

(3) Inspection:

The IRS and the Agency shall have the right to send its officers and employees into the offices and plants of the Clerk for inspection of the facilities and operations provided for the performance of any work under this contract. On the basis of such inspection, specific measures may be required in cases where the Clerk is found to be noncompliant with contract safeguards.

**ARTICLE III  
OBLIGATIONS OF CSSD**

CSSD shall be the point of contact for the Clerk of Court for all matters related to this contract. CSSD will comply with Title IV-D of the Social Security Act, its implementing regulations, and other applicable provisions of state and federal law.

CSSD shall be responsible for providing information on county performance, based on four (4) federal performance measures on which the child support program is evaluated. Those measures are Support Order Establishment, Current Support Collections, Arrears Payment Collections, and Cost Effectiveness. CSSD shall also cooperate with the Clerk to facilitate obtaining or enforcing support orders under reciprocal arrangements with other states or countries. CSSD will assign child support specialists and attorneys to represent CSSD on child support actions in which CSSD is involved.

**ARTICLE IV  
PROCEDURES FOR PAYMENT**

**A. Unit Costs**

Unit costs shall be calculated annually by CSSD based on statewide expenditures by all Clerks of Court during the prior fiscal year. Only expenditures qualifying as direct and indirect costs, as defined by federal cost principles, shall be used in calculating the unit cost rate for the Clerk. The attachments included with this contract, the DSS Form 1164, the Clerks Certification, and the Personnel Activity Report, in particular, will be used in the calculation of the annual unit cost rate.

Annually, upon receipt of required documentation from the Clerks of Court by **January 15th** of each calendar year, CSSD will calculate South Carolina's unit cost reimbursement rate. The unit cost reimbursement rate, and necessary supporting documentation, will be forwarded to the Federal Office of Child Support Enforcement for review and approval. Upon approval, the amount approved shall become the South Carolina unit cost rate for the next fiscal year. Delays in the submission of the supporting documentation may lead to interruptions or cessation of

reimbursements to the counties.

Payment shall be based upon the number of "units" of activity undertaken by the Clerk during the period of this contract at the 66% reimbursement rate approved by the federal Office of Child Support Enforcement. For purposes of this contract, a "unit", for which payment may be requested by the Clerk, consists of any collection received by PACSS through the SDU, State Tax Offset, Unemployment Benefit Intercept or Lottery Intercept and distributed in PACSS to a IV-D child support case toward the child support obligation. Any collection received by PACSS through the SDU and distributed in PACSS to a IV-D child support case toward an obligation that is non-child support (e.g. court costs and fines) are not counted as a unit. Payment of unit costs must be requested by the Clerk's office on DSS Form 1164, Purchase of Service Reimbursement Request, a copy of which is attached to this contract. In submitting requests for reimbursement, the Clerk certifies that all units for which reimbursement is being requested are attributable to actions taken in Title IV-D cases, that the Clerk maintains an itemization by DSS Case Number, or Family Court Docket Number, of each Title IV-D case for which unit cost reimbursement is being requested, and that such itemization shall be available upon CSSD's request.

The completed DSS Form 1164 must be forwarded monthly to:

**South Carolina Department of Social Services  
Child Support Services Division  
Attn: Tamela Gidron  
Post Office Box 1469  
Columbia, South Carolina 29202-1520**

Records for requests for reimbursement shall be maintained by the Clerk's office.

**B. Incentive payments**

If awarded incentive payments by the Federal Office of Child Support Enforcement, in accordance with 42 U.S.C. § 658a, CSSD may, in its sole discretion, distribute an appropriate representative share of such incentive payments to the Clerk. All distributions made in FFY 2023 shall be made based on performance measures, as outlined in Article III, paragraph 2. This provision is subject to paragraph D. below dealing with "Disallowances Sums, Set-Off."

**C. Compensation and Method of Payment**

Payments for unit cost reimbursement and incentive payments shall be disbursed by CSSD to the county treasurer for deposit to an account which is for the exclusive use of the Clerk. In accordance with the requirements of S.C. Code § 43-5-235, the payments will be made on a monthly basis and must be deposited into a separate account for the Clerk's exclusive use for all activities related to the establishment, collection, and enforcement of child support obligations for the fiscal year in which the payments are earned. The deposited payments may be drawn on and used only by the Clerk of Court and may not be used to replace operating funds of the Clerk of Court's office or any other entity.

**D. Disallowances Sums, Set-Off**

The obligations of the Clerk under this Contract are critical to child support enforcement services

operations, including but not limited to the obligation to provide adequate facilities, including space and security, for administrative process conferences. In the sole discretion of DSS, if the Clerk does not provide adequate facilities as required in this Contract, DSS may obtain alternate facilities. If DSS incurs costs from securing alternate space, security, technology expenses, or any other services to provide for accommodations that are obligations of the Clerk under this contract, DSS is authorized to recoup funds representing such costs from any funds owed to Clerk. The means of recoupment shall be recovering and/or offsetting such funds claimed by Clerk under this or any previous and/or future contracts. If DSS incurs costs or expenses related to any errors or omissions by the Clerk, DSS is authorized to recoup funds representing such costs or expenses from any funds owed to the Clerk. The means of recoupment shall be recovering and/or offsetting such funds claimed by Clerk under this or any previous and/or future contracts. Payment of incentives and unit cost reimbursement provided for in this contract shall constitute payment in full for all activities undertaken by the Clerk in connection with this contract. CSSD shall not be liable for any other costs or expenses incurred by the Clerk's office.

## **ARTICLE V COVENANTS RELATED TO USE OF FEDERAL FUNDS**

### **A. General**

CSSD and the Clerk agree to comply with Title IV-D of the Social Security Act (42 U.S.C. § 651 et seq.) and the federal regulations implementing the Act, as well as all other applicable federal and state laws and regulations, in actions taken in furtherance of this contract. The terms of this contract are to be construed in accordance with the provisions of applicable state and federal laws and regulations.

### **B. Funding**

In accordance with S.C. Code § 43-5-235, CSSD will provide to the Clerk federal financial participation (FFP) on a unit cost basis as reimbursement for child support activities and, should they be awarded by the Federal Office of Child Support Enforcement, in accordance with 42 U.S.C. § 658a, CSSD will provide the Clerk with a share of the fiscal incentive funds. These funds will be paid on a monthly basis for the benefit of the Clerk to the county treasurer. All such funds must be deposited into a separate account which is designated solely for the use of the Family Court Section of the office of the Clerk of Court and may not be used to replace operating funds of the Clerk of Court, in accordance with S.C. Code § 43-5-235.

(1) Unit cost funding will be provided to the Clerk's office in accordance with 45 CFR § 304.20 through § 304.24. FFP is made available only for necessary expenditures authorized by 45 CFR § 304.20 through § 304.24. Any use of unit cost funding for unauthorized expenditures shall be considered a breach of the terms of this contract *per se* and shall result in termination of the contract, by CSSD, without recourse to the Clerk.

