AC NO: 150/5100-10A

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ADVISORY CIRCULAR

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

SUBJECT: ACCOUNTING RECORDS GUIDE FOR AIRPORT AID PROGRAM SPONSORS

1. PURPOSE. This advisory circular sets forth recordkeeping requirements imposed on sponsors of Airport Development Aid Program (ADAP) and the Planning Grant Program (PGP) projects by the Airport and Airway Development Act of 1970, as amended. In addition, the Federal Aviation Regulations (FARs) require a sponsor to establish and maintain a financial management system that meets the standards set forth in FAR 152, Appendix K. This circular provides detailed explanations of these requirements.

2. CANCELLATION. AC 150/5100-10, Accounting Records Guide for Airport Development Aid Program Sponsors, dated 5/15/72, is cancelled.

3. MAJOR CHANGES. AC 150/5100-10 was revised to incorporate the amendments to FAR 152 that became effective on July 1, 1974. These amendments resulted from implementation of Federal Management Circular 74-7 (formerly Office and Management and Budget Circular A-102), "Uniform administrative requirements for grants-in-aid to state and local governments." In addition, guidance for PGP sponsors was added.

4. EXPLANATORY INFORMATION. This circular cannot be sufficiently comprehensive to cover all possible situations that may arise. Accordingly, a sponsor should not hesitate to request such additional information as is necessary relating to recordkeeping requirements, financial management systems, project costs, or documentation by contacting the appropriate FAA Airports field office. The FAA Airports field office will arrange for an FAA auditor to provide the sponsor with the needed information. AC 150/5000-3, Address List for Regional Airports Divisions and Airports District Offices, current edition, contains the addresses of the Regional Airports Divisions and Airports District Offices.

5. ALLOWABLE COSTS. Allowable costs are described in Part 152 of the FAR and the individual grant agreements. The determination of costs allowable under each grant is based upon the recommendations of the designated

Airports representative and a final decision by the Regional Director or his designee. The general guidelines relating to allowable costs contained in this guide are intended to identify the types of costs which, under certain circumstances, could be considered to be allowable project costs. In the event of a conflict, the regulations and grant agreements will serve as a basis for determining allowable project costs.

6. APPLICABILITY. This circular contains information that is of interest to both ADAP and PGP sponsors. ADAP sponsors should pay particular attention to Chapters 1 through 7. Chapters 1, 2, 5, and 6 relate to PGP sponsors.

William V. Vitale

WILLIAM V. VITALE
Director, Airports Service

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CHAPTER 1. GENERAL

1. PURPOSE. This advisory circular sets forth detailed explanations of requirements for financial management systems, accounting records, and/or data necessary to support payments to sponsors under the Airport Development Aid Program (ADAP) and the Planning Grant Program (PGP).

2. RECORDKEEPING REQUIREMENTS.

   a. Sponsor's Assurance. Section 18 of the Airport and Airway Development Act of 1970, as amended, (hereinafter referred to as the Act) states that as a condition precedent to his approval of an airport development project, the Secretary of Transportation shall receive assurance in writing that:

      ":... (7) all project accounts and records will be kept in accordance with a standard system of accounting prescribed by the Secretary after consultation with appropriate public agencies; ...."

   b. Access to Records. Regarding ADAP and PGP grants, Section 26(a) of the Act provides as follows:

      ".... RECORDKEEPING REQUIREMENTS.--Each recipient of a grant under this part shall keep such records as the Secretary may prescribe, including records which fully disclose the amount and the disposition by the recipient of the proceeds of the grant, the total cost of the plan or program in connection with which the grant is given or used, and the amount and nature of that portion of the cost of the plan or program supplied by other sources, and such records as will facilitate effective audit."

3. AUDIT REQUIREMENTS. Audit requirements relating to ADAP/PGP grants are stated in Sections 26(b) and (c) of the Act as follows:

   "(b) AUDIT AND EXAMINATION.--The Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipient that are pertinent to grants received under this part.

   "(c) AUDIT REPORTS.--In any case in which an independent audit is made of accounts of a recipient of a grant under this part relating to the disposition of the proceeds of such grant or relating to the plan or program in connection with which the grant was given or used, the recipient shall file a certified copy of such audit with the Comptroller General of the United States not later than six months following the close of the fiscal year for which

the audit was made. On or before January 3 of each year the Comptroller General shall make a report to the Congress describing the results of each audit conducted or reviewed by him under this section during the preceding fiscal year. The Comptroller General shall prescribe such regulations as he may deem necessary to carry out the provisions of this subsection."

