described in Section II of this brochure, under the heading "Direct Allocation Method." For illustration purposes, assume that Federally sponsored programs are included in the Research activity.

The first column lists all expenditures made by the institution, whether from general or restricted funds. In the second column, capital expenditures and those types of unallowable costs to which indirect costs are not allocable (per para. C.2. of the Cost Principles) are deducted. The remaining costs are distributed into columns that identify General and Administrative Expenses, Fund Raising expenses, and expenses of each of the institution's direct programs and activities. The classification into these categories may ordinarily be taken directly from the institution's financial statements. Community Action Agencies must reduce the costs that have been distributed to the column for General and Administrative Expenses by any funds received under Section 221, Economic Opportunity Act of 1964, as amended, which were required to be accounted for by the Office of Economic Opportunity as Account 01 funds.

The column totals are carried to Exhibit C-1 for the computation of the indirect cost rate.

The methodology illustrated by this method must be followed by those institutions which use the *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations* when reporting to non-federal agencies.

EXHIBIT C
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-DIRECT ALLOCATION METHOD*
A NON-PROFIT INSTITUTION

ANALYSIS OF FUNCTIONAL EXPENDITURES
FOR THE YEAR ENDED _____

	Total Expenditures—All Funds	Less: Exclusions and Unallowables	General and Administrative Expenses	All Other Costs			Fund Raising
				Program A	Program B	Research Program	
Salaries	\$472,000		\$42,000	\$256,000	\$48,000	\$72,000	\$54,000
Employee Health and Retirement Benefits	78,320		2,520	15,360	2,880	4,320	3,240
Payroll Taxes, etc.	18,880		1,680	10,240	1,920	2,880	2,160
Professional Fees and Contract Service	14,000		2,400			10,500	1,100
Supplies	8,500		160	1,140	1,000	1,200	5,000
Telephone and Telegraph	14,000		900	1,900	1,200	2,400	7,600
Postage and Shipping	31,000		300	300	900	450	29,050
Occupancy	17,400		4,500	8,100	1,300	2,025	1,475
Outside Printing, Art Work, etc.	25,000		90	200	2,400	600	21,710
Local Transportation	37,000		2,700	13,000	600	2,700	18,000
Conferences, Conventions, Meetings, and Major Trips	21,000		3,600	4,500	6,600	1,000	5,300
Subscriptions and Reference Publications	1,200		450		180	150	420
Specific Assistance to Individuals	70,000	¹ \$70,000					
Membership Dues and Support Payments	800		150		375		275
Awards and Grants	80,000	³ 80,000					
Equipment and Other Fixed Assets	6,000	² 6,000					
Entertainment:	1,000	¹ 1,000					
Interest	1,000	¹ 1,000					
Miscellaneous	11,000		750	1,500	2,700	1,300	4,750
Total	\$858,100	\$158,000	\$62,200	\$312,240	\$70,055	\$101,525	\$154,080

¹ These are unallowable costs to which indirect costs are not allocable, in accordance with Para. C. 2. of the Cost Principles.
² Capital expenditures should be excluded from the indirect cost rate computation.
³ This amount represents awards and grants made by the non-profit institution to others. It does not represent awards and grants received by the non-profit institution from the Federal Government and other sponsors. The costs associated with awards and grants received from the Federal Government and other sponsors would be shown in an appropriate column (such as research programs column) of the "All Other Costs" column. Federally sponsored training awards must be shown as a separate column and not combined with other Federally sponsored work.
⁴ Community Action Agencies must reduce the General and Administrative Expenses total by any funds received under Section 221, Economic Opportunity Act of 1964, as amended, which were required to be accounted for by the Office of Economic Opportunity as Account 01 funds.

*This is sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT C-1

The totals for General and Administrative expenses and all other costs are taken directly from Exhibit C. General and Administrative expenses (\$62,200) are divided by the total of All Other Costs (\$637,900), resulting in an indirect cost rate of 9.8%. This rate is expressed as a percentage of total direct costs, less capital expenditures. However, if the institution is a Community Action Agency, then the General and Administrative expenses (\$62,200) must first be reduced by any funds received under Section 221, Economic Opportunity Act of 1964, as amended, which were required to be accounted for by the Office of Economic Opportunity as Account 01 funds.

As in Exhibit A-1, the rate could be expressed as a percentage of direct salaries and wages, by using as the denominator of the rate computation only the salaries and wages included in the \$637,900 of All Other Costs.

EXHIBIT C-1
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - DIRECT ALLOCATION METHOD*
A NON-PROFIT INSTITUTION
COMPUTATION OF INDIRECT COST RATE
FOR THE YEAR ENDED _____

General and Administrative Expenses		¹ \$62,200
		(A)
All Other Costs		
Program A	\$312,240	
Program B	70,055	
Research Program	101,525	
Fund Raising	154,080	
	<u>637,900</u>	(B)

Indirect Cost Rate
 $A \div B = \frac{\$62,200}{\$637,900} = 9.8\%$ of total direct costs, less capital expenditures

¹ Community Action Agencies must reduce the General and Administrative Expenses total by any allowable costs borne by Section 221, Economic Opportunity Act of 1964, as amended, which were required to be accounted for by the Office of Economic Opportunity as Account 01 funds.

*This is a sample only, and is not intended to prescribe methods for charging costs.

EXHIBIT C
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-DIRECT ALLOCATION METHOD*
A NON-PROFIT INSTITUTION

ANALYSIS OF FUNCTIONAL EXPENDITURES
FOR THE YEAR ENDED _____

	Total Expenditures-All Funds	Less: Exclusions and Unallowables	General and Administrative Expenses	All Other Costs			Fund Raising
				Program A	Program B	Research Program	
Salaries	\$472,000		\$42,000	\$256,000	\$48,000	\$72,000	\$54,000
Employee Health and Retirement Benefits	26,320		2,520	15,360	2,880	4,320	3,240
Payroll Taxes, etc.	18,880		1,680	10,240	1,920	2,880	2,160
Professional Fees and Contract Service	14,000		2,400			10,500	1,100
Supplies	8,500		160	1,140	1,000	1,200	5,000
Telephone and Telegraph	14,000		900	1,900	1,200	2,400	7,500
Postage and Shipping	31,000		320	300	900	450	29,050
Occuency	17,400		4,500	8,100	1,300	2,025	1,475
Outside Printing, Art Work, etc.	25,000		90	200	2,400	600	21,710
Local Transportation	37,000		2,700	13,000	600	2,700	18,000
Conferences, Conventions, Meetings, and Major Trips	21,000		3,600	4,500	6,600	1,000	5,300
Subscriptions and Reference Publications	1,200		450		180	150	420
Specific Assistance to Individuals	70,000	1 \$70,000					
Membership Dues and Support Payments	800		150		375		275
Awards and Grants	80,000	3 80,000					
Equipment and Other Fixed Assets	6,000	2 6,000					
Entertainment	1,000	1 1,000					
Interest	1,000	1 1,000					
Miscellaneous	11,000		750	1,500	2,700	1,300	4,750
Total	\$553,100	\$158,000	\$82,200	\$312,240	\$70,055	\$101,525	\$154,080

¹ These are unallowable costs to which indirect costs are not allocable, in accordance with Para. C. 2. of the Cost Principles.
² Capital expenditures should be excluded from the indirect cost rate computation.
³ This amount represents awards and grants made by the non-profit institution to others. It does not represent awards and grants received by the non-profit institution from the Federal Government and other sponsors. The costs associated with awards and grants received from the Federal Government and other sponsors would be shown in an appropriate column (such as research programs column) of the "All Other Costs" column. Federally sponsored training awards must be shown as a separate column and not combined with other Federally sponsored work.
⁴ Community Action Agencies must reduce the General and Administrative Expenses total by any funds received under Section 221, Economic Opportunity Act of 1964, as amended, which were required to be accounted for by the Office of Economic Opportunity as Account 01 funds.

*This is sample only, and is not intended to prescribe methods for charging costs.

EXPLANATION OF EXHIBIT C-1

The totals for General and Administrative expenses and all other costs are taken directly from Exhibit C. General and Administrative expenses (\$62,200) are divided by the total of All Other Costs (\$637,900), resulting in an indirect cost rate of 9.8%. This rate is expressed as a percentage of total direct costs, less capital expenditures. However, if the institution is a Community Action Agency, then the General and Administrative expenses (\$62,200) must first be reduced by any funds received under Section 221, Economic Opportunity Act of 1964, as amended, which were required to be accounted for by the Office of Economic Opportunity as Account 01 funds.

As in Exhibit A-1, the rate could be expressed as a percentage of direct salaries and wages, by using as the denominator of the rate computation only the salaries and wages included in the \$637,900 of All Other Costs.

EXHIBIT C-1
SAMPLE INDIRECT COST RATE PROPOSAL FORMAT - DIRECT ALLOCATION METHOD*
A NON-PROFIT INSTITUTION
COMPUTATION OF INDIRECT COST RATE
FOR THE YEAR ENDED _____

General and Administrative Expenses	\$62,200	
		(A)
All Other Costs		
Program A	\$312,240	
Program B	70,055	
Research Program	101,525	
Fund Raising	154,080	
		(B)

Indirect Cost Rate

$$A \div B = \frac{\$62,200}{\$637,900} = 9.8\% \text{ of total direct costs, less capital expenditures}$$

¹ Community Action Agencies must reduce the General and Administrative Expenses total by any allowable costs borne by Section 221, Economic Opportunity Act of 1964, as amended, which were required to be accounted for by the Office of Economic Opportunity as Account 01 funds.

*This is a sample only, and is not intended to prescribe methods for charging costs.

APPENDIX 2
PROCEDURES FOR SETTLEMENT
OF INDIRECT COSTS ON DHEW PROJECT
GRANTS WITH FINAL NEGOTIATED RATES

APPENDIX 2

PROCEDURES FOR SETTLEMENT OF INDIRECT COSTS ON DHEW PROJECT GRANTS WITH FINAL NEGOTIATED RATES

Introduction

The purpose of this Appendix is to define procedures for implementing requirements of Chapter 6-150 of the DHEW Grants Administration Manual. The chapter relates to the award and settlement of indirect costs on DHEW project grants and the method for effecting settlement of claims for unrecovered indirect costs resulting from the establishment of final negotiated rates. Institutions receiving grant support from the Department of Health, Education, and Welfare must abide by these procedures in the preparation and submission of the Summary Report of Expenditure Adjustment Sheets so that the review, validation and subsequent settlement of submissions may be accomplished in a timely manner.