(2) When authorized by the Federal Office of Child Support Enforcement, CSSD will make incentive payments to the Clerk pursuant to 45 CFR § 302.55, § 303.52 and § 304.12. In accordance with 45 CFR § 305.35 and 42 U.S.C. § 658a (f), incentive funds must be reinvested in child support program activities and may be used only to

supplement, not supplant, other funds used in the establishment, collection, and enforcement of child support obligations by the Clerk. The Clerk agrees that incentive funds shall be used exclusively to enhance the establishment, collection, and enforcement of child support obligations. The Clerk agrees that incentive funds may not, at any time, "roll over," or otherwise become incorporated, into the General Fund of the County for which the Clerk of Court serves. Any such "roll over" or incorporation of incentive funds in a county's General Fund shall be considered a breach of the terms of this contract *per se* and shall result in termination of the contract, by CSSD, without recourse to the Clerk.

(3) Neither incentive funds nor unit cost funds may be used to replace operating funds for, or the budget of, the Family Court section of the office of the Clerk of Court. Any such use of the funds shall be considered a breach of the terms of this contract *per se* and shall result in termination of the contract, by CSSD, without recourse to the Clerk.

(4) The expenditure of incentive funds and unit cost funds under the terms of this contract is subject to 2 CFR Part 225 ("Cost Principles for State Local and Indian Tribal Governments"),

#### **C. Documentation of compensation for personnel services**

In accordance with the requirements of 2 CFR 200.430, the Clerk agrees to provide documentation for all compensation for personnel services paid from funds pursuant to this agreement, including, but not limited to wages, salaries, and fringe benefits, as follows:

(1) All charges to the funds provided pursuant to this contract for salaries and wages, whether treated as direct or indirect costs, will be documented by the Clerk on payrolls completed in accordance with the generally accepted practices of the County and approved by the appropriate responsible official of the County.

(2) Where the fund support of the salaries and wages of employees who work solely on IV-D cases in the Family Court area of the Clerk of Court's office is being documented, the approved payroll, as well as a semi-annual **Clerk's Certification**, attached to this contract, and incorporated herein by reference, shall be submitted by the Clerk for June and December of each calendar year. These shall be submitted no later than July 31<sup>st</sup> and January 31<sup>st</sup>, respectively, of each calendar year and shall be submitted to:

**CSSD Financial Services Division**  
**Attention: Reports and Reconciliation Unit**  
**Fax: 803-898-9348**  
**Email: DSS-CSE.payment@dss.sc.gov**

(3) Where the fund support of the salaries and wages of employees who work on IV-D cases in the Family Court area of the Clerk of Court's office, and who also work in other areas of the Clerk of Court's office, is being documented, a **Title IV-D (Child Support) Personnel Activity Report**, attached to this contract, and incorporated herein by reference, must be completed by the Clerk for each such employee for a representative



period of one week per month, in accordance with the following requirements:

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

Each Title IV-D (Child Support) Personnel Activity Report completed by the Clerk must be maintained locally by the Clerk for a period of three years from the date of its completion. In addition, reports prepared for each affected employee during the months of June and December of each calendar year will be submitted to CSSD by the Clerk no later than July 31<sup>st</sup> and January 31<sup>st</sup>, respectively, of each year and shall be submitted to:

**CSSD Financial Services Division**  
**Attention: Reports and Reconciliation Unit**  
**Fax: 803-898-9348**  
**Email: [DSS-CSE.payment@dss.sc.gov](mailto:DSS-CSE.payment@dss.sc.gov)**

#### **D. County policies and procedures**

The funds provided pursuant to this contract shall be used in accordance with applicable county government policies on such matters as procurement, human resource management, travel, and per diem but only insofar as those policies and procedures do not conflict with state or federal law. No county policies or procedures, including any policy, procedure or operating guidelines establishing a moratorium on end of funding cycle, processing of procurement requests, or funding encumbrances, shall in any fashion have the effect of precluding or hindering the Clerk's access to the incentive and unit cost funds held for its exclusive use in the separate account required by this contract. If any restriction in violation of federal law or regulation, or in violation of S.C. Code § 43-5-235, is imposed by the county on the Clerk's access to the funds, such a restriction shall be considered a breach of the terms of this contract *per se* and shall result in termination of the contract, by CSSD, without recourse to the Clerk.

#### **E. End of Fiscal Year**

In accordance with S.C. Code § 43-5-235, unit cost funds which are not encumbered or spent by the Clerk shall revert to the county's General Fund at the end of the state fiscal year in which they were earned. In accordance with 42 U.S.C. § 658a (f) and 45 CFR § 305.35, incentive funds may not "roll over," or otherwise become incorporated, into the county's General Fund and must be reinvested as described in Section B. (2) of this Article. The use of incentive funds for any purpose other than the Clerk's enhancement of child support enforcement efforts constitutes a violation of federal law and controlling federal policy as well as a breach of the terms of this contract. Accordingly, incentive funds must not "roll over," or otherwise become incorporated, into the county's General Fund and must remain in the Clerk of Court's account until used by the Clerk for the enhancement of child support establishment, enforcement, and collection. The "roll over," or any other method of incorporation, of incentive funds earned under this agreement into

the county's General Fund, or any other account not designated exclusively for the use of the Clerk of Court, shall be considered a breach of the terms of this contract per se and shall result in termination of the contract, by CSSD, without recourse to the Clerk.

## **ARTICLE VI AUDITS**

### **A. Audits**

At any time during normal business hours, and as often as CSSD, the Office of Internal Audit, the Office of the South Carolina Attorney General, the United States General Accounting Office (GAO), the United States Department of Health and Human Services (DHHS), or other appropriate federal or state agency may deem necessary, the Clerk shall immediately make available for examination all records of the Clerk with respect to all matters covered by this contract. The Clerk shall permit any of the above to audit, examine, and make copies, excerpts, or transcripts from such records and to contact and conduct private interviews with the Clerk's clients, agents, or employees, and to conduct on-site reviews of all matters relating to service delivery under this contract. The Clerk further agrees that should any audit, litigation, claim, or other action involving records maintained pursuant to the terms of this contract be initiated within a three year period of the date of termination of this contract, that this Article and all terms hereunder shall continue to be in full force and effect such audit, litigation, claim, or other action is completed and the issues therein are finally resolved.

The county shall provide to the DSS Office of Internal Audit a copy of any annual audit necessitated by the \$750,000 threshold specified in Uniform Guidance, 2 CFR Part 200, Subpart F, Audit Requirements.

### **B. Corrective Action**

Should audit results indicate deficiencies requiring corrective action for the Clerk's operations, the Clerk shall submit to CSSD a corrective action plan to correct the identified deficiencies indicating the actions to be taken, dates of anticipated completion, and contact person responsible for correction of the noted deficiencies. In the alternative, the Clerk shall submit an explanation of specific reasons as to why no corrective action is required. The corrective action plan must be submitted for approval by CSSD within thirty (30) days of the receipt of the final report/ management letter. Technical assistance in the design or implementation of a corrective action plan shall, upon the request of the Clerk, be provided by CSSD.