4. FINANCIAL MANAGEMENT SYSTEM. Under FAR 152.63(a) and 152.143(e), each sponsor is required to establish and maintain a financial management system that meets the standards of FAR 152, Appendix K. These standards are discussed in Chapter 2.

5. ACCOUNTING RECORDS. To fulfill the statutory and regulatory requirements mentioned in paragraphs 2 and 4, each sponsor is required to establish and maintain, for each individual project, an adequate accounting record which will allow FAA representatives to determine the allowability of all costs incurred for the project. Such records are an integral part of the sponsor's financial management system and are described in Chapter 2.

6. RECORDS RETENTION.

   a. Documentary Evidence. Each sponsor shall obtain and retain, for a period of three (3) years after the date of the submission of the final expenditure report, documentary evidence such as invoices, cost estimates, payrolls, appraisal reports and negotiation documents relating to land acquisitions, etc., supporting each item of project costs.

   b. Evidence of Payment. Each sponsor shall retain, for a period of three (3) years after the date of the submission of the final expenditure report, evidence of all payments for items of project costs including vouchers, canceled checks or warrants, and receipts for cash payments.

   c. Availability of Sponsor's Records. The sponsor shall allow the Administrator and the Comptroller General of the United States, or an authorized representative of either of them, access to any of its books, documents, papers, and records that are pertinent to grants received under the ADAP/PGP program for the purposes of accounting and audit. Appropriate FAA personnel may make progress audits at any time during the project, upon notice to the sponsor.

   d. Availability of Contractor's Records. The sponsor shall include in each contract of the cost reimbursable type a clause which allows the FAA or the Comptroller General access to the contractor's records for purposes of accounting and audit.

   e. Unresolved Audit Findings. If audit findings have not been resolved, records shall be retained until such findings have been resolved.

f. Nonexpendable Property Records. Records for nonexpendable property which was acquired with Federal funds shall be retained for three years after final disposition of the property.

7. ADAP PROJECT COSTS.

a. General. Project costs for ADAP projects consist of any costs involved in accomplishing a project, including those of:

(1) Making field surveys.

(2) Preparing plans and specifications.

(3) Accomplishing or procuring the accomplishing of the work.

(4) Supervising and inspecting construction work.

(5) Acquiring land or an interest therein, or any easement through or other interest in airspace.

(6) Providing relocation payments and services required by the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.

(7) Meeting the requirements of FAR 152.73 in affording an opportunity for a hearing and conducting a hearing.

(8) Administrative and other incidental costs that are incurred specifically in connection with accomplishing a project, and that would not have otherwise been incurred.

(9) Safety and security equipment required by rule or regulation.

b. Allowable ADAP Project Costs. To be an allowable project cost, for the purposes of computing the amount of the grant, the cost of an item that is paid or incurred must, in the opinion of the Administrator:

(1) Have been necessary to accomplish airport development in conformity with the approved plans and specifications for an approved project and with the terms and conditions of the grant agreement for the project;

(2) Be reasonable in amount (or be subject to partial disallowance to the extent the Administrator determines it is unreasonable in amount);

(3) Have been incurred after the date the grant agreement was executed, except that the costs of land acquisition, field surveys, planning, preparing plans and specifications, and administrative and incidental costs, may be allowed even though they were incurred after that date, if they were incurred after May 13, 1946;

(4) Be supported by satisfactory evidence;

(5) Have not been included in any airport planning grant or previous development grant project; and

(6) Be a direct cost determined in accordance with the cost principles contained in Appendix J to FAR 152.

c. Unallowable ADAP Costs. The costs described in paragraph 7a including the value of land, labor, materials, and equipment donated or loaned to a sponsor and appropriated to the project by the sponsor, are eligible for consideration as to their allowability, except for:

(1) That part of the cost of acquiring an existing private airport that represents the costs of acquiring passenger automobile parking facilities; buildings to be used as hangars, living quarters, or for nonairport purposes at the airport; and those buildings or parts of buildings the construction of which is not airport development within the meaning of FAR 152.41(a);

(2) The cost of materials and supplies owned by the sponsor or furnished from a source of supply owned by the sponsor, if:

(a) Those materials and supplies were used for airport development before the grant agreement was executed; or

(b) The cost is not supported by proper evidence of quantity and value;

(3) The cost of nonexpendable machinery, tools, or equipment owned by the sponsor and used under a project by the sponsor's force account, except to the extent of the fair rental value of that machinery, tools, or equipment for the period it is used on the project;

(4) The cost of general area, urban, or statewide planning of airports, as distinguished from planning a specific project;

(5) Any cost incurred in connection with raising funds by the sponsor, including interest and premium charges and administrative expenses involved in conducting bond elections and in selling bonds.