Grants to be Reported

- A. When a final indirect cost rate is established, the grantee institution is expected to initiate any adjustments resulting therefrom. Reference should be made to the subsequent section of this Appendix, Method of Reporting, to determine the procedures to be used in identifying grants requiring adjustment. All project grants governed by a final indirect cost rate negotiation agreement shall be reported whether an adjustment is due or not. Upward adjustments will not be considered if a final Report of Expenditures has not been previously submitted.
- B. Certain research grants are subject to statutory or administrative limitations as indicated:
 1. Grants with award dates from July 1, 1965 through October 17, 1965 are limited to actual indirect costs or 20% of TDC, whichever is the lesser. The limitation is effective only for the budget period of the award. Related continuation grants will follow the policy stated in paragraph B.3. below.
 2. Continuation and competing new and renewal grants awarded October 18, 1965 through February 28, 1966 are limited to 90% of actual indirect costs or 20% of total direct costs, whichever is the lesser.
 3. Continuation grants related to projects, the initial year of which was awarded prior to March 1, 1966, shall be limited to the lesser of 90% of actual indirect costs or 20% of total direct costs. It should be noted that the award date, not the start date of the budget period, is controlling for purposes of determining the applicable time period.
 4. Grants that received a reduced indirect cost award due to the absence of a negotiated indirect cost rate agreement will have adjustments computed on a pro rata basis subject to the number of months indirect costs was allowed.
- C. Institutions with fixed or predetermined rates may still be eligible for settlement under these procedures. The criteria for determining settlement eligibility is based upon the grantee receiving full indirect cost entitlement for each qualified grant using the appropriate negotiated rates for the grant period involved. If full indirect costs have not been received, then the summary listings should be completed and submitted in accordance with the procedures contained in this Appendix.

Period to be Reported

Grantees shall use the Summary Adjustment Sheet for all grant budget years beginning on or after July 1, 1965. Adjustments shall be reported for terminal years of grants as well as preceding years. Separate Summary Adjustment Sheets shall be submitted for each *Federal fiscal year* and will contain grants applicable to that year only.

Method of Reporting

- A. All project grants will be listed on the Summary Report of Expenditures Adjustment Sheet in accordance with the format shown in the attached Appendix 2a. A separate adjustment sheet will be prepared for each Agency for each *Federal fiscal year* showing only those grants having a budget period start within that fiscal year. Grants shall be arranged in numerical order by transaction number. When more than one rate applies to the same grant budget year, the report data applicable to each rate used must be shown on separate lines of

the same page. Expenditures are to be shown to the nearest whole dollar by rounding upwards for \$.50 or above and dropping amounts of \$.49 or less. The columns headed "IC Adjustment," "Cost Sharing" and "Net IC Adjustment" shall be totaled for each Agency. As a further aid in identifying information requested under the summary report headings, explanatory footnotes have been included on the sample report form.

- B. To assist grantee institutions in reporting project grants and expedite the processing of Summary Report of Expenditures Adjustment Sheets, the National Institutes of Health will provide separate tabulated lists by *Federal fiscal year* of NIH grants and grants from certain other organizational components of the Public Health Service subject to adjustment. Listings from this source will be forwarded and will be in the same format as Appendix 2a. Sufficient space will be provided beneath each heading for insertion of required data. The grantee may return reproduced copies of this form as its completed submission. Due to the possibilities of omissions occurring in such listings, the responsibility for reporting all project grants remains with the grantee. It will also be the responsibility of the grantee institution to prepare separate adjustment sheets for each DHEW agency not represented on the tabulated lists provided to it by NIH.

Accountability of Settlement Funds

- A. When validation (by DHEW Agency) of the Summary Report of Expenditures Adjustment Sheets for each fiscal year or series of fiscal years has been accomplished, the resulting payment or collection of funds for all DHEW Agencies will be handled through the Office of Financial Management, National Institutes of Health. A single Treasury Check or Bill of Collection will be sent to each grantee institution based upon the net total dollars of indirect cost adjustments submitted and approved. All financial transactions will be processed outside the Departmental Federal Assistance Financing System rather than through normal grant payment/collection procedures. Therefore, to maintain a reconciling balance with grant funds previously received from DHEW, grantee institutions are instructed to charge an account other than the original grant account with any indirect cost settlement funds received or disbursed. Supplemental award notices will not be issued for upward adjustments.
- B. After the adjustment sheet is submitted, neither increases nor decreases in indirect costs due to the application of final negotiated rates are to be reflected in any way on individual Report of Expenditures previously submitted and/or processed. Adjustments to direct costs will continue to be reported in the usual manner.

Transmittal Requirements

- A. When final indirect cost rates are negotiated, the DHEW Office of the Regional Comptroller will remind grantees of the requirement to submit a Summary Report of Expenditures Adjustment Sheet within one (1) year from the date of execution of the negotiation agreement. If Summary Report of Expenditures Adjustment Sheets are not received within the time limitation, upward adjustment of indirect costs will not be considered.
- B. The grantee will prepare an original and two (2) copies of the Summary Adjustment Report, certify to the accuracy and completeness of the data reported, and forward to the following address:

Department of Health, Education, and Welfare
National Institutes of Health
Office of Financial Management
Indirect Cost Management Section
Building 31, Room B1B07
Bethesda, Maryland 20014

Acknowledgement will be sent the grantee institution upon receipt of their submission. Copies of the Summary Adjustment Report will be distributed by NIH to the applicable Regional Audit Office and to each awarding Agency.

- C. Direct inquiry regarding the subject material contained herein may be made by contacting the Indirect Cost Management Section on (301) 496-5315.

SUMMARY REPORT OF EXPENDITURES
ADJUSTMENT SHEET

Institution Various
Address Anywhere, U.S.A.

I/C Rate Alternative 1(B)
Adjustment Period (Fed. Fiscal Year) 7/1/65-6/30/66

Transaction Number	Grant Number & Governing Date	Grant Budget Period		Allowable Cost Base		Final I/C Rate		Allowable IC Amount	I/C Paid Per ROE	I/C Adjustment	Cost Sharing	Net I/C Adjustment
		From	To	TDC	S&W	TDC-%	S&W-%					
(1)	(2)	(3)		(4)		(5)	(6)	(7)				
	National Institutes of Health											
(A) 01-010000	1-R01-HE-10000-01	8/1/65	7/31/66	\$20,000	\$8,000		40.00	\$3,200	\$2,400	\$800	\$-0-	\$800
(B) 02-020000	5-R01-HE-20000-02 GD 3/1/65	3/1/66	2/28/67	20,000	8,000		(90% x 30.00)	2,160	3,600	(1,440)	-0-	(1,440)
(C) 01-030000	1-R01-AM-60000-01	4/1/66	3/31/67	20,000	8,000		60.00	4,800	3,200	1,600	80	1,520
(D) 01-031000	1-R01-AM-40000-01	12/1/65	11/30/66	20,000	8,000		20.00	4,000	4,000	-0-	-0-	-0-
(E) 01-040000	1-R01-AM-50000-01	5/1/66	4/30/67	20,000	8,000		40.00	3,200	4,000	(800)	(40)	(760)
										<u>\$160</u>	<u>\$40</u>	<u>\$120</u>

NOTES:

- General - Prepare separate adjustment sheet for each Agency (Office of Education, NIH, SRS, etc.). Show amounts to nearest whole dollar.
- (1) Obtain number from award statement; arrange in numerical order by five digits of transaction number.
 - (2) Governing Date - For continuing projects for which the original award was made before March 1, 1966, indicate basic award date.
 - (3) Record allowable cost base chargeable to grant; if base different from TDC or S&W, state the formula used.
 - (4) Show a line entry for each different indirect cost rate used for a grant.
 - (5) The allowable IC amount for grants subject to statutory or administrative limitations should show only the amount allowable up to the limitation. The allowable amount in these instances should be footnoted and explained.
 - (6) Record amount of indirect cost paid to your institution as shown on the annual report of expenditures.
 - (7) If cost sharing was reflected in previous indirect cost amount claimed, compute amount to enter in this column by multiplying dollars of IC adjustment x cost sharing rate. Disregard this column if an institutional cost sharing method is used rather than cost sharing by individual grant for the period indicated.
 - (8) Rate alternative 3 is mandatory for use on all grants awarded after July 1, 1971. Rate alternative 3 means that the indirect cost rates established for the period in which direct expenditures are actually made are applied to those expenditures. That means that each grant budget year that does not coincide with a grantee's fiscal year will always have two indirect cost rates applicable to each grant budget year. Prior to July 1, 1971, grantees could also elect to use either Rate alternative 2 or 1. Rate alternative 2 required that the indirect cost rate established for the fiscal period in which the preponderance (in time) of the grant budget year occurred was applied to the entire grant budget year. Rate alternative 1 required that the indirect cost rate established for the fiscal year in which the grant budget year began be applied to the entire grant budget year.
- (A) Provisional rate of 30% S&W was finalized at 40% S&W (IC amount using final rate is less than 20% TDC).
 (B) Provisional rate of 50% S&W was finalized at 30% S&W (90/20 policy applies, claim limited to 90% x final rate x S&W).
 (C) Provisional rate of 40% S&W was finalized at 60% S&W (cost shared through individual cost sharing agreement - 5% of total project costs).
 (D) Provisional rate of 60% S&W was finalized at 70% S&W (90/20 policy applies, claim limited to 20% TDC).
 (E) Provisional rate of 50% S&W was finalized at 40% S&W (cost shared 5% through individual cost sharing agreement).

I hereby certify that the above information is true, complete and accurate to the best of my knowledge and that expenditures reported have been made in accordance with appropriate grant policies.

Signature & Title

Date

APPENDIX 3
SAMPLE
NEGOTIATION AGREEMENT

SUMMARY REPORT OF EXPENDITURES
ADJUSTMENT SHEET

Institution Various I/C Rate Alternative 1(8)
Address Anywhere, U.S.A. Adjustment Period (Fed. Fiscal Year) 7/1/65-6/30/66

Transaction Number	Grant Number & Governing Date	Grant Budget Period		Allowable Cost Base		Final I/C Rate		Allowable IC Amount	I/C Paid Per ROE	I/C Adjustment	Cost Sharing	Net I/C Adjustment
		From	To	TDC	S&W	TDC-%	S&W-%					
(1)	(2)	(3)		(4)		(5)	(6)	(7)				
	National Institutes of Health											
(A) 01-010000	1-R01-HE-10000-01	8/1/65	7/31/66	\$20,000	\$8,000		40.00	\$3,200	\$2,400	\$800	\$-0-	\$800
(B) 02-020000	5-R01-HE-20000-02 GO 3/1/65	3/1/66	2/28/67	20,000	8,000		90% x 30.00	2,160	3,600	(1,440)	-0-	(1,440)
(C) 01-030000	1-R01-AM-60000-01	4/1/66	3/31/67	20,000	8,000		60.00	4,800	3,200	1,600	80	1,520
(D) 01-031000	1-R01-AM-40000-01	12/1/65	11/30/66	20,000	8,000		20.00	4,000	4,000	-0-	-0-	-0-
(E) 01-040000	1-R01-AM-50000-01	5/1/66	4/30/67	20,000	8,000		40.00	3,200	4,000	(800)	(40)	(760)
										<u>\$160</u>	<u>\$40</u>	<u>\$120</u>

NOTES:

General - Prepare separate adjustment sheet for each Agency (Office of Education, NIH, SRS, etc.). Show amounts to nearest whole dollar.