### **C. Exceptions and Disallowance**

In the event of a Notice of Exception and Disallowance pursuant to an audit or inspection, CSSD shall provide the Clerk with a written notice containing the adjustment for each exception. Such notice shall state the total sum disallowed and that payment is due to CSSD in the full amount within thirty (30) days after receipt of notice. Notice will be sent to the Clerk by certified mail. Audit exceptions or disallowances shall be deemed final unless appealed within thirty (30) of receipt of the notice of disallowance. Payment shall be made within thirty (30) days from the receipt of notice of disallowance regardless of the filing of an appeal. At its discretion, CSSD may recoup such amounts at any time from funds owed under this contract or under any other contract between the parties.

In the event of disagreement with audit or inspection findings the Clerk shall have the right to seek administrative or judicial review in accordance with the procedures set forth under applicable South Carolina or federal law or regulation.

#### **D. Cost Principles**

The Clerk agrees and understands that is shall be responsible for any costs incurred that are not allowable in accordance with this contract, applicable federal and state laws and regulations, and federal cost principles. Funds provided by CSSD shall not be used to pay any costs that are not allowable under state or federal law or cost principles.

### **ARTICLE VII TERMINATION**

**A.** This contract is contingent upon the availability of sufficient federal funds to CSSD. If such funds should not be available at the inception date of this contract, then CSSD and the Clerk agree that the present contract shall be void *ab initio* and of no binding effect on either party. The parties further agree that should sufficient funds for this contract become unavailable during the course of this contract, CSSD shall provide Clerk immediate notice of termination and CSSD shall have no further obligation to make payments to the Clerk. Termination shall be effective on the date that adequate funds cease to be available. The determination as to whether adequate funds exist shall be within the sole discretion of CSSD. Both parties agree that the determination of CSSD in this regard shall be final and binding on the Clerk and is not subject to appeal or administrative review.

**B.** Notice by either party of an intent to terminate this contract shall be made in writing to the other party by letter dated no later than sixty (60) days prior to the date of termination. The parties agree that the effective date of notice of termination shall be the last day of the calendar month of termination. All incentives and unit cost earned and payable up to the date of termination for which the Clerk is eligible under the terms of this contract shall be paid without prejudice to the Clerk.

**C.** The requirement for a party to provide sixty days' notice of intent to terminate, specified in paragraph B. above, shall not be applicable to terminations initiated by CSSD based upon the non-availability of funding, as specified in paragraph A. above, or to terminations based upon a material breach of the terms of this contract as specified in Article II, Article V, Article VI, or Article VIII. In such cases, termination of the contract shall be effective immediately upon written, verbal, or electronic communication of notice to the Clerk by CSSD.

### **ARTICLE VIII GENERAL TERMS AND CONDITIONS**

#### **A. Safety Precautions**

CSSD and the United States Department of Health and Human Services (DHHS) shall assume no responsibility for and are hereby held harmless by the Clerk with respect to any accidents, illnesses or claims arising out of any work undertaken with the assistance of federal and/or state

funds. The office of the Clerk of Court agrees to take all necessary steps to ensure or protect persons involved in its operations and its staff. The Clerk agrees to comply with applicable local, state, and federal occupational and safety acts, rules, and regulations.

**B. Bonding**

In accordance with 45 CFR § 302.19, the Clerk shall ensure that every person who has access to or control over funds collected under this contract is covered by a bond against loss resulting from employee dishonesty in an amount which CSSD deems adequate to provide full indemnification for loss resulting from employee dishonesty. The Clerk further agrees to reimburse CSSD and/or the federal government for any loss not covered by this bond.

**C. Political Activity**

The Clerk agrees that no funds, materials, property, or services provided directly or indirectly under this contract shall be used in the performance of any partisan political activity, or to further the election or defeat of any candidate for public office or any activity in violation of the terms of the "Hatch Act" (5 U.S.C. § 1502).

**D. Restrictions on Lobbying**

In accordance with 31 U.S.C. § 1352, the Clerk agrees that funds received under the terms of this contract may not be expended to pay any person or organization for influencing or attempting to influence an officer or employee of a federal agency, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with the following actions: the making, extension, continuation, renewal, amendment, modification or awarding of any contract, grant, loan or cooperative agreement. The parties mutually recognize and agree that this restriction shall be applicable to all subcontractors who may be compensated by funds paid through CSSD to the Clerk.

**E. Complete Agreement**

This contract constitutes the complete integration of all understandings between the parties hereto. No amendment, codicil or other modification shall have any force or effect, unless first reduced to writing and signed by the parties.

**F. Renewal or Extension**

At the end of the term of this contract, CSSD shall have the option to extend or renew it upon the terms and conditions contained herein for a period not to exceed four consecutive one year periods; provided, however, that any rate adjustment(s) for future agreements shall be negotiated and set forth in writing and signed by both parties as an amendment to this contract.

**G. Subcontracts and Non-Assignability**

The Clerk agrees that none of the work or services contemplated under the provisions of this contract shall be subcontracted, transferred, or assigned without written approval of CSSD. Any work or services to be subcontracted, transferred, or assigned hereunder with the permission of CSSD shall be specifically described and incorporated in a separate written contract which shall, in all material aspects, conform to the provisions, covenants and promises of the present contract and exhibits hereto. Through any subcontracting, transferring or assignment of any work or services under this contract, the Clerk agrees to be ultimately liable for the full performance of all responsibilities, under the terms of this contract, which may be subcontracted, transferred or



assigned.

#### **H. Safeguarding and Confidentiality of Information**

CSSD agrees to provide, under the terms of this contract, certain confidential information in accordance with the provisions of 45 CFR § 303.21 and 45 CFR § 303.70, and other federal authority, to assist the office of the Clerk in its child support enforcement efforts in Title IV-D cases. The Clerk agrees that the use or disclosure of such information is limited to purposes directly connected to its activities in cases being administered under Title IV-D of the Social Security Act and that such information may not be provided, disclosed or otherwise disseminated for usage in any non-Title IV-D case. Information provided by CSSD to the Clerk shall not be disclosed to any party or used for any purpose not related to activities related to cases being administered under Title IV-D of the Social Security Act, or otherwise used or disclosed in violation of state or federal confidentiality requirements. Conversely, CSSD will protect any confidential information received from the Clerk pursuant to the above regulations.