8. PGP PROJECT COSTS. To be an allowable project cost for the purpose of figuring the amount of a grant, an item that is paid or incurred must, in the opinion of the Administrator:

a. Have been necessary to accomplish airport planning in conformity with an approved project and with the terms of the grant agreement.

b. Be reasonable in amount.

c. Have been incurred after the date the grant agreement was entered into, except for substantiated and reasonable costs incurred in designing the study effort.

d. Be supported by satisfactory evidence.

e. Be figured in accordance with the cost principles contained in FAR 152, Appendix J.

9.-19. RESERVED.

CHAPTER 2. FINANCIAL MANAGEMENT SYSTEMS

20. SCOPE OF CHAPTER. This chapter lists the standards for financial management systems as contained in FAR 152, Appendix K, discusses FAA's interpretation of the standards, and provides additional information for use of sponsors.

21. ACCURATE, CURRENT AND COMPLETE DISCLOSURE.

a. Standard. Each sponsor financial management system shall provide for accurate, current, and complete disclosure of the financial results of each grant program in accordance with Federal reporting requirements. When a Federal grantor agency requires reporting on an accrual basis and the sponsor's accounting records are not kept on that basis the sponsor should develop such information through an analysis of the documentation on hand or on the basis of best estimates.

b. Federal Reporting Requirements.

(1) Accrual Basis. All financial reports are required to be submitted on the accrual basis.

(2) Report of Federal Cash Transactions, FAA Form 5100-62. When funds are advanced to an ADAP/PGP sponsor, this report is required to be submitted within 15 working days following the end of each quarter.

(3) Financial Status Report, FAA Form 5100-63. This report is required for PGP projects only and is to be submitted at the completion of the project or annually when the project is performed for a period longer than one year.

(4) Application for Grant Payment. FAA Form 5100-60, Outlay Report and Request for Reimbursement for Construction Program, or FAA Form 5100-61, Request for Advance or Reimbursement, provides a detailed breakout of costs incurred by the sponsor. ADAP sponsors could use both of these forms. PGP sponsors, however, would use only Form 5100-61.

c. Program Income. Program income may include, but will not be limited to, interest income, service fees, sale of commodities, usage or rental fees, and sale of assets purchased with grant funds.

(1) Interest income. Sponsors that are units of local governments shall return all interest earned on advances on grant-in-aid funds to the Federal Government.

(2) All other program income. FAR 152.71(a) states that all other program income (gross income) earned by grant-supported activities during the grant period shall be retained by the sponsor and, in accordance with the grant agreement, (a) added to funds committed to the project by the FAA and the sponsor and used to further eligible program objectives, or (b) deducted from the total project cost for the purpose of determining the net costs on which the Federal share of costs will be based.

d. Interpretation. This standard relates to the adequacy of the accounting system for accumulating and reporting program income and costs on a project basis. Separate records relating to project costs and program income that a sponsor is required to establish and maintain are described in paragraphs 21e, 21f, and 21g. However, any accounting and reporting system that satisfies the standard is acceptable.

e. Project Cost Records for ADAP Sponsors. Each sponsor shall establish and maintain project cost records in the classifications listed below. Subsidiary records may be maintained as needed.

(1) Administrative expense includes such things as advertising, materials and supplies, certain legal fees, travel, and other administrative expenses. Such items are discussed in greater detail in Chapter 6.

(2) Preliminary expense includes amounts pertaining to the work of locating and designing, making surveys and maps, sinking test holes, and all other work required prior to actual construction.

(3) Land, structures, and right-of-ways. This category includes all amounts directly associated with the acquisition of land, existing structures, and related right-of-ways, and incidental costs. See Chapter 3.

(4) Architectural engineering basic fees. Self-explanatory.

(5) Other architectural engineering fees. This account should not include amounts recorded in paragraph 21e(4) above. See Chapter 5.

(6) Project inspection fees include supervision, inspection, and audit fees of construction and related programs.

(7) Land development costs represent all amounts associated with the development of land where the primary purpose of the grant is land improvement. The amount pertaining to land development normally associated with major construction should be excluded from this category and recorded under paragraph 21e(11).