- (1) Obtain number from award statement; arrange in numerical order by five digits of transaction number.
- (2) Governing Date - For continuing projects for which the original award was made before March 1, 1966, indicate basic award date.
- (3) Record allowable cost base chargeable to grant; if base different from TDC or S&W, state the formula used.
- (4) Show a line entry for each different indirect cost rate used for a grant.
- (5) The allowable IC amount for grants subject to statutory or administrative limitations should show only the amount allowable up to the limitation. The allowable amount in these instances should be footnoted and explained.
- (6) Record amount of indirect cost paid to your institution as shown on the annual report of expenditures.
- (7) If cost sharing was reflected in previous indirect cost amount claimed, compute amount to enter in this column by multiplying dollars of IC adjustment x cost sharing rate. Disregard this column if an institutional cost sharing method is used rather than cost sharing by individual grant for the period indicated.
- (8) Rate alternative 3 is mandatory for use on all grants awarded after July 1, 1971. Rate alternative 3 means that the indirect cost rates established for the period in which direct expenditures are actually made are applied to those expenditures. That means that each grant budget year that does not coincide with a grantee's fiscal year will always have two indirect cost rates applicable to each grant budget year. Prior to July 1, 1971, grantees could also elect to use either Rate alternative 2 or 1. Rate alternative 2 required that the indirect cost rate established for the fiscal period in which the preponderance (in time) of the grant budget year occurred was applied to the entire grant budget year. Rate alternative 1 required that the indirect cost rate established for the fiscal year in which the grant budget year began be applied to the entire grant budget year.

- (A) Provisional rate of 30% S&W was finalized at 40% S&W (IC amount using final rate is less than 20% TDC).
- (B) Provisional rate of 50% S&W was finalized at 30% S&W (90/20 policy applies, claim limited to 90% x final rate x S&W).
- (C) Provisional rate of 40% S&W was finalized at 60% S&W (cost shared through individual cost sharing agreement - 5% of total project costs).
- (D) Provisional rate of 80% S&W was finalized at 70% S&W (90/20 policy applies, claim limited to 20% TDC).
- (E) Provisional rate of 50% S&W was finalized at 40% S&W (cost shared 5% through individual cost sharing agreement).

I hereby certify that the above information is true, complete and accurate to the best of my knowledge and that expenditures reported have been made in accordance with appropriate grant policies.

Signature & Title

Date

APPENDIX 3
SAMPLE
NEGOTIATION AGREEMENT

**NEGOTIATION AGREEMENT
NON-PROFIT INSTITUTIONS**

Date August 23, 1975

INSTITUTION: Commission for Accreditation of
Research Laboratories, Inc.
3738 - 9th Street
Chicago, Illinois 60638

FILING REF.: This replaces
Negotiation Agreement
dated August 4, 1974

The Indirect cost rate(s) contained herein is for use on grants and contracts with the Department of Health, Education, and Welfare subject to the conditions contained in Section II.

SECTION I: RATES

Type	Effective Period		Rate*	Locations	Applicable To
	From	To			
Final	1/1/73	12/31/73	15.8%	All	All Programs
Final	1/1/74	12/31/74	17.4%	All	All Programs
Provisional	1/1/75	Until Amended	17.4%	All	All Programs

*Base: Total direct salaries and wages excluding fringe benefits.

Treatment of Fringe Benefits: Fringe benefits applicable to direct salaries and wages are treated as direct costs.

NA-1(N)
9/73

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SECTION II: General

- A. **LIMITATIONS:** Use of the rate(s) contained in this agreement is subject to any statutory or administrative limitations and is applicable to a given grant or contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated on the conditions: (1) that no costs other than those incurred by the Grantee/Contractor were included in its indirect cost pool as finally accepted and that such costs are legal obligations of the Grantee/Contractor and allowable under the governing cost principles, (2) that the same costs that have been treated as indirect costs are not claimed as direct costs, (3) that similar types of costs have been accorded consistent accounting treatment, and (4) that the information provided by the Grantee/Contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially incomplete or inaccurate.
- B. **ACCOUNTING CHANGES:** If a fixed or predetermined rate(s) is contained in this agreement, it is based on the accounting system in effect at the time the proposal was prepared and the agreement was negotiated. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this rate(s) require the prior approval of the office responsible for negotiating the rate(s) on behalf of DHEW. Such changes include but are not limited to changes in the charging of a particular type of cost from indirect to direct. Failure to obtain such approval may result in subsequent cost disallowances.
- C. **FIXED RATES:** If a fixed rate is contained in this agreement, it is based on an estimate of the costs which will be incurred during the period to which the rate applies. When the actual costs for such period have been determined, an adjustment will be made in a subsequent negotiation to compensate for the difference between those costs used to establish the fixed rate and actual costs.
- D. **REIMBURSEMENT:** Indirect cost reimbursement on all DHEW awards made subsequent to June 30, 1971 will be determined based upon the indirect cost rates established for the fiscal period in which the applicable direct expenditures are incurred. For grants awarded prior to 7/1/71 the institution elected rate alternative number 3.
- E. **NOTIFICATION TO FEDERAL AGENCIES:** Copies of this document may be provided to other Federal offices as a means of notifying them of the agreement contained herein.
- F. **SPECIAL REMARKS:** None

By the Institution

Raymond L. Sikes /s/

Raymond L. Sikes

Name

President

Title

September 1, 1975

Date

By the Department of Health, Education,
and Welfare

John J. Hansen /s/

John J. Hansen

Name

Regional Comptroller

Title

September 7, 1975

Date

Negotiated by William A. Lederer

Telephone (312) 353-7461

APPENDIX 4
GUIDELINES FOR USE IN ESTABLISHING FIXED
INDIRECT COST RATES WITH CARRY-FORWARD PROVISION

APPENDIX 4

GUIDELINES FOR USE IN ESTABLISHING FIXED INDIRECT COST RATES WITH CARRY-FORWARD PROVISION

The guidelines set forth herein shall govern the establishment of fixed indirect cost rates utilizing a carry-forward provision. They are as comprehensive as possible at this time; in the event, however, of situations not specifically covered herein, the institution should request clarification from the appropriate Department of Health, Education, and Welfare Regional Comptroller cited in Section I. This guideline is meant to describe the procedures for effecting the Carry-Forward Provision and to identify situations (not necessarily all situations) under which application of the Carry-Forward Provision would not be appropriate. The guideline is not meant to imply that the use of the Carry-Forward Provision is mandatory either on the Federal Government or the grantee/contractor institution.

- I. The Carry-Forward Provision shall not be used as a device the purpose of which is to transfer unrecovered costs under one or more contracts and grants to other contracts and grants.
- II. An indirect cost rate(s) with a Carry-Forward Provision will not be utilized when all or a substantial portion of the Federal grants/contracts which provide for indirect cost reimbursement to an institution will expire or be terminated before the Carry-Forward can be effected.
- III. Indirect cost rates with Carry-Forward Provision will be negotiated only for periods coincident with an institution's fiscal year.
- IV. For purposes of computing under or over recovery in a given rate period it will be assumed that reimbursement of indirect costs for that period was made at the fixed rate irrespective of actual dollar recovery. (NOTE: In unusual cases the dollar recovery may exceed the fixed rate recovery; the principles still apply.)
- V. The Carry-Forward will be accomplished by application of the following formula:

$$(ab - c) - db = c'$$

Where:

- a = Fixed rate established for a given fiscal period
- b = Direct cost base experienced during the fixed rate period
- c = Dollar amount of Carry-Forward from prior period
- c' = Dollar amount of Carry-Forward for next negotiated period
- d = Negotiated actual rate for the given fiscal period covered by rate (a).

Example:

- 1) Given that in FY 1973, the year prior to the initial year in which this Carry-Forward procedure is to be utilized, institution XYZ experienced an actual indirect cost rate of 40% of direct salaries and wages: total indirect costs of \$3,200,000 ÷ total direct salaries and wages of \$8,000,000.

In the absence of data indicating a material change in the institution's level of operations during its next fiscal year, it is agreed that the 40% rate will be fixed, with Carry-Forward Provision, for the institution's FY 1974 and, to maximize the administrative advantages of the procedure the period of applicability is extended through the institution's FY 1975.

- 2) Sometime after June 30, 1974, it is determined that the institution's actual rate for its FY 1974 was 43% of direct salaries and wages: total indirect costs of \$4,300,000 ÷ total direct salary and wages of \$10,000,000. To determine the Carry-Forward amount the aforementioned formula is applied:

$$(ab - c) - db = c'$$

$$\text{Substituting: } (40\% \times \$10,000,000 - 0) - 43\% \times \$10,000,000 = c'$$

$$\text{Simplifying } \$4,000,000 - \$4,300,000 = -\$300,000$$

Since the minus sign indicates an underrecovery of \$300,000 by the institution during fiscal 1974, the \$300,000 is added to the previously determined pool of \$4,300,000. The resultant rate of 46% (\$4,600,000/\$10,000,000) is fixed for the institution's FY 1976. (NOTE: Since fiscal 1975 has already been fixed it is not possible to reopen the rate for that year).

- 3) Sometime after June 30, 1975 it is determined that the institution's actual rate for its FY 1975 was 41% of direct salaries and wages: total indirect costs of \$3,690,000 ÷ total direct salaries and wages of \$9,000,000. Again applying the formula:

$$(ab - c) - db = c'$$

$$(40\% \times \$9,000,000 - 0) - 41\% \times \$9,000,000 = c'$$

$$\$3,600,000 - \$3,690,000 = -\$90,000$$

Again, the institution has an underrecovery, this time in the amount of \$90,000. Thus, \$90,000 is added to the already determined pool of \$3,690,000 and a fixed rate of 42% (\$3,780,000/\$9,000,000) is established for the institution's FY 1977. (NOTE: As in paragraph 2 above, c has a value of zero dollars since the base year, 1973, had no Carry-Forward element).