#### **I. Suspension and Debarment**

The Clerk certifies by his or her signature to this contract that he or she has not been suspended, debarred, proposed for debarment, or declared ineligible for the award of contracts by any state or federal agency. The Clerk agrees to inform CSSD immediately if at any point he or she is suspended, debarred, proposed for debarment, or declared ineligible for the award of contracts by any state or federal agency. If at any time during, or following, the term of this contract CSSD shall determine that the Clerk has knowingly, recklessly or in bad faith rendered an erroneous certification that he or she is, or has been, suspended or debarred, then, in addition to any other remedy available, CSSD may terminate this contract immediately and, upon such termination, the Clerk agrees to and shall, within thirty (30) days of the notice of termination, return to CSSD all funds paid under the terms of this contract and, in addition, a supplemental amount of 10% of the total amount of the funds paid under this contract as penalty.

#### **J. Drug-free Workplace**

In accordance with the Drug-Free Workplace Act of 1988 (41 U.S.C. § 701 et seq.) and the South Carolina Drug-free Workplace Act (S.C. Code § 44-107-10 et seq.), the Clerk agrees to provide a drug-free workplace by:

- (1) Publishing a statement notifying employees that the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited in the person's workplace and specifying the actions that will be taken against employees for violations of the prohibition;
- (2) Establishing a drug-free awareness program to inform employees about:
  - (a) The dangers of drug abuse in the workplace
  - (b) The employer's policy of maintaining a drug-free workplace
  - (c) Any available drug counseling, rehabilitation, and employee assistance programs
  - (d) The penalties that may be imposed upon employees for drug violations
- (3) Making it a requirement that each employee to be engaged in the performance of this

contract be given a copy of the statement required by item (1);

(4) Notifying the employee in the statement required by item (1) that, as a condition of employment on the contract or grant, the employee will:



- (a) Abide by the terms of the statement
- (b) Notify the employer of any criminal drug statute conviction for a violation occurring in the workplace no later than five days after the conviction;

(5) Notifying the using agency within ten days after receiving notice under item (4) (b) from an employee or otherwise receiving actual notice of the conviction;

(6) Imposing a sanction on, or requiring the satisfactory participation in a drug abuse assistance or rehabilitation program by, any employee convicted, as required by S. C. Code § 44-107-50; and

(7) Making a good faith effort to continue to maintain a drug-free workplace through implementation of items (1), (2), (3), (4), (5), and (6).

**In witness of the foregoing, CSSD and the Clerk of Court do hereby agree to the terms and conditions specified herein and affix their respective signatures below.**

<b>South Carolina Department of Social Services Child Support Services Division</b>	<b>Colleton County Clerk of Court</b>
by:  Timothy Mose, Director Child Support Services Division	by:  The Honorable Rebecca Hill Clerk of Court
<u>06/16/2023</u> Date	<u>06/19/2023</u> Date

**CONTRACT ADDENDUM**

(DSS Child Support Services Division and Clerks of Court Unit Cost and Incentive Contract)

- 1) Federal Financial Participation provisions from 45 CFR Part 304
- 2) DSS Form 1164 (Purchase of Service Reimbursement Request)
- 3) Title IV-D Multiple Activities Personnel Report
- 4) 2 CFP Part 225, Appendix B (Selected Items of Cost)
- 5) IRS Publication 1075 (Novembers 2021 pages 201-204 (Exhibit 7)

**COURTESY OF  
LUNA SHARK MEDIA**

Federal Financial Participation provisions from 45 CFR Part 304

**COURTESY OF  
LUNA SHARK MEDIA**



Federal matching rate in effect during FY 1985.

[54 FR 32112, Aug. 1, 1989, as amended at 56 FR 6065, Feb. 26, 1991; 61 FR 6232, Feb. 9, 1996]

#### § 304.15 Cost allocation.

A State agency in support of its claims under title IV-D of the Social Security Act must have an approved cost allocation plan on file with the Department in accordance with the requirements contained in Subpart E of 45 CFR part 95. Subpart E also sets forth the effect on FFP if the requirements contained in that subpart are not met.

[17 FR 17581, Apr. 23, 1952]

#### § 304.20 Availability and rate of Federal financial participation.

(a) Federal financial participation at the applicable matching rate is available for:

(1) Necessary expenditures under the State title IV-D plan for the support enforcement services and activities specified in this section and § 304.21 provided to individuals from whom an assignment of support rights as defined in § 301.1 of this chapter has been obtained;

(2) Parent locator services for individuals eligible pursuant to § 302.33 of this title;

(3) Paternity and support services under the State plan for individuals eligible pursuant to § 302.33 of this chapter.

(b) Services and activities for which Federal financial participation will be available shall be those made pursuant to the approved title IV-D State plan which are determined by the Secretary to be necessary expenditures properly attributable to the Child Support Enforcement program, except any expenditure incurred in providing location services to individuals listed in § 302.35(e)(4) of this title, including the following:

(1) The administration of the State Child Support Enforcement program, including but not limited to the following:

(i) The establishment and administration of the State plan;

(ii) Monitoring the progress of program development and operations and

evaluating the quality, efficiency, effectiveness and scope of support enforcement services available in each political subdivision;

(iii) The establishment of all necessary agreements with other State and local agencies or private providers for the provision of services in support of support enforcement in accordance with the Procurement Standards found in 45 CFR 74.10 et seq. These agreements may include:

(A) Necessary administrative agreements for support services;

(B) Utilization of State and local information resources;

(C) Cooperation with courts and law enforcement officials, and Indian Tribes or Tribal organizations pursuant to § 302.31 of this chapter;

(iv) Securing compliance with the requirements of the State plan in operations under any agreements;

(v) The development and maintenance of systems for fiscal and program records and reports required to be made to the Office based on these records;

(vi) The development of a cost allocation system pursuant to § 304.15 of this chapter;

(vii) The financial control of the State plan including the administration of Federal grants pursuant to § 301.15 of this chapter;

(viii) The establishment of agreements with agencies administering the State's title IV-A and IV-E plans in order to establish criteria for:

(A) Referral of cases to the IV-D agency;

(B) Reporting on a timely basis information necessary to the determination and redetermination of eligibility and amount of assistance payments;

(C) The procedures to be used to transfer collections from the IV-D agency to the IV-A or IV-E agency before or after the distribution described in § 302.51 or § 302.52, respectively, of this chapter;

(ix) The establishment of agreements with Medicaid agencies necessary to carry out required IV-D activities and to establish criteria for:

(A) Referring cases to the IV-D agency;

(B) Reporting on a timely basis information necessary for the determination and redetermination of eligibility for Medicaid;

(C) Transferring collections from the IV-D agency to the Medicaid agency in accordance with §302.51(c) of this chapter.