(8) Relocation expense includes amounts used to provide relocation advisory assistance and net costs of replacement housing (last report). The amounts needed for relocation administrative expense should be included as part of administrative expense (see paragraph 21e(1)). See Chapter 7.

(9) Relocation payments to individuals and businesses consist of amounts paid to displaced persons, farms, business concerns, and nonprofit organizations. See Chapter 7.

(10) Demolition and removal consists of gross salaries and wages of employees of the sponsor and payments to third party contractors directly engaged in performing the demolition or removal of structures from developed land. All proceeds from the sale of salvage or the removal of structures should be credited to this account, thereby reflecting the net amounts.

(11) Construction and project improvement cost includes those amounts associated with the actual construction of, addition to, or restoration of a facility. Also, include in this category the amounts for project improvement such as sewers, streets, landscaping, and lighting. Such amounts result from both sponsor's force account and contractual construction. See Chapter 4.

(12) Miscellaneous cost consists of all items not specifically mentioned above.

f. Program Income Records. Any records that identify program income by project are acceptable.

(1) Land credits may include, but are not limited to, (a) sales of crops, timber, excess land, or buildings/structures, and/or (b) revenue from lease of nonairport improvements or other assets temporarily rented pending sale, disposal or removal.

(2) Other items include, but are not limited to, (a) sales tax refunds, (b) liquidated damages, and (c) interest on advances received from FAA.

g. Project Cost Records for PGP Sponsors.

Such records shall furnish direct and indirect cost information for each planning project in the following classifications: (1) third party contract costs, (2) force account costs - labor, materials, overhead, etc., and (3) administrative costs.

h. Statement and Distribution of ADAP Project Costs and Cost Credits, Appendix 1. Each ADAP sponsor shall prepare a Statement and Distribution of ADAP Project Costs and Cost Credits or its equivalent to record project cost and cost credits for each individual project. Columns provide space for recording the date, payee, check number, voucher number, amount, and a distribution of project costs. Cost credits are recorded as reductions of project costs. This worksheet should be available at the time of the audit by FAA representatives.

i. Statement and Distribution of PGP Project Costs, Appendix 2. Each PGP sponsor shall prepare a Statement and Distribution of PGP Project Costs or its equivalent to record project costs for each individual project. Columns provide space for recording the date, payee, check number, amount, voucher number, and a distribution of project costs. This worksheet should be available at the time of audit by FAA representatives.

22. SOURCE AND APPLICATION OF FUNDS.

a. Standard. Each sponsor shall maintain records which identify adequately the source and application of funds for grant-supported activities. These records shall contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays, and income.

b. Interpretation. Source of funds would include (1) the sponsor's matching share, (2) reimbursements or advance payments by FAA, and (3) revenue generated from land uses or other grant-related activities. Application of funds relates to obligation/expenditures for eligible project work covered by the grant agreement.

23. CONTROL AND ACCOUNTABILITY.

a. Standard. Each sponsor shall maintain effective control over and accountability for all funds, property, and other assets. Sponsors shall adequately safeguard all such assets and shall assure that they are used solely for authorized purposes.

b. Requirements. The sponsor is required to establish and maintain a property management system for the utilization and disposition of property furnished by the Federal Government or acquired in whole or part with Federal funds. Such system must be in accordance with the property management standards contained in FAR 152, Appendix L. (See Appendix 3.)

c. Interpretation. Fund control is covered by the standard discussed in paragraph 22. Regarding control over and accountability for property and other assets, land, improvements, and bulk materials acquired with grant funds would usually be the only covered property or assets for ADAP projects. Under certain circumstances, there may be specialized equipment for PGP projects.

24. BUDGETED AMOUNTS.

a. Standard. Each sponsor's system shall provide for comparison of actual with budgeted amounts for each grant. Also, the system should show the relation of financial information with performance or productivity data, including the production of unit cost information whenever appropriate and required by the grantor agency.

b. Interpretation. The budgeted amount would be the estimated costs shown in the the project application.

25. DISBURSEMENT PROCEDURES.

a. Standard. Each sponsor shall establish procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the sponsor, whenever funds are advanced by the Federal Government. When advances are made by a letter-of-credit method, the sponsor shall make drawdowns from the U.S. Treasury through his commercial bank as close as possible to the time of making the disbursements.

b. Interpretation. This standard would only apply when funds are advanced to a sponsor by Treasury check or by letter-of-credit. The sponsor's system should provide for disbursement within five working days after receipt of Federal funds.