- 4) Sometime after June 30, 1976 it is determined that the institution's actual rate for FY 1976 was 39% of direct salaries and wages: total indirect costs of \$3,627,000 ÷ total indirect salaries and wages of \$9,300,000. Again applying the formula:

$$(ab - c) - db = c'$$

$$(46\% \times \$9,300,000 - \$300,000) - 39\% \times \$9,300,000 = c'$$

$$(\$4,278,000 - \$300,000) - \$3,627,000 = c'$$

$$\$3,978,000 - \$3,627,000 = +\$351,000$$

In fiscal 1976 the institution had an overrecovery of \$351,000. Thus, a fixed rate of 35.2% (\$3,627,000 - \$351,000 divided by the \$9,300,000 base) is established for the institution's FY 1978.

It is important to understand that c' becomes c in the period during which the dollars are carried forward and that c is always expressed as a dollar amount. The latter is necessary since the base will inevitably vary from period to period and consequently the differential if expressed as a percentage rather than a dollar amount would produce a distortion.

- VI As a general rule, the last actual rate (adjusted for any Carry-Forward from a prior period) agreed to by the Department of Health, Education, and Welfare Regional Comptroller and the institution will be used as the fixed rate for the next stipulated future period. However, where there is knowledge that an institution's level of operations or mix of Federal support will materially change during such period, the change will be duly considered in establishing the fixed rate.

VII. In the event that an institution has a multiple rate structure developed on discrete bases, recovery will be assumed to be at the appropriate fixed rate against the corresponding base. The fixing of rates under a given rate structure in a given year shall not preclude a later combination of such rates, or, conversely, establishment of further discrete rates, for future periods.

VIII. When the actual rate for a period is found to materially vary from the rate which was fixed for that period, and the resulting dollar variation is so great as to cause an unreasonable distortion in the next rate period's overhead pool, the variation may be carried forward to the next two rate periods. However, this procedure may not be used if its ultimate effect will be the intensification of variances in future periods.

IX. With respect to those institutions which currently have predetermined indirect cost rates (only applicable where grants only have been awarded), the Carry-Forward Provision shall not be utilized until the beginning of the institution's fiscal year following the terminal date of the predetermined rate period. In the event that the terminal date of the predetermined rate period does not coincide with the end of the institution's regular fiscal year, the application of the Carry-Forward Provision will only be effective against the base costs incurred from the terminal date of the predetermined rate period until the end of the institution's regular fiscal year. In any succeeding years in which the terminal date is different from the fiscal year ending date, the bases will be adjusted accordingly. As a matter of policy, fixed rates will only be established for periods coincident with the institution's fiscal year.

X. To preclude inequities to the Government and the institution, and institution may not change its costing procedures (including its classification of costs as direct or indirect) without the written approval of the Department of Health, Education, and Welfare Regional Comptroller. Such change(s) should preferably be made effective at the beginning of a fixed rate period; if effective at a different time, the Department of Health, Education, and Welfare shall not be, but the institution may be liable for any difference in resulting cost.

XI. In the event an off-site or other special rate is determined as a derivative of the on-site rate (i.e. the rate is determined by eliminating selected elements of the indirect cost pool without establishing a corresponding discrete base), it will be assumed that recovery was made at the on-site rate. The carry forward should be computed as follows:

- Fixed rates with carry forward provision are agreed to for the first time for the institution's FY 1974. In the absence of data indicating a material change in the institution's level of operations from FY 1973 to FY 1974 it is further agreed that the fixed rates for FY 1974 will be based on FY 1973 experience.

Fixed Rates for FYE 6/30/74

On-Site	40%
Off-Site	24%

- Sometime after 6/30/74, the actual rates for FYE 6/30/74 are negotiated as well as the total direct salary and wage base for FYE 6/30/74.

Negotiated Rates and Base for FYE 6/30/74

	<u>Rate</u>	<u>Pool</u>	<u>Base</u>
On-Site	43%	\$4,300,000(a)	
Off-Site	26%	\$2,600,000(a)	
Base			\$10,000,000(a)

(a) In negotiating actual rates for FYE 6/30/74, agreement must also be reached on a negotiated base. The negotiated base amount is needed to determine the carry forward amount. It is not necessary to know individually negotiated elements that make up either the on-site or off-site pool. The negotiated pools for on-site and off-site are determined by applying the negotiated rates to the negotiated base. In this illustration, the negotiated pools are only needed if FYE 6/30/74 negotiated data is used in the computation of fixed rates for FYE 6/30/76.

- The FYE 6/30/74 carry forward is computed.

	<u>Fixed</u>	<u>Negotiated</u>	<u>Diff. (c)</u>	<u>Base (d)</u>	<u>Carry Forward (c)x(d)</u>
Off-Site Rate	24%	26%	2%	\$10,000,000	\$200,000
Portion of rate applicable to On-Site only	16	17	1	\$10,000,000	100,000
On-Site Rate	40%	43%	3%(b)	\$10,000,000	\$300,000(a)

(a) The \$300,000 underrecovery is carried forward to FYE 6/30/76 and used in determining the FYE 6/30/76 fixed rate.

(b) The difference between the fixed and negotiated on-site rate applied to the negotiated base to arrive at the carry forward assumes that recovery was made at the on-site rate.

- A fixed rate is determined for FYE 6/30/76 prior to the beginning of that fiscal year.

	<u>Negotiated for FYE 6/30/74 (a)</u>	<u>Carry Forward from FYE 6/30/74</u>	<u>Total</u>	<u>Fixed Rate for FYE 6/30/76</u>
Off-Site	\$ 2,600,000	\$200,000	\$ 2,800,000	28%
Portion of rate/pool applicable to On-Site only	1,200,000	100,000	1,800,000	18
On-Site	\$ 4,300,000	\$300,000	\$ 4,600,000	46%
Base	\$10,000,000		\$10,000,000	

(a) FYE 6/30/74 data need not be used. More current data may be used where available. However, more current data must be expressed, at a minimum, in terms of dollars for the base, for the off-site pool and for the on-site pool.

- Sometime after 6/30/76, the actual rates for FYE 6/30/76 are negotiated as well as the total direct salary and wage base for FYE 6/30/76.

Negotiated Rates and Base for FYE 6/30/76

	<u>Rate</u>	<u>Pool</u>	<u>Base</u>
On-Site	39%	\$3,627,000(a)	
Off-Site	22%	\$2,046,000(a)	
Base			\$9,300,000

(a) Same as footnote (a) under 2. above.

a. The FYE 6/30/76 carry forward is computed.

	Grantee Received in FYE 6/30/76			Grantee Should Have Received in FYE 6/30/76			Carry Forward
	Fixed Rate	FY 1976 Base	Indirect Costs	FYE 1974 Carry Forward	Negotiated	Total Indirect Costs	
Off-Site	28%	\$9,300,000	\$2,604,000	\$200,000	\$2,045,000	\$2,246,000	(\$358,000)
Portion of rate/ pool applicable							
to On-site only	18%	\$9,300,000	1,674,000	100,000	1,581,000	1,681,000	7,000
On-Site	48%	\$9,300,000	\$4,278,000(b)	\$300,000	\$3,627,000	\$3,927,000	(\$351,000)(a)

(a) The \$351,000 overrecovery is carried forward to FYE 6/30/78 and used in determining the FYE 6/30/78 fixed rate.

(b) It has been assumed that recovery was made at the on-site rate.

7. These computations have been restructured to illustrate a carry forward process that began in FYE 6/30/74 and the fiscal years that were subsequently affected by the initial fixing of the indirect cost rate. A similar cycle would have been initiated for the FYE 6/30/75 and subsequent years.

OFFICE OF THE ASSISTANT SECRETARY, COMPTROLLER CURRENTLY EFFECTIVE INDIRECT COST AND GRANT POLICY PUBLICATIONS

GRANTS ADMINISTRATION MANUAL—Department Staff Manual

BOABOY (Revised)	A GUIDE FOR COLLEGES AND UNIVERSITIES—Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare
OASC-3 (Revised)	A GUIDE FOR HOSPITALS—Cost Principles and Procedures for Establishing Indirect Cost and Patient Care Rates for Grants and Contracts with the Department of Health, Education, and Welfare
OASC-5 (Revised)	A GUIDE FOR NON-PROFIT INSTITUTIONS—Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare
OASC-10	A GUIDE FOR STATE AND LOCAL GOVERNMENT AGENCIES—Cost Principles and Procedures for Establishing Cost Allocation Plans, Indirect Cost and Other Rates for Grants and Contracts with the Federal Government

¹All of these publications are available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

²The publication Revised OASC-5, A Guide for State Government Agencies; OASC-5, A Guide for Local Government Agencies; and OASC-10, A Reference for State and Local Governments—Federal Agencies Responsible for Audit and Approval of Cost Allocation Plans Required by BOB Circular A-87.

Prepared by:
Division of Financial Management Standards & Procedures
Washington, D.C. 20201

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

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**TITLE IV—GRANTS TO STATES FOR AID AND SERVICES
TO NEEDY FAMILIES WITH CHILDREN AND FOR
CHILD-WELFARE SERVICES**

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¹ This table of contents does not appear in the law.

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Part A—Aid to Families With Dependent Children

Appropriation

Section 401. For the purpose of encouraging the care of dependent children in their own homes or in the homes of relatives by enabling each State to furnish financial assistance and rehabilitation and other services, as far as practicable under the conditions in such State, to needy dependent children and the parents or relatives with whom they are living to help maintain and strengthen family life and to help such parents or relatives to attain or retain capability for the maximum self-support and personal independence consistent with the maintenance of continuing parental care and protection, there is hereby authorized to be appropriated for each fiscal year a sum sufficient to carry out the purposes of this part. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Secretary of Health, Education, and Welfare, State plans for aid and services to needy families with children.

State Plans for Aid and Services to Needy Families With Children

Sec. 402. (a) A State plan for aid and services to needy families with children must—

- (1) provide that it shall be in effect in all political subdivisions of the State, and, if administered by them, be mandatory upon them;
- (2) provide for financial participation by the State;
- (3) either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan;

¹ This table of contents does not appear in the law.

(4) provide for granting an opportunity for a fair hearing before the State agency to any individual whose claim for aid to families with dependent children is denied or is not acted upon with reasonable promptness;

(5) provide such methods of administration (including after January 1, 1940, methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary to be necessary for the proper and efficient operation of the plan; and ¹

(6) provide that the State agency will make such reports, in such form and containing such information, as the Secretary may from time to time require, and comply with such provisions as the Secretary may from time to time find necessary to assure the correctness and verification of such reports;

(7) except as may be otherwise provided in clause (8), provide that the State agency shall, in determining need, take into consideration any other income and resources of any child or relative claiming aid to families with dependent children, or of any other individual (living in the same home as such child and relative) whose needs the State determines should be considered in determining the need of the child or relative claiming such aid, as well as any expenses reasonably attributable to the earning of any such income; ²

¹ In the case of Guam, Puerto Rico, and the Virgin Islands, Section 402(a)(5) reads as follows:

"(5) provide (A) such methods of administration (including after January 1, 1940, methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary to be necessary for the proper and efficient operation of the plan, and (B) for the training and effective use of paid subprofessional staff, with particular emphasis on the full-time or part-time employment of recipients and other persons of low income, as community services aides, in the administration of the plan and for the use of nonpaid or partially paid volunteers in a social service volunteer program in providing services to applicants and recipients and in assisting any advisory committees established by the State agency; and".