(2) The establishment of paternity including:

(i) Reasonable attempts to determine the identity of the child's father such as:

(A) Investigation;

(B) The development of evidence including the use of the polygraph and genetic tests;

(C) Pre-trial discovery;

(ii) Court or other actions to establish paternity pursuant to procedures established under State statutes or regulations having the effect of law;

(iii) Identifying competent laboratories that perform genetic tests as described in §303.5(c) of this chapter and making a list of those laboratories available;

(iv) Referral of cases to the IV-D agency of another State to establish paternity when appropriate;

(v) Cooperation with other States in determining paternity;

(vi) Payments up to \$20 to hospitals, State birth record agencies, and other entities designated by the State and participating in the State's voluntary paternity establishment program, under §303.5(g) of this chapter, for each voluntary acknowledgment obtained pursuant to an agreement with the IV-D agency;

(vii) Developing and providing to hospitals, State birth record agencies, and other entities designated by the State and participating in the State's voluntary paternity establishment program, under §303.5(g) of this chapter, written and audiovisual materials about paternity establishment and forms necessary to voluntarily acknowledge paternity; and

(viii) Reasonable and essential short-term training associated with the State's program of voluntary paternity establishment services under §303.5(g).

(3) The establishment and enforcement of support obligations including:

(i) Investigation, the development of evidence and when appropriate, bringing court actions;

(ii) Determination of the amount of the child support obligation including developing the information needed for a financial assessment;

(iii) Referral of cases to the IV-D agency of another State to establish a child support obligation when appropriate;

(iv) Enforcement of a support obligation including those activities associated with collections and the enforcement of court orders, such as contempt citations, issuance of warrants, investigation, income withholding and processing, and the obtaining and enforcing of court-ordered support through civil or criminal proceedings either in the State that granted the order or in another State;

(v) Investigation and prosecution of fraud related to child and spousal support;

(6) The collection and distribution of support payments including:

(i) An effective system for making collections of established support obligations and identifying delinquent cases and attempting to collect support from these cases;

(ii) Referral of cases to the IV-D agency of another State for collection when appropriate;

(iii) Making collections for another State;

(iv) The distribution of funds as required by this chapter;

(v) Making the IV-A agency aware of the amounts collected and distributed to the family for the purposes of determining eligibility for, and amount of, assistance under the State title IV-A plan;

(vi) Making the Medicaid agency aware of amounts collected and distributed to the family for the purposes of determining eligibility for assistance under the State XIX plan;

(5) The establishment and operation of the State parent locator service including:

(i) Utilization of appropriate State and local locate sources to locate non-custodial parents;

(ii) Utilization of the Federal Parent Locator Service.

(iii) Collection of the fee pursuant to §303.70(e) of this chapter.

(iv) Referral of requests for location of a noncustodial parent to the IV-D agency of another State.

(v) Cooperation with another State in locating a noncustodial parent.

(6) Activities related to requests for certification of collection of support delinquencies by the Secretary of the Treasury pursuant to §303.71 of this chapter.

(7) Activities related to requests for utilization of the United States district courts pursuant to §303.73 of this chapter.

(8) Establishing and maintaining case records as required by §303.2 of this chapter.

(9) The operation of systems that meet the conditions of §307.35(a) of this chapter; and

(10) Systems approved in accordance with 45 CFR part 95, subpart F. (See §307.35(b) of this chapter.)

(11) Required medical support activities as specified in §§303.30, 303.31, and 303.32 of this chapter.

(c) Until September 30, 1997, Federal financial participation is available at the 90 percent rate for the planning, design, development, installation and enhancement of computerized support enforcement systems that meet the requirements in §307.30(a) of this chapter.

(d) Federal financial participation at the 90 percent rate is available for laboratory costs incurred in determining paternity on or after October 1, 1986, and until September 30, 2006, including the costs of obtaining and transporting blood and other samples of genetic material, repeated testing when necessary, analysis of test results, and the costs for expert witnesses in a paternity determination proceeding, but only if the expert witness costs are in-

cluded as part of the genetic testing contract.

(10 FR 27168, June 26, 1975, as amended at 16 FR 1576, Jan. 6, 1944, 17 FR 21719, June 11, 1952, 17 FR 37262, Dec. 21, 1952, 49 FR 33263, Aug. 22, 1984, 50 FR 19636, May 9, 1985, 50 FR 11091, Oct. 16, 1985, 51 FR 23113, Aug. 1, 1986, 55 FR 8003, Feb. 26, 1991, 56 FR 22335, May 13, 1991, 57 FR 17002, Oct. 11, 1992, 59 FR 66251, Dec. 23, 1994, 61 FR 67241, Dec. 20, 1996, 61 FR 11811, Aug. 21, 1996, 64 FR 6252, Feb. 9, 1999, 61 FR 11810, Mar. 10, 1999, 68 FR 23305, May 12, 2003, 73 FR 12012, July 21, 2008, 73 FR 71921, Dec. 9, 2008).

**§304.21 Federal financial participation in the costs of cooperative arrangements with courts and law enforcement officials.**

(a) *General.* Subject to the conditions and limitations specified in this part, Federal financial participation (FFP) at the applicable matching rate is available in the costs of cooperative agreements with appropriate courts and law enforcement officials in accordance with the requirements of §302.31 of this chapter. *Law enforcement officials* means district attorneys, attorneys general, and similar public attorneys and prosecutors and their staff. When performed under written agreement, costs of the following activities are subject to reimbursement:

(1) The activities, including administration of such activities, specified in §301.20(b)(2) through (8) of this chapter;

(2) Reasonable and essential short term training of court and law enforcement staff assigned on a full or part time basis to support enforcement functions under the cooperative agreement.

(b) *Limitations.* Federal financial participation is not available in:

(1) Service of process and court filing fees unless the court or law enforcement agency would normally be required to pay the cost of such fees;

(2) Costs of compensation (salary and fringe benefits) of judges;

(3) Costs of travel and training related to the judicial determination process incurred by judges;

(4) Office-related costs, such as space, equipment, furnishings and supplies, incurred by judges.

**§ 304.22**

(5) Compensation (salary and fringe benefits), travel and training, and office-related costs incurred by administrative and support staffs of judges.

(6) Costs of cooperative arrangements that do not meet the requirements of § 304.107 of this chapter.

(c) *Methods of determining costs.* The State IV-D agency has discretion with respect to the method of calculating eligible expenditures by courts and law enforcement officials under cooperative agreements. However, any method used must account for specific costs incurred on behalf of cases receiving services under the IV-D State plan.

(d) *When agreements take effect.* FFP is available in IV-D costs incurred as of the first day of the calendar quarter in which a cooperative agreement or amendment is signed by parties sufficient to create a contractual arrangement under State law.

(17 FR 53017, Nov. 21, 1982, as amended at 17 FR 57261, Dec. 23, 1982; 50 FR 19656, May 9, 1985; 51 FR 36223, July 19, 1989; 61 FR 6252, Feb. 9, 1999)

**§ 304.22 Federal financial participation in purchased support enforcement services.**

Federal financial participation is available at the applicable matching rate for the purchase of support enforcement services as provided for in the State plan to the extent that payment for such purchased services is in accordance with rates of payment established by the State which do not exceed the amounts reasonable and necessary to assure quality of such service and in the case of such services purchased from other public agencies, the cost reasonably assignable to such services. The determination that the amounts are reasonable and necessary and that the costs are reasonably assignable must be fully documented in the IV-D agency records. Support enforcement services which may be purchased with Federal financial participation are those for which Federal financial participation is otherwise available under § 304.20 and which are included under the approved State plan.