² P.L. 90-248, sec. 218(c), provides:

"Effective July 1, 1969, neither the provisions of clauses (A) through (C) of section 402(a)(7) of such Act as in effect before the enactment of this Act nor the provisions of section 402(a)(8) of such Act as amended by section 202(b) of this Act shall apply in the case of Puerto Rico, the Virgin Islands, or Guam. Effective no later than July 1, 1972, the State plans of Puerto Rico, the Virgin Islands, and Guam approved under section 402 of such Act shall provide for the disregarding of income in making the determination under section 402(a)(7) of such Act in amounts (agreed to between the Secretary and the State agencies involved) sufficiently lower than the amounts specified in section 402(a)(8) of such Act to reflect appropriately the applicable differences in income levels."

P.L. 93-647, sec. 101(c)(1), provides:

"Notwithstanding the provisions of section 402(a) of the Social Security Act, in addition to the amounts required to be disregarded under clause (8)(A) of such section, there is imposed the requirement (and the State plan shall be deemed to include the requirement) that for the 15 months beginning July 1, 1975, in making the determination under clause (7), the State agency shall with respect to any month in such year and in addition to the amounts required to be disregarded under clause (8)(A), disregard amounts payable under section 457(a)(1)."

(8) provide that, in making the determination under clause (7), the State agency—

(A) shall with respect to any month disregard—

(i) all of the earned income of each dependent child receiving aid to families with dependent children who is (as determined by the State in accordance with standards prescribed by the Secretary) a full-time student or part-time student who is not a full-time employee attending a school, college, or university, or a course of vocational or technical training designed to fit him for gainful employment, and

(ii) in the case of earned income of a dependent child not included under clause (i), a relative receiving such aid, and any other individual (living in the same home as such relative and child) whose needs are taken into account in making such determination, the first \$30 of the total of such earned income for such month plus one-third of the remainder of such income for such month (except that the provisions of this clause (ii) shall not apply to earned income derived from participation on a project maintained under the programs established by section 432(b)(2) and (3)); and

(B) (i) may, subject to the limitations prescribed by the Secretary, permit all or any portion of the earned or other income to be set aside for future identifiable needs of a dependent child, and (ii) may, before disregarding the amounts referred to in subparagraph (A) and clause (i) of this subparagraph, disregard not more than \$5 per month of any income; except that, with respect to any month, the State agency shall not disregard any earned income (other than income referred to in subparagraph (B)) of—

(C) any one of the persons specified in clause (ii) of subparagraph (A) if such person—

(i) terminated his employment or reduced his earned income without good cause within such period (of not less than 30 days) preceding such month as may be prescribed by the Secretary; or

(ii) refused without good cause, within such period preceding such month as may be prescribed by the Secretary, to accept employment in which he is able to engage which is offered through the public employment offices of the State, or is otherwise offered by an employer if the offer of such employer is determined by the State or local agency administering the State plan, after notification by him, to be a bona fide offer of employment; or

(D) any of such persons specified in clause (ii) of subparagraph (A) if with respect to such month the income of the per-

sons so specified (within the meaning of clause (7)) was in excess of their need as determined by the State agency pursuant to clause (7) (without regard to clause (8)), unless, for any one of the four months preceding such month, the needs of such person were met by the furnishing of aid under the plan;¹

(9) provide safeguards which restrict the use of disclosure of information concerning applicants or recipients to purposes directly connected with (A) the administration of the plan of the State approved under this part, the plan or program of the State under part B, C, or D of this title or under title I, X, XIV, XVI, XIX, or XX, or the supplemental security income program established by title XVI, (B) any investigation, prosecution, or criminal or civil proceeding, conducted in connection with the administration of any such plan or program, and (C) the administration of any other Federal or federally assigned program which provides assistance, in cash or in kind, or services, directly to individuals on the basis of need; and the safeguards so provided shall prohibit disclosure, to any committee or a legislative body, of any information which identifies by name or address any such applicant or recipient;²

(10) provide, effective July 1, 1951, that all individuals wishing to make application for aid to families with dependent children shall have opportunity to do so, and that aid to families with dependent children shall, subject to paragraphs (25) and (26), be furnished with reasonable promptness to all eligible individuals;³

(11) provide for prompt notice (including the transmittal of all relevant information) to the State child support collection agency (established pursuant to part D of this title) of the furnishing of aid to families with dependent children with respect to a child who has been deserted or abandoned by a parent (including a child born out of wedlock without regard to whether the paternity of such child has been established);³

(12) provide, effective October 1, 1950, that no aid will be furnished any individual under the plan with respect to any period with respect to which he is receiving old-age assistance under the State plan approved under section 2 of this Act;

(13) [Repealed].⁴

(14) [Repealed].⁴

(15) provide as part of the program of the State for the provision of services under title XX (A) for the development of a program, for each appropriate relative and dependent child receiving aid under the plan and for each appropriate individual (living in the same home as a relative and child receiving such aid) whose needs are taken into account in making the determination under clause (7), for preventing

¹ See also section 101(c) (1) of Public Law 93-647.

² Section 402(a) (9) was amended by Public Laws 93-647 and 94-88.

³ Sections 402(a) (10) and 402(a) (11) were amended by Public Law 93-647.

⁴ See footnote 1 on page 212.

or reducing the incidence of births out of wedlock and otherwise strengthening family life, and for implementing such program by assuring that in all appropriate cases (including minors who can be considered to be sexually active) family planning services are offered to them and are provided promptly (directly or under arrangements with others) to all individuals voluntarily requesting such services, but acceptance of family planning services provided under the plan shall be voluntary on the part of such members and individuals and shall not be a prerequisite to eligibility for or the receipt of any other service under the plan; and (B) to the extent that services provided under this clause or clause (14) are furnished by the staff of the State agency or the local agency administering the State plan in each of the political subdivisions of the State, for the establishment of a single organizational unit in such State or local agency, as the case may be, responsible for the furnishing of such services; ¹

(16) provide that where the State agency has reason to believe that the home in which a relative and child receiving aid reside is unsuitable for the child because of the neglect, abuse, or exploitation of such child it shall bring such condition to the attention of the appropriate court or law enforcement agencies in the State, providing such data with respect to the situation it may have;

(17) [Repealed].

(18) [Repealed].

(19) provide—

¹ In the case of Guam, Puerto Rico, and the Virgin Islands, section 402(a)(13), (14), and (15) read as follows:

"(13) provide a description of the services which the State agency makes available to maintain and strengthen family life for children, including a description of the steps taken to assure, in the provision of such services, maximum utilization of other agencies providing similar or related services;

"(14) provide for the development and application of a program for such family services as defined in section 406(d) and child welfare services, as defined in section 425, for each child and relative who receives aid to families with dependent children and each appropriate individual (living in the same home as a relative and child receiving such aid whose needs are taken into account in making the determination under clause (7)), as may be necessary in the light of the particular home conditions and other needs of such child, relative, and individuals, in order to assist such child, relative, and individuals to attain or retain capability for self-support and care and in order to maintain and strengthen family life and to foster child development;

"(15) provide (A) for the development of a program, for each appropriate relative and dependent child receiving aid under the plan and for each appropriate individual (living in the same home as a relative and child receiving such aid) whose needs are taken into account in making the determination under clause (7), for preventing or reducing the incidence of births out of wedlock and otherwise strengthening family life, and for implementing such program by assuring that in all appropriate cases (including minors who can be considered to be sexually active) family planning services are offered to them and are provided promptly (directly or under arrangements with others) to all individuals voluntarily requesting such services, but acceptance of family planning services provided under the plan shall be voluntary on the part of such members and individuals and shall not be a prerequisite to eligibility for or the receipt of any other service under the plan; and (B) to the extent that services provided under this clause or clause (14) are furnished by the staff of the State agency or the local agency administering the State plan in each of the political subdivisions of the State, for the establishment of a single organizational unit in such State or local agency, as the case may be, responsible for the furnishing of such service;"

(A) that every individual, as a condition of eligibility for and under this part, shall register for manpower services, training, and employment as provided by regulations of the Secretary of Labor, unless such individual is—

(i) a child who is under age 16 or attending school full time;

(ii) a person who is ill, incapacitated, or of advanced age;

(iii) a person so remote from a work incentive project that his effective participation is precluded;

(iv) a person whose presence in the home is required because of illness or incapacity of another member of the household;

(v) a mother or other relative of a child under the age of six who is caring for the child; or

(vi) the mother or other female caretaker of a child, if the father or another adult male relative is in the home and not excluded by clause (i), (ii), (iii), or (iv) of this subparagraph (unless he has failed to register as required by this subparagraph, or has been found by the Secretary of Labor under section 433(g) to have refused without good cause to participate under a work incentive program or accept employment as described in subparagraph (F) of this paragraph);

and that any individual referred to in clause (v) shall be advised of her option to register, if she so desires, pursuant to this paragraph, and shall be informed of the child care services (if any) which will be available to her in the event she should decide so to register;

(B) that aid under the plan will not be denied by reason of such registration or the individual's certification to the Secretary of Labor under subparagraph (G) of this paragraph, or by reason of an individual's participation on a project under the program established by section 432(b) (2) or (3);

(C) for arrangements to assure that there will be made a non-Federal contribution to the work incentive programs established by part C by appropriate agencies of the State or private organizations of 10 per centum of the cost of such programs, as specified in section 435(b);

(D) that (i) training incentives authorized under section 434, and income derived from a special work project under the program established by section 432(b) (3) shall be disregarded in determining the needs of an individual under section 402(a) (7), and (ii) in determining such individual's needs the additional expenses attributable to his participation in a program

established by section 432(b) (2) or (3) shall be taken into account;

(E) [Repealed].

(F) that if and for so long as any child, relative, or individual (certified to the Secretary of Labor pursuant to subparagraph (G)) has been found by the Secretary of Labor under section 433(g) to have refused without good cause to participate under a work incentive program established by part C with respect to which the Secretary of Labor has determined his participation is consistent with the purposes of such part C, or to have refused without good cause to accept employment in which he is able to engage which is offered through the public employment offices of the State, or is otherwise offered by an employer if the offer of such employer is determined, after notification by him, to be a bona fide offer of employment—

(i) if the relative makes such refusal, such relative's needs shall not be taken into account in making the determination under clause (7), and aid for any dependent child in the family in the form of payments of the type described in section 406(b) (2) (which in such a case shall be without regard to clauses (A) through (E) thereof) or section 408 will be made;

(ii) aid with respect to a dependent child will be denied if a child who is the only child receiving aid in the family makes such refusal;

(iii) if there is more than one child receiving aid in the family, aid for any such child will be denied (and his needs will not be taken into account in making the determination under clause (7)) if that child makes such refusal; and

(iv) if such individual makes such refusal, such individual's needs shall not be taken into account in making the determination under clause (7);

except that the State agency shall for a period of sixty days, make payments of the type described in section 406(b) (2) (without regard to clauses (A) through (E) thereof) on behalf of the relative specified in clause (i), or continue aid in the case of a child specified in clause (ii) or (iii), or take the individual's needs into account in the case of an individual specified in clause (iv), but only if during such period such child, relative, or individual accepts counseling or other services (which the State agency shall make available to such child, relative, or individual) aimed at persuading such relative, child, or individual, as the case may be,

to participate in such program in accordance with the determination of the Secretary of Labor; and

(G) that the State agency will have in effect a special program which (i) will be administered by a separate administrative unit and the employees of which will, to the maximum extent feasible, perform services only in connection with the administration of such program, (ii) will provide (through arrangements with others or otherwise) for individuals who have been registered pursuant to subparagraph (A), in accordance with the order of priority listed in section 433(a), such health, vocational rehabilitation, counseling, child care, and other social and supportive services as are necessary to enable such individuals to accept employment or receive manpower training provided under part C, and will, when arrangements have been made to provide necessary supportive services, including child care, certify to the Secretary of Labor those individuals who are ready for employment or training under part C, (iii) will participate in the development of operational and employability plans under section 433 (b); and (iv) provides for purposes of clause (ii), that, when more than one kind of child care is available, the mother may choose the type, but she may not refuse to accept child care services if they are available;

(20) effective July 1, 1960, provide for aid to families with dependent children in the form of foster care in accordance with section 408;

(21) [Repealed].

(22) [Repealed].

(23) provide that by July 1, 1969, the amounts used by the State to determine the needs of individuals will have been adjusted to reflect fully changes in living costs since such amounts were established, and any maximums that the State imposes on the amount of aid paid to families will have been proportionately adjusted;

(24) provide that if an individual is receiving benefits under title XVI, then, for the period for which such benefits are received, such individual shall not be regarded as a member of a family for purposes of determining the amount of the benefits of the family under this title and his income and resources shall not be counted as income and resources of a family under this title;

(25) provide (A) that, as a condition of eligibility under the plan, each applicant for or recipient of aid shall furnish to the State agency his social security account number (or numbers, if he has more than one such number), and (B) that such State agency shall utilize such

account numbers, in addition to any other means of identification it may determine to employ in the administration of such plan;¹

(26) provide that, as a condition of eligibility for aid, each applicant or recipient will be required—

(A) to assign the State any rights to support from any other person such applicant may have (i) in his own behalf or in behalf of any other family member for whom the applicant is applying for or receiving aid, and (ii) which have accrued at the time such assignment is executed,

(B) to cooperate with the State (i) in establishing the paternity of a child born out of wedlock with respect to whom aid is claimed, and (ii) in obtaining support payments for such applicant and for a child with respect to whom such aid is claimed, or in obtaining any other payments or property due such applicant or such child, unless (in either case) such applicant or recipient is found to have good cause for refusing to cooperate as determined by the State agency in accordance with standards prescribed by the Secretary, which standards shall take into consideration the best interests of the child on whose behalf aid is claimed; and that, if the relative with whom a child is living is found to be ineligible because of failure to comply with the requirements of subparagraphs (A) and (B) of this paragraph, any aid for which such child is eligible will be provided in the form of protective payments as described in section 406(b)(2) (without regard to subparagraphs (A) through (E) of such section);²

(27) provide, that the State has in effect a plan approved under part D and operate a child support program in conformity with such plan; and³

(28) provide that, in determining the amount of aid to which an eligible family is entitled, any portion of the amounts collected in any particular month as child support pursuant to a plan approved under part D, and retained by the State under section 457, which (under the State plan approved under this part as in effect both during July 1975 and during that particular month) would not have caused a reduction in the amount of aid paid to the family if such amounts had been paid directly to the family, shall be added to the amount of aid otherwise payable to such family under the State plan approved under this part.⁴

(b) The Secretary shall approve any plan which fulfills the conditions specified in subsection (a), except that he shall not approve any plan which imposes as a condition of eligibility for aid to families

¹ Sections 402(a)(25), 402(a)(26), and 402(a)(27) were added by Public Law 93-647.
² Section 402(a)(23) was amended by Public Law 94-88. See also sections 201(a), 201(b), and 208(d) of Public Law 94-88 printed in this document on pp. 765 and 766.
³ Section 402(a)(27) was amended by Public Law 94-88. See also section 201(a) of Public Law 94-88.
⁴ Section 402(a)(28) added by Public Law 94-88.

with dependent children a residence requirement which denies aid with respect to any child residing in the State (1) who has resided in the State for one year immediately preceding the application for such aid, or (2) who was born within one year immediately preceding the application, if the parent or other relative with whom the child is living has resided in the State for one year immediately preceding the birth.

(c) The Secretary shall, on the basis of his review of the reports received from the States under clause (15) of subsection (a), compile such data as he believes necessary and from time to time publish his findings as to the effectiveness of the programs developed and administered by the States under such clause. The Secretary shall annually report to the Congress (with the first such report being made on or before July 1, 1970) on the programs developed and administered by each State under such clause (15).

Payment to States

Sec. 403.¹ (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for aid and services to needy families with children, for each quarter, beginning with the quarter commencing October 1, 1958—

(1) in the case of any State other than Puerto Rico, the Virgin Islands, and Guam, an amount equal to the sum of the following proportions of the total amounts expended during such quarter as aid to families with dependent children under the State plan (including expenditures for premiums under part B of title XVIII for individuals who are recipients of money payments under such plan and other insurance premiums for medical or any other type of remedial care or the cost thereof)—

(A) five-sixths of such expenditures, not counting so much of any expenditure with respect to any month as exceeds the product of \$18 multiplied by the total number of recipients of aid to families with dependent children for such month (which total number, for purposes of this subsection, means (i) the number of individuals with respect to whom such aid in the form of money payments is paid for such month, plus (ii) the number of other individuals with respect to whom expenditures were made in such month as aid to families with dependent children in the form of medical or any other type of remedial care, plus (iii) the number of individuals, not counted under clause (i) or (ii), with respect to whom payments described in section 406(b)(2) are made in such month

¹ See also section 508 of P.L. 94-506 which is printed in this document on page 848.

and included as expenditures for purposes of this paragraph or paragraph (2)); plus

(B) the Federal percentage of the amount by which such expenditures exceed the maximum which may be counted under clause (A); not counting so much of any expenditure with respect to any month as exceeds (i) the product of \$32 multiplied by the total number of recipients of aid to families with dependent children (other than such aid in the form of foster care) for such month, plus (ii) the product of \$100 multiplied by the total number of recipients of aid to families with dependent children in the form of foster care for such month; and

(2) in the case of Puerto Rico, the Virgin Islands, and Guam, an amount equal to one-half of the total of the sums expended during such quarter as aid to families with dependent children under the State plan (including expenditures for premiums under part B of Title XVIII for individuals who are recipients of money payments under such plan and other insurance premiums for medical or any other type of remedial care or the cost thereof) not counting so much of any expenditure with respect to any month as exceeds \$18 multiplied by the total number of recipients of such aid for such month; and¹

(3) in the case of any State, an amount equal to the sum of the following proportions of the total amounts expended during such quarter as found necessary by the Secretary of Health, Education, and Welfare for the proper and efficient administration of the State plan—

(A) 75 per centum of so much of such expenditures as are for the training (including both short- and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the State agency or by the local agency administering the plan in the political subdivision, and

(B) one-half of the remainder of such expenditures, except that no payment shall be made with respect to amounts expended in connection with the provision of any service described in section 2002(a)(1) of this Act other than services the provision of

¹ Pursuant to sec. 9 of the Act of April 19, 1950 (84 Stat. 44, 47), the Secretary of the Treasury must also pay to the States, in addition to the amounts produced by sec. 403(a) of the Social Security Act, an amount equal to 80 percent of the State share of assistance expenditures under the State plan with respect to Navajo and Hopi Indians.

which is required by section 402(a) (19) to be included in the plan of the State; and

(4) [Repealed].

¹ In the case of Guam, Puerto Rico, and the Virgin Islands, section 403(a) (3) reads as follows:

"(3) In the case of any State, an amount equal to the sum of the following proportions of the total amounts expended during such quarter as found necessary by the Secretary of Health, Education, and Welfare for the proper and efficient administration of the State plan—

"(A) 75 per centum of so much of such expenditures as are for—

"(i) any of the services described in clauses (14) and (15) of section 402(a) which are provided to any child or relative who is receiving aid under the plan, or to any other individual (living in the same home as such relative and child) whose needs are taken into account in making the determination under clause (7) of such section,

"(ii) any of the services described in clauses (14) and (15) of section 402(a) which are provided to any child or relative who is applying for aid to families with dependent children or who, within such period or periods as the Secretary may prescribe, has been or is likely to become an applicant for or recipient of such aid,

"(iii) the training (including both short- and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the State agency or by the local agency administering the plan in the political subdivision.

"(B) one-half of the remainder of such expenditures.

"The services referred to in subparagraph (A) shall include only—

"(C) services provided by the staff of the State agency, or of the local agency administering the State plan in the political subdivision: *Provided*, That no funds authorized under this part shall be available for services defined as vocational rehabilitation services under the Vocational Rehabilitation Act (1) which are available to individuals in need of them under programs for their rehabilitation carried on under a State plan approved under such Act, or (ii) which the State agency or agencies administering or supervising the administration of the State plan approved under such Act are able and willing to provide if reimbursed for the cost thereof pursuant to agreement under subparagraph (D), if provided by such staff, and

"(D) under conditions which shall be prescribed by the Secretary, services which in the judgment of the State agency cannot be as economically or as effectively provided by the staff of such State or local agency and are not otherwise reasonably available to individuals in need of them, and which are provided, pursuant to agreement with the State agency, by the State health authority or the State agency or agencies administering or supervising the administration of the State plan for vocational rehabilitation services approved under the Vocational Rehabilitation Act or by any other State agency which the Secretary may determine to be appropriate (whether provided by its staff or by contract with public (local) or nonprofit private agencies); except that services described in clause (ii) of subparagraph (C) hereof may be provided only pursuant to agreement with such State agency or agencies administering or supervising the administration of the State plan for vocational rehabilitation services so approved; and except that, to the extent specified by the Secretary, child-welfare services, family planning services, and family services may be provided from sources other than those referred to in subparagraphs (C) and (D). The portion of the amount expended for administration of the State plan to which subparagraph (A) applies and the portion thereof to which subparagraph (B) applies shall be determined in accordance with such methods and procedures as may be permitted by the Secretary."