(30 FR 27166, June 26, 1955, as amended at 17 FR 57262, Dec. 23, 1982; 50 FR 19656, May 9, 1985)

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**§ 304.23 Expenditures for which Federal financial participation is not available.**

Federal financial participation at the applicable matching rate is not available for:

(a) Activities related to administering title I, IV-A, X, XIV, XVI, XIX or XX of the Act.

(b) Purchased support enforcement services which are not secured in accordance with § 304.22.

(c) Construction and major renovations.

(d) Education and training programs and educational services except direct cost of short term training provided to IV-D agency staff or pursuant to §§ 304.206(b)(2)(viii) and 304.21.

(e) Any expenditures which have been reimbursed by fees collected as required by this chapter.

(f) Any costs of caseworkers as described in § 303.20(e) of this part.

(g) Medical support enforcement activities performed under cooperative agreements in accordance with section 1913(a)(2) of the Act.

(h) Any expenditures made to carry out an agreement under § 303.15 of this chapter.

(i) Any expenditures for jailing of parents in child support enforcement cases.

(j) The costs of counsel for indigent defendants in IV-D actions.

(k) The costs of guardians ad litem in IV-D actions.

(18 FR 51539, Nov. 3, 1991, as amended at 17 FR 57262, Dec. 23, 1982; 50 FR 11491, Oct. 16, 1985; 52 FR 32132, Aug. 26, 1987; 51 FR 32103, Aug. 1, 1986; 57 FR 51525, Nov. 19, 1992; 59 FR 66254, Dec. 23, 1994; 61 FR 67211, Dec. 20, 1996; 71 FR 62112, July 21, 2006)

**§ 304.24 Equipment—Federal financial participation.**

Claims for Federal financial participation in the cost of equipment under the Child Support Enforcement Program are to be determined in accordance with subpart C of 45 CFR part 95. Requirements concerning the management and disposition of equipment under the Child Support Enforcement Program are also prescribed in subpart C of 45 CFR part 95.

(17 FR 1356, Sept. 21, 1982)



DSS Form 1164 (Purchase of Service Reimbursement Request)

**COURTESY OF  
LUNA SHARK MEDIA**

**SECTION A GENERAL INFORMATION**

PROVIDER'S NAME: \_\_\_\_\_ PROVIDER CODE: \_\_\_\_\_

PROVIDER'S ADDRESS: \_\_\_\_\_

COVERED BY REQUEST:

FROM: \_\_\_\_\_ TO: \_\_\_\_\_

CONTRACT PERIOD:

FROM: \_\_\_\_\_ TO: \_\_\_\_\_

**SERVICE**

- SINGLE
- MULTIPLE
- 4 OR LESS
- 5 OR MORE

**TYPE OF PROVIDER**

- PRIVATE NON-PROFIT
- PRIVATE PROFIT
- PUBLIC

**SECTION B SERVICE DELIVERY CLIENT CLASSIFICATION AND DOLLAR AMOUNT SCHEDULE**

SERVICE CODE	UNIT COSTS		DOLLARS	SERVICE CODE	UNIT COSTS		DOLLARS
	CLIENTS	UNITS			CLIENTS	UNITS	
1. SSI				1. SSI			
2. AFDC				2. AFDC			
3. Income Eligible				3. Income Eligible			
4. Without Regard to Income				4. Without Regard to Income			
5. WJH				5. WJH			
<b>SERVICE TOTAL</b>				<b>SERVICE TOTAL</b>			
SERVICE CODE	UNIT COST:		DOLLARS	SERVICE CODE	UNIT COST:		DOLLARS
	CLIENTS	UNITS			CLIENTS	UNITS	
1. SSI				1. SSI			
2. AFDC				2. AFDC			
3. Income Eligible				3. Income Eligible			
4. Without Regard to Income				4. Without Regard to Income			
5. WJH				5. WJH			
<b>SERVICE TOTAL</b>				<b>SERVICE TOTAL</b>			

**SECTION C FUND REIMBURSEMENT CATEGORY RECAP.**

		FOR DSS ONLY	AMOUNT
1. FEDERAL FINANCIAL PARTICIPATION	75% F.F.P.		\$
2.	% F.F.P.		\$
3. MATCH SHARE	15%		\$
4.	%		\$
5. DSS STATE APPROPRIATION	21%		\$
6. LESS STATE APPROPRIATION	%		\$
7. CERTIFIED PUBLIC EXPENDITURE	25%		XXXXXXXXXXXXXXXXXXXX
8. CERTIFIED PUBLIC EXPENDITURE	%		XXXXXXXXXXXXXXXXXXXX
9.			( )
<b>TOTAL OR NET CLAIM AMOUNT</b>			\$

**SECTION D CERTIFICATION BY PROVIDER**

I DO SOLEMNLY SWEAR (OR AFFIRM) THAT I HAVE EXAMINED THE INFORMATION CONTAINED IN THIS REQUEST THAT ALL SUCH INFORMATION HAS BEEN PREPARED FROM THE BOOKS AND RECORDS OF THE PROVIDER NAMED WITHIN THAT THE AFORESAID INFORMATION IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF AND THAT NO OTHER REQUEST FOR REIMBURSEMENT FROM OTHER FEDERAL AND/OR STATE FUNDS HAS BEEN MADE NOR HAS ANY OTHER REIMBURSEMENT BEEN RECEIVED, APPLIED FOR, NOR WILL THEY BE APPLIED FOR, FOR THE SERVICES HEREBY DESCRIBED THAT OUR AGENCY HAS ON FILE PROPER CLIENT AUTHORIZATIONS FOR THESE SERVICES CLAIMED AND THE NECESSARY DOCUMENTATION TO SUPPORT THESE CLAIMS, THAT ALL CLAIMS REPORTED ARE WITHIN THE PERIOD OF AUTHORIZED ELIGIBILITY.

PROVIDER'S SIGNATURE: \_\_\_\_\_ TITLE: \_\_\_\_\_ DATE: \_\_\_\_\_

REPORT PREPARED BY: \_\_\_\_\_ TITLE: \_\_\_\_\_ ADDRESS: \_\_\_\_\_ TELEPHONE: \_\_\_\_\_

Title IV-D Multiple Activities Personnel Report

**COURTESY OF  
LUNA SHARK MEDIA**

**Title IV-D (Child Support) Personnel Activity Report**

(2 CFR 225 Appendix B)

Submitted by \_\_\_\_\_ County Clerk of Court

Instructions: This Personnel Activity Report (PAR) should be completed for a continuous pay period each month for each employee in the office of the Clerk of Court whose salary, wages, or other financial benefits, are supported through federal Title IV D (Child Support) funds if the employee provides services in any section of the Clerk's office other than the Family Court section. The PAR need not be completed for an employee who provides services only in the Family Court section.