Section 248(b) of the Social Security Amendments of 1967 also applies:

"(b) Notwithstanding subparagraphs (A) and (B) of section 403(a) (3) of such Act (as amended by this Act), the rate specified in such subparagraphs in the case of Puerto Rico, the Virgin Islands, and Guam, shall be 60 per centum (rather than 75 or 85 per centum)."

(5) in the case of any State, an amount equal to 50 per centum of the total amount expended under the State plan during such quarter as emergency assistance to needy families with children.

The number of individuals with respect to whom payments described in section 403(b)(2) are made for any month, who may be included as recipients of aid to families with dependent children for purposes of paragraph (1) or (2), may not exceed 10 per centum of the number of other recipients of aid to families with dependent children for such month. In computing such 10 percent, there shall not be taken into account individuals with respect to whom such payments are made for any month in accordance with section 402(a)(19)(F) or section 402(a)(26).¹

(b) The method of computing and paying such amounts shall be as follows:

(1) The Secretary of Health, Education, and Welfare shall, prior to the beginning of each quarter, estimate the amount to be paid to the State for such quarter under the provisions of subsection (a), such estimate to be based on (A) a report filed by the State containing its estimate of the total sum to be expended in such quarter in accordance with the provisions of such subsection and stating the amount appropriated or made available by the State and its political subdivisions for such expenditures in such quarters; and if such amount is less than the State's proportionate share of the total sum of such estimated expenditures, the source or sources from which the difference is expected to be derived, (B) records showing the number of dependent children in the State, and (C) such other investigation as the Secretary may find necessary.

(2) The Secretary of Health, Education, and Welfare shall then certify to the Secretary of the Treasury the amount so estimated by the Secretary of Health, Education, and Welfare; (A) reduced or increased, as the case may be, by any sum by which the Secretary of Health, Education, and Welfare finds that his estimate for any prior quarter was greater or less than the amount which should have been paid to the State for such quarter; and (B) reduced by a sum equivalent to the pro rata share to which the United States is equitably entitled, as determined by the Secretary of Health, Education, and Welfare, of the net amount recovered during any prior quarter by the State or any political subdivision thereof with respect to aid to families with dependent children furnished under the State plan; except that such increases or reductions shall not be made to the extent that such

¹ Section 403(a) was amended by Public Law 94-88.

sums have been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Secretary of Health, Education, and Welfare for such prior quarter.

(3) The Secretary of the Treasury shall thereupon, through the Fiscal Service of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Secretary of Health, Education, and Welfare, the amount so certified.

(c) Notwithstanding any other provision of this Act, the Federal share of assistance payments under this part shall be reduced with respect to any State for any fiscal year after June 30, 1973, by one percentage point for each percentage point by which the number of individuals certified under the program of such State established pursuant to section 402(a)(19)(G), to the local employment office of the State as being ready for employment or training under part C, is less than 15 per centum of the average number of individuals in such State who, during such year, are required to be registered pursuant to section 402(a)(19)(A).

(d)(1) Notwithstanding subparagraph (A) of subsection (a)(3) the rate specified in such subparagraph shall be 90 per centum (rather than 75 per centum) with respect to social and supportive services provided pursuant to section 402(a)(19)(G).

(2) Of the sums authorized by section 401 to be appropriated for the fiscal year ending June 30, 1973, not more than \$750,000,000 shall be appropriated to the Secretary for payments with respect to services to which paragraph (1) applies.

(e) [Repealed].¹

(f) Notwithstanding any other provision of this section, the amount payable to any State under this part for quarters in a fiscal year shall with respect to quarters in fiscal years beginning after June 30, 1973, be reduced by 1 per centum (calculated without regard to any reduction under section 403(g)) of such amount if such State—

(1) in the immediately preceding fiscal year failed to carry out the provisions of section 402(a)(15)(B) as pertain to requiring the offering and arrangement for provision of family planning services; or

¹ In the case of Guam, Puerto Rico, and the Virgin Islands, section 403(e) reads as follows:

"(e) Notwithstanding any other provision of subsection (a), with respect to expenditures during any calendar quarter beginning after December 31, 1972 (as found necessary by the Secretary for the proper and efficient administration of the plan) which are attributable to the offering, arranging, and furnishing, directly or on a contract, of family planning services and supplies, the amount payable to any State under this part shall be 90 per centum of such expenditures."

(2) in the immediately preceding fiscal year (but, in the case of the fiscal year beginning July 1, 1972, only considering the third and fourth quarters thereof), failed to carry out the provisions of section 402(a)(15)(B) of the Social Security Act with respect to any individual who, within such period or periods as the Secretary may prescribe, has been an applicant for or recipient of aid to families with dependent children under the plan of the State approved under this part.

(g) Notwithstanding any other provision of this section, the amount payable to any State under this part for quarters in a fiscal year shall with respect to quarters in fiscal years beginning after June 30, 1974, be reduced by 1 per centum (calculated without regard to any reduction under section 403(f)) of such amount if such State fails to—

(1) inform all families in the State receiving aid to families with dependent children under the plan of the State approved under this part of the availability of child health screening services under the plan of such State approved under title XIX,

(2) provide or arrange for the provision of such screening services in all cases where they are requested, or

(3) arrange for (directly or through referral to appropriate agencies, organizations, or individuals) corrective treatment the need for which is disclosed by such child health screening services.

(h) Notwithstanding any other provision of this Act, the amount payable to any State under this part for quarters in a fiscal year shall with respect to quarters beginning after December 31, 1976, be reduced by 5 per centum of such amount if such State is found by the Secretary as the result of the annual audit to have failed to have an effective program meeting the requirements of section 402(a)(27) in any fiscal year beginning after September 30, 1976 (but, in the case of the fiscal year beginning October 1, 1976, only considering the second, third, and fourth quarters thereof).

Operation of State Plans

Sec. 404. (a) In the case of any State plan for aid and services to needy families with children which has been approved by the Secretary of Health, Education, and Welfare, if the Secretary, after reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of such plan, finds—

(1) that the plan has been so changed as to impose any residence requirement prohibited by section 402(b), or that in the administration of the plan any such prohibited requirement is imposed, with the knowledge of such State agency, in a substantial number of cases; or

(2) that in the administration of the plan there is a failure to comply substantially with any provision required by section 402 (a) to be included in the plan;

the Secretary shall notify such State agency that further payments will not be made to the State (or, in his discretion, that payments will be limited to categories under or parts of the State plan not affected by such failure) until the Secretary is satisfied that such prohibited requirement is no longer so imposed, and that there is no longer any such failure to comply. Until he is so satisfied he shall make no further payments to such State (or shall limit payments to categories under or parts of the State plan not affected by such failure).

(b) No payment to which a State is otherwise entitled under this title for any period before September 1, 1962, shall be withheld by reason of any action taken pursuant to a State statute which requires that aid be denied under the State plan approved under this part with respect to a child because of the conditions in the home in which the child resides; nor shall any such payment be withheld for any period beginning on or after such date by reason of any action taken pursuant to such a statute if provision is otherwise made pursuant to a State statute for adequate care and assistance with respect to such child.

(c) No State shall be found, prior to January 1, 1977, to have failed substantially to comply with the requirements of section 402 (a) (27) if, in the judgment of the Secretary, such State is making a good faith effort to implement the program required by such section.

(d) After December 31, 1976, in the case of any State which is found to have failed substantially to comply with the requirements of section 402 (a) (27), the reduction in any amount payable to such State required to be imposed under section 403 (h) shall be imposed in lieu of any reduction, with respect to such failure, which would otherwise be required to be imposed under this section.

Use of Payments for Benefit of Child

Sec. 405. Whenever the State agency has reason to believe that any payments of aid to families with dependent children made with respect to a child are not being or may not be used in the best interests of the child, the State agency may provide for such counseling and guidance services with respect to the use of such payments and the management of other funds by the relative receiving such payments as it deems advisable in order to assure use of such payments in the best interests of such child, and may provide for advising such relative that continued failure to so use such payments will result in substitution therefor of protective payments as provided under section 406 (b) (2), or in seeking appointment of a guardian or legal representa-

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tive as provided in section 1111, or in the imposition of criminal or civil penalties authorized under State law if it is determined by a court of competent jurisdiction that such relative is not using or has not used for the benefit of the child any such payments made for that purpose; and the provision of such services or advice by the State agency (or the taking of the action specified in such advice) shall not serve as a basis for withholding funds from such State under section 404 and shall not prevent such payments with respect to such child from being considered aid to families with dependent children.

Definitions

Sec. 406. When used in this part—

(a) The term "dependent child" means a needy child (1) who has been deprived of parental support or care by reason of the death, continued absence from the home, or physical or mental incapacity of a parent, and who is living with his father, mother, grandfather, grandmother, brother, sister, stepfather, stepmother, stepbrother, stepsister, uncle, aunt, first cousin, nephew, or niece in a place of residence maintained by one or more of such relatives as his or their own home, and (2) who is (A) under the age of eighteen, or (B) under the age of twenty-one and (as determined by the State in accordance with standards prescribed by the Secretary) a student regularly attending a school, college, or university, or regularly attending a course of vocational or technical training designed to fit him for gainful employment;

(b) The term "aid to families with dependent children" means money payments with respect to, or (if provided in or after the third month before the month in which the recipient makes application for aid) medical care in behalf of or any type of remedial care recognized under State law in behalf of, a dependent child or dependent children, and includes (1) money payments or medical care or any type of remedial care recognized under State law to meet the needs of the relative with whom any dependent child is living (and the spouse of such relative if living with him) and if such relative is the child's parent and the child is a dependent child by reason of the physical or mental incapacity of a parent or is a dependent child under section 407), and (2) payments with respect to any dependent child (including payments to meet the needs of the relative, and the relative's spouse, with whom such child is living, and the needs of any other individual living in the same home if such needs are taken into account in making the determination under section 402(a)(7)) which do not meet the preceding requirements of this subsection but which would meet such requirements except that such payments are made to another

individual who (as determined in accordance with standards prescribed by the Secretary) is interested in or concerned with the welfare of such child or relative, or are made on behalf of such child or relative directly to a person furnishing food, living accommodations, or other goods, services, or items to or for such child, relative or other individual, but only with respect to a State whose State plan approval under section 402 includes provision for—

(A) determination by the State agency that the relative of the child with respect to whom such payments are made has such inability to manage funds that making payments to him would be contrary to the welfare of the child and, therefore, it is necessary to provide such aid with respect to such child and relative through payments described in this clause (2);

(B) undertaking and continuing special efforts to develop greater ability on the part of the relative to manage funds in such manner as to protect the welfare of the family;

(C) periodic review by such State agency of the determination under clause (A) to ascertain whether conditions justifying such determination still exist, with provision for termination of such payments if they do not and for seeking judicial appointment of a guardian or other legal representative, as described in section 1111, if and when it appears that the need for such payments is continuing, or is likely to continue, beyond a period specified by the Secretary;

(D) aid in the form of foster home care in behalf of children described in section 408(a); and

(E) opportunity for a fair hearing before the State agency on the determination referred to in clause (A) for any individual with respect to whom it is made;

(c) The term "relative with whom any dependent child is living" means the individual who is one of the relatives specified in subsection (a) and with whom such child is living, (within the meaning of such subsection) in a place of residence maintained by such individual (himself or together with any one or more of the other relatives so specified) as his (or their) own home.