The week for which the PAR is completed should be the same for all employees covered by the reporting requirement and the percentage of each such employee's salary, wages, or other financial benefits allocable to federal funding should be indicated in the "Percentage Allocated" column.

PAR must be maintained by the Clerk of Court locally for a period of three fiscal years beyond the dates entered on them, unless an audit is underway, in which case the PAR must be maintained beyond the three year period for the duration of the audit. There is no requirement that the completed PAR be forwarded to the DSS Child Support Office.

**Personnel Activity Report**

**Employee Name:**

**Pay-Period Dates:**

Activity	Mon	Tue	Wed	Thurs	Fri	Mon	Tue	Wed	Thurs	Fri	Total	Percentage
IV-D Hrs.												
Family Court Hrs.												
Other												
<b>Total:</b>												

I certify by my signature hereto that the above is an accurate statement of the IV D Hrs., Family Court hours and other hours I have actually worked for the specified pay period dates.

\_\_\_\_\_  
Employee's Signature

\_\_\_\_\_  
Date

The PAR is certified by me, the Clerk of Court, as to time, activity, and accruals for all Title IV-D (child Support) activities for the above employee who works on multiple activities or cost objectives in my office. The PAR reflects an actual after-the-fact distribution of the activity of the employee and accounts for the total activity for which the employee is compensated and is in compliance with the requirements specified in 2 CFR 1225, Appendix B, section subsections 8.h (4) through (6).

\_\_\_\_\_  
Clerk of Court

\_\_\_\_\_  
Date



2 CFR Part 225, Appendix B (Selected Items of Cost)

**COURTESY OF  
LUNA SHARK MEDIA**

3. *Minor Items.* Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

**F. Indirect Costs**

1. *General.* Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to this part.

3. *Limitation on indirect or administrative costs.*

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

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

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

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

1. No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit

using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices C and E to this part. The certificate must be signed on behalf of the governmental unit by an individual at a level no lower than chief financial officer of the governmental unit that submits the proposal or component covered by the proposal.

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

**APPENDIX B TO PART 225—SELECTED ITEMS OF COST**

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11. Depreciation and use allowances
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- 39 Selling and marketing
- 40 Taxes
- 41 Termination costs applicable to sponsored agreements
- 42 Training costs
- 43 Travel costs

Sections 1 through 43 provide principles to be applied in establishing the allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in Appendix A to this part. Failure to mention a particular item of cost in these sections is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

1. *Advertising and public relations costs.*

a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.

b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

c. The only allowable advertising costs are those which are solely for:

- (1) The recruitment of personnel required for the performance by the governmental unit of obligations arising under a Federal award;
- (2) The procurement of goods and services for the performance of a Federal award;
- (3) The disposal of scrap or surplus materials acquired in the performance of a Federal award except when governmental units are reimbursed for disposal costs at a predetermined amount; or
- (4) Other specific purposes necessary to meet the requirements of the Federal award.

d. The only allowable public relations costs are:

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

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

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

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

2. *Advisory councils:* Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allowable to Federal awards.

3. *Alcoholic beverages:* Costs of alcoholic beverages are unallowable.

4. *Audit costs and technical services.*

a. The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable. Also see 31 U.S.C. 7505(b) and section 250 ("Audit Costs") of Circular A-133.

b. Other audit costs are allowable if included in a cost allocation plan or indirect

cost proposal, or if specifically approved by the awarding agency as a direct cost to an award.

c. The cost of agreed-upon procedural engagements to monitor subrecipients who are exempted from A-133 under section 200(d) are allowable subject to the conditions listed in A-133, section 201(b)(2).

5. *Bad debts.* Bad debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims related collection costs, and related legal costs, are unallowable.

6. *Bonding costs.*

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

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

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

7. *Communication costs.* Costs incurred for telephone services, local and long distance telephone calls, telegrams postage, messenger, electronic or computer transmitted services and the like are allowable.

8. *Compensation for personal services.*

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225 and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;

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

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

b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not

found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

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

d. *Fringe benefits.*

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if they are provided under established written leave policies, the costs are equitably allocated to all related activities, including Federal awards, and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

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

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

(5) The cost of fringe benefits in the form of employee contributions or expenses for social security, employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22 Insurance and Indemnification), pension plan costs (see subsection e.ii), and other similar

benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or groups of employees whose salaries and wages are chargeable to such Federal awards and other activities.

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

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

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

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

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

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

f. Post-retirement health benefits. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection b.c. of this appendix for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

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

(2) PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period for a later period agreed to by the cognizant agency are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund.

(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.

(4) When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

(5) To be allowable in the current year, the PRHB costs must be paid either to

(a) An insurer or other benefit provider as current year costs or premiums, or

(b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

(6) The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

g. Severance pay.

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

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

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



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

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

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

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

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

(a) More than one Federal award,  
 (b) A Federal award and a non-Federal award,  
 (c) An indirect cost activity and a direct cost activity,

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

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect in after-the-fact distribution of the actual activity of each employee.

(b) They must account for the total activity for which each employee is compensated.

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.  
 (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(1) The governmental unit's system for establishing the estimates produces reasonable

approximations of the activity actually performed;

(2) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(3) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

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

(a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:

(1) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.(6)(c) of this appendix;

(2) The entire time period involved must be covered by the sample, and

(3) The results must be statistically valid and applied to the period being sampled.

(b) Allocation charges for the sampled employees' supervisors, clerical and support staffs based on the results of the sampled employees, will be acceptable.

(c) Less than full compliance with the statistical sampling standards noted in subsection 8.h.(6)(a) of this appendix may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs in Federal awards than a system which complies with the standards.

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

#### 1. Donated services

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

In accordance with the provisions of the Common Rule.

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

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

2. *Contingency provision.* Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see section 22. of this appendix), pension plan reserves (see section 8.1), and post-retirement health and other benefit reserves (section 8.f) computed using acceptable actuarial cost methods.

D. *Defense and prosecution of criminal and civil proceedings and claims.*

a. The following costs are unallowable for contracts covered by 10 U.S.C. 2321k: "Allowable costs under defense contracts."

(1) Costs incurred in defense of any civil or criminal fraud proceeding or similar proceeding (including filing of false certification brought by the United States where the contractor is found liable or has pleaded not to contend to a charge of fraud or similar proceeding) (including filing of a false certification).

(2) Costs incurred by a contractor in connection with any criminal, civil or administrative proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2321k.

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

H. *Depreciation and use allowances.*

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

b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual

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

c. The computation of depreciation or use allowances will exclude:

(1) The cost of land.

(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government (irrespective of where title was originally vested or where it presently resides) and:

(b) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.

d. Where the depreciation method is followed, the following general criteria apply:

(1) The period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used.