(d) [Repealed].¹

(e) (1) The term "emergency assistance to needy families with children" means any of the following, furnished for a period not in excess of 30 days in any 12-month period, in the case of a needy child

¹ In the case of Guam, Puerto Rico, and the Virgin Islands, section 406(d) reads as follows:

"(d) The term 'family services' means services to a family or any member thereof for the purposes of preserving, rehabilitating, reuniting, or strengthening the family, and such other services as will assist members of a family to attain or retain capability for the maximum self-support and personal independence."

under the age of 21, who is (or, within such period as may be specified by the Secretary, has been) living with any of the relatives specified in subsection (a) (1) in a place of residence maintained by one or more of such relatives as his or their own home, but only where such child is without available resources, the payments, care, or services involved are necessary to avoid destitution of such child or to provide living arrangements in a home for such child, and such destitution or need for living arrangements did not arise because such child or relative refused without good cause to accept employment or training for employment—

(A) money payments, payments in kind, or such other payments as the State agency may specify with respect to, or medical care or any other type of remedial care recognized under State law on behalf of, such child or any other member of the household in which he is living, and

(B) such services as may be specified by the Secretary; but only with respect to a State whose State plan approved under section 402 includes provision for such assistance.

(2) Emergency assistance as authorized under paragraph (1) may be provided under the conditions specified in such paragraph to migrant workers with families in the State or in such part or parts thereof as the State shall designate.

(f) Notwithstanding the provisions of subsection (b), the term "aid to families with dependent children" does not mean payments with respect to a parent (or other individual whose needs such State determines should be considered in determining the need of the child or relative claiming aid under the plan of such State approved under this part) of a child who fails to cooperate with any agency or official of the State in obtaining such support payments for such child. Nothing in this subsection shall be construed to make an otherwise eligible child ineligible for protective payments because of the failure of such parent (or such other individual) to so cooperate.

Dependent Children of Unemployed Fathers

Sec. 407. (a) The term "dependent child" shall, notwithstanding section 406(a), include a needy child who meets the requirements of section 406(a) (2), who has been deprived of parental support or care by reason of the unemployment (as determined in accordance with standards prescribed by the Secretary) of his father, and who is living with any of the relatives specified in section 406(a) (1) in a place of residence maintained by one or more of such relatives as his (or their) own home.

(b) The provisions of subsection (a) shall be applicable to a State if the State's plan approved under section 402—

(1) requires the payment of aid to families with dependent children with respect to a dependent child as defined in subsection

(a) when—

(A) such child's father has not been employed (as determined in accordance with the standards prescribed by the Secretary) for at least 30 days prior to the receipt of such aid;

(B) such father has not without good cause, within such period (of not less than 30 days) as may be prescribed by the Secretary, refused a bona fide offer of employment or training for employment; and

(C) (i) such father has 6 or more quarters of work (as defined in subsection (d) (1)) in any 13-calendar-quarter period ending within one year prior to the application for such aid or (ii) he received unemployment compensation under an unemployment compensation law of a State or of the United States, or he was qualified (within the meaning of subsection (d) (3)) for unemployment compensation under the unemployment compensation law of the State, within one year prior to the application for such aid; and

(2) provides—

(A) for such assurances as will satisfy the Secretary that fathers of dependent children as defined in subsection (a) will be certified to the Secretary of Labor as provided in section 402(a) (19) within thirty days after receipt of aid with respect to such children;

(B) for entering into cooperative arrangements with the State agency responsible for administering or supervising the administration of vocational education in the State, designed to assure maximum utilization of available public vocational education services and facilities in the State in order to encourage the retraining of individuals capable of being retrained;

(C) for the denial of aid to families with dependent children to any child or relative specified in subsection (a)—

(i) if and for so long as such child's father, unless exempt under section 402(a) (19) (A), is not registered pursuant to such section for the work incentive program established under part C of this title, or, if he is exempt under such section by reason of clause (iii) thereof or no such program in which he can effectively participate has been established or provided under section 432(a), is not registered with the public employment offices in the State, and

(ii) with respect to any week for which such child's father qualifies for unemployment compensation under an unemployment compensation law of a State or of the United States, but refuses to apply for or accept such unemployment compensation; and

(D) for the reduction of the aid to families with dependent children otherwise payable to any child or relative specified in subsection (a) by the amount of any unemployment compensation that such child's father receives under an unemployment compensation law of a State or of the United States.¹

(c) Notwithstanding any other provisions of this section, expenditures pursuant to this section shall be excluded from aid to families with dependent children (A) where such expenditures are made under the plan with respect to any dependent child as defined in subsection (a), (i) for any part of the 30-day period referred to in subparagraph (A) of subsection (b) (1), or (ii) for any period prior to the time when the father satisfies subparagraph (B) of such subsection, and (B) if, and for as long as, no action is taken (after the 30-day period referred to in paragraph (A) of subsection (b) (2)), under the program therein specified, to certify such father to the Secretary of Labor pursuant to section 402 (a) (19).

(d) For purposes of this section—

(1) the term "quarter of work" with respect to any individual means a calendar quarter in which such individual received earned income of not less than \$50 (or which is a "quarter of coverage" as defined in section 213 (a) (2)), or in which such individual participated in a community work and training program under section 409 or any other work and training program subject to the limitations in section 409, or the work incentive program established under part C;

(2) the term "calendar quarter" means a period of 3 consecutive calendar months ending on March 31, June 30, September 30, or December 31; and

(3) an individual shall, for purposes of section 407 (b) (1) (C), be deemed qualified for unemployment compensation under the State's unemployment compensation law if—

(A) he would have been eligible to receive such unemployment compensation upon filing application, or

(B) he performed work not covered under such law and such work, if it had been covered, would (together with any

¹ Subsection (b) (2) was amended by section 507 (a) of P.L. 94-566.

covered work he performed) have made him eligible to receive such unemployment compensation upon filing application.¹

(e) The Secretary of Health, Education, and Welfare and the Secretary of Labor shall jointly enter into an agreement with each State which is able and willing to do so for the purpose of (1) simplifying the procedures to be followed by unemployed fathers and other unemployed persons in such State in registering pursuant to section 402(a)(19) for the work incentive program established by part C of this title and in registering with public employment offices (under this section and otherwise) or in connection with applications for unemployment compensation, by reducing the number of locations or agencies where such persons must go in order to register for such programs and in connection with such applications, and (2) providing where possible for a single registration satisfying this section and the requirements of both the work incentive program and the applicable unemployment compensation laws.²

Federal Payments for Foster Home Care of Dependent Children

Sec. 408. Effective for the period beginning May 1, 1961—

(a) The term "dependent child" shall, notwithstanding section 406(a), also include a child (1) who would meet the requirements of such section 406(a) or of section 407, except for his removal after April 30, 1961, from the home of a relative (specified in such section 406(a)) as a result of a judicial determination to the effect that continuation therein would be contrary to the welfare of such child, (2) whose placement and care are the responsibility of (A) the State or local agency administering the State plan approved under section 402, or (B) any other public agency with whom the State agency administering or supervising the administration of such State plan has made an agreement which is still in effect and which includes provision for assuring development of a plan, satisfactory to such State agency, for such child as provided in paragraph (f)(1) and such other provisions as may be necessary to assure accomplishment of the objectives of the State plan approved under section 402, (3) who has been placed in a foster family home or child-care institution as a result of such determination, and (4) who (A) received aid under such State plan in or for the month in which court proceedings leading to such determination were initiated, or (B)(i) would have received such aid in or for such month if application had been made therefor,

¹ Paragraph (3) was amended by section 507(b) of P.L. 94-566.

² Subsection (e) was added by section 507(d) of P.L. 94-566.

or (ii) in the case of a child who had been living with a relative specified in section 406(a) within six months prior to the month in which such proceedings were initiated, would have received such aid in or for such month if in such month he had been living with (and removed from the home of) such a relative and application had been made therefor;

(b) the term "aid to families with dependent children" shall, notwithstanding section 406(b), include also foster care in behalf of a child described in paragraph (a) of this section—

(1) in the foster family home of any individual, whether the payment therefor is made to such individual or to a public or nonprofit private child-placement or child-care agency, or

(2) in a child-care institution, whether the payment therefor is made to such institution or to a public or nonprofit private child-placement or child-care agency, but subject to limitations prescribed by the Secretary with a view to including as "aid to families with dependent children" in the case of such foster care in such institutions only those items which are included in such term in the case of foster care in the foster family home of an individual;

(c) the number of individuals counted under clause (A) of section 403(a)(1) for any month shall include individuals (not otherwise included under such clause) with respect to whom expenditures were made in such month as aid to families with dependent children in the form of foster care; and

(d) services described in paragraph (f)(2) of this section shall be considered as part of the administration of the State plan for purposes of section 403(a)(3); but only with respect to a State whose State plan approved under section 402—

(a) includes aid for any child described in paragraph (a) of this section, and

(f) includes provision for (1) development of a plan for each such child (including periodic review of the necessity for the child's being in a foster family home or child-care institution) to assure that he receives proper care and that services are provided which are designed to improve the conditions in the home from which he was removed or to otherwise make possible his being placed in the home of a relative specified in section 406(a), and (2) use by the State or local agency administering the State plan, to the maximum extent practicable, in placing such a child in a foster family home or child-care institution, of the services of employees, of the State public-welfare