(2) Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

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

f. Where the use allowance method is followed, the following general criteria apply:

(1) The use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and

sidewalk) will be computed at an annual rate not exceeding two percent of acquisition cost.

(2) The use allowance for equipment will be computed at an annual rate not exceeding 6.5 percent of acquisition cost.

(3) When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dental chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the 6.5 percent equipment use allowance limitation.

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

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

#### 12. Donations and Contributions.

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

#### b. Donated services received.

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

in accordance with the Federal Grants Management Common Rule.

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

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

#### 13. Employee morale, health and welfare costs.

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

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

14. Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities) are unallowable.

#### 15. Equipment and other capital expenditures.

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

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

(2) "Equipment" means an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$500.

(3) "Special purpose equipment" means equipment which is used only for research,

medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

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

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

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

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

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

(4) When approved as a direct charge pursuant to section 15.601, (2), and (3) of this appendix, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized at their option to write or delegate the prior approval requirement.

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

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

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

16. *Fines and penalties.* Fines, penalties, damages and other settlements resulting from violations or alleged violations of, or failure of the governmental unit to comply

with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

17. *Fund raising and investment management costs.*

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

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

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

18. *Gains and losses on disposition of depreciable property and other capital assets and substantial reduction of Federal programs.*

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

(2) Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

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

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

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

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

b. Substantial reduction of Federal awards from a facility where the Federal Government participated in the financing to an other facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the



relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.

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

**19. General government expenses.**

a. The general costs of government are unallowable except as provided in section 13 of this appendix. Travel costs. These include:

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

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

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

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

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

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

**20. Goods or services for personal use.** Costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

**21. Idle facilities and idle capacity.**

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

(1) "Facilities" means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located and whether owned or leased by the governmental unit.

(2) "Idle facilities" means completely unused facilities that are excess to the governmental unit's current needs.

(3) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between 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, shutdowns, unsatisfactory materials, and other normal delays; and the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.

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

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

(1) They are necessary to meet fluctuations in workload; or

(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subsection, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities.

c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, tenting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.

**22. Insurance and indemnification.**

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

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

(1) Types and extent and cost of coverage are in accordance with the governmental unit's policy and sound business practice.

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

c. Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal award or as described below.



However, the Federal Government will participate in actual losses of a self insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductibles insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

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

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

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

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

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

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

e. Actual claims paid to or on behalf of employees or former employees for workers'

compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection 4C for post retirement health benefits), are allowable in the year of payment provided the governmental unit follows a consistent costing policy and they are allocated as a general administrative expense to all activities of the governmental unit.

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

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

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

24. *Interest.*

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

b. Financing costs (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction or fabrication, reconstruction or remodeling completed on or after October 1, 1990 is allowable subject to the conditions in section 23 b (1) through (3) of this appendix. Financing costs (including interest) paid or incurred on or after September 1, 1995 for land or associated with otherwise allowable costs of equipment is allowable, subject to the conditions in section 23 b (1) through (3) of this appendix.

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

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

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

(4) For debt arrangements over \$1 million, unless the governmental unit makes an initial equity contribution to the asset purchase of 25 percent or more, the governmental unit shall reduce claims for interest cost by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows: Annually, non-Federal

entities shall prepare a cumulative (from the inception of the project) report of monthly cash flows that includes inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest cost. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (i.e., usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the portion share attributable to the unallowable costs of land and interest payments) where cumulative inflows exceed cumulative outflows. Interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest cost. The rate of interest to be used to compute earnings on excess cash flows shall be the three month Treasury bill closing rate as of the last business day of that month.

15) Interest attributable to fully depreciated assets is an allowable.

#### 21. *Lobbying.*

a. General. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans shall be governed by the common rule, "New Restrictions on Lobbying" (see Section J.21 of Appendix A to 2 CFR part 200), including definitions, and the Office of Management and Budget's Government-wide Guidance for New Restrictions on Lobbying and notices published at 51 FR 52006 (December 20, 1989), 55 FR 21570 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively.

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

22. *Maintenance, operations, and repairs.* Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations and the like are allowable to the extent that they keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, do not add to the permanent value of property or appreciably prolong its intended life, and are not otherwise included in rental or other charges for space. Costs which add to the

permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 1) and 5) of this appendix).

#### 26. *Materials and supplies costs.*

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

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

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

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

27. *Meetings and conferences.* Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. But see section 11, Entertainment costs, of this appendix.

28. *Memberships, subscriptions, and professional activity costs.*

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

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

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

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

#### 29. *Patent costs.*

a. The following costs relative to patent and copyright matters are allowable: cost of preparing disclosures, reports, and other documents required by the Federal award and of searching the art to the extent necessary to make such disclosures; cost of preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government, and general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements (but see sections 22, Professional service costs, and 30, Royalties and

other costs for use of patents and copyrights, of this appendix.

b. The following costs related to patent and copyright matter are unallowable: Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures not required by the award; costs in connection with filing and prosecuting any foreign patent application; or any United States patent application, where the Federal award does not require conveying title or a royalty-free license to the Federal Government (but see section 30, Royalties and other costs for use of patents and copyrights, of this appendix).

30. *Plant and homeland security costs.* Necessary and reasonable expenses incurred for routine and homeland security to protect facilities, personnel, and work products are allowable. Such costs include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; contractual security services; consultants; etc. Capital expenditures for homeland and plant security purposes are subject to section 15, Equipment and other capital expenditures, of this appendix.

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

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

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

- (1) The nature and scope of the service rendered in relation to the service required.
- (2) The necessity of contracting for the service, considering the governmental unit's capability in the particular area.
- (3) The past pattern of such costs, particularly in the years prior to Federal awards.
- (4) The impact of Federal awards on the governmental unit's business (i.e., what new problems have arisen).
- (5) Whether the proportion of Federal work to the governmental unit's total business is

such as to influence the governmental unit in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.

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

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

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

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

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

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

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

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

- (1) The research papers report work supported by the Federal Government; and
- (2) The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.

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

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

**35. Rental costs of buildings and equipment**

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

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

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

d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. The provisions of Financial Accounting Standards Board Statement 13 Accounting for Leases shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 24 of this appendix. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the governmental unit purchased the facility.

**36. Royalties and other costs for the use of patents**

a. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto,

necessary for the proper performance of the award are allowable unless:

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

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

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

(4) The patent or copyright is expired;

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

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

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

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

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

**39. Selling and marketing** Costs of selling and marketing any products or services of the governmental unit are unallowable unless allowed under section 1. of this appendix as allowable public relations costs or under section 31. of this appendix as allowable non-postal costs.

**40. Taxes**

a. Taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs. This provision is applicable to taxes paid during the governmental unit's first fiscal year that begins on or after January 1, 1991, and applies thereafter.

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

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

**41. Termination costs applicable to sponsored agreements.** Termination of awards generally gives rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the Federal award not been terminated. Cost principles covering these items are set forth below. They