26. PROJECT COSTS.

a. Standard. Each sponsor shall establish procedures for determining the allowability and allocability of costs in accordance with the provisions of FAR 152.47, FAR 152.137, and FAR 152, Appendix J, as appropriate. (See Appendix 4.)

b. Interpretation. This standard relates to the standard discussed in paragraph 21 concerning the need for adequate cost accounting records. When indirect costs under PGP are claimed, the system should provide for the records considered necessary to support the cost allocation plan mentioned in FAR 152, Appendix J, Part I, Section J.

27. SOURCE DOCUMENTATION.

a. Standard. The system shall provide accounting records which are supported by source documentation.

b. Requirements. All payments of ADAP/PGP project costs must be supported by satisfactory evidence of payment and sufficient documentary evidence to show that work or services were performed or supplies were received. Each document shall contain the ADAP/PGP project number. Requirements for more specific documentation are contained in Chapters 3 through 7.

(1) Disbursements. All payments of project costs shall be by check or if made by cash must be supported by receipts.

(a) All disbursements shall be supported by the original invoice and canceled check, or cash receipt. The check number shall be cross-referenced on the invoice and the invoice and project numbers shall be cross-referenced on the check. The invoices should be rendered on preprinted stationery or invoice from the vendor, stating the vendor's name and address and details of the billing or the sponsor may wish to request the vendor to submit his invoice on a standard claim form. Statements for professional services must clearly indicate the exact nature of the services, the period or hours involved, the hourly rate, and dates on which services were rendered. Statements for material and supplies shall show the date on which the items were contracted for or delivered and a detailed description of the items covered by the statements, showing the units and prices applicable.

(b) Statements of services or items furnished under formal contracts should make reference to the original contract, the date, and the applicable sections under which the costs were incurred. A detailed computation of the total amounts earned to date shall be shown deducting any previous payments made to date arriving at a balance due and payable.

(2) Verification. All invoices submitted by vendors for payment under a formal contract should be verified by the sponsor with the original document on which receipt of materials or services was acknowledged to insure that the services or materials quantities, and requirements are in agreement. As statements and invoices are received, checked, and approved for payment, they shall be kept in an unpaid file. The sponsor's accountant or designated person shall verify payment with the project cost recorded on the Statement and Distribution of ADAP Project Costs and Cost Credits or Statement and Distribution of PGP Project Costs, as appropriate, to insure that they are in agreement.

c. Interpretation. The standard is explained in paragraph 27b.

8. AUDITS.

a. Standard. Each sponsor shall provide audits to be made by the sponsor or at his direction to determine, at a minimum, the fiscal integrity of financial transactions and reports, and the compliance with laws, regulations, and administrative requirements. The sponsor will schedule such audits with reasonable frequency, usually annually, but not less frequently than once every two years, considering the nature, size, and complexity of the activity. In addition, the sponsor shall establish a systematic method to assure timely and appropriate resolution of audit findings and recommendations.

b. Requirements. Each sponsor is required to provide periodic audits to determine the financial integrity of its transactions and reports. In addition, each sponsor is responsible for audit of all cost reimbursable type contracts.

c. Interpretation. Audits may be performed by state auditors, sponsor's internal audits, or the sponsor's independent public accountants. It is desirable that such audits be performed in accordance with the audit standards promulgated by the Comptroller General of the United States in the publication entitled, "Standards for Audit of Government Organizations, Programs, Activities, and Functions."

29. REVIEWS OF SPONSOR'S FINANCIAL MANAGEMENT SYSTEM.

a. Responsibility for Reviews. FAA auditors are responsible for establishing procedures to determine if sponsors comply with the standards mentioned in paragraphs 21 through 28.

b. Types of Reviews. FAA review of sponsors may be accomplished by using one or more of the following techniques, but they are not limited to those listed: (1) audits made by Federal auditors (DOT or other Federal) at completion of a prior grant; (2) annual evaluation made by DOT elements of sponsor technical, financial, and administrative procedures; (3) special system surveys made by Federal auditors or independent public accountants prior to grant awards; and (4) audits made by the sponsor or required by the sponsor which are made in accordance with guidelines listed in the General Accounting Office booklet entitled "Standards for Audit of Governmental Organizations, Programs, Activities and Functions."

c. FAA Review Requirements.

(1) Grants Awarded After June 30, 1974. FAA will review the financial management systems of sponsors who are receiving their first FAA grant award after June 30, 1974, prior to making the award whenever possible but in no event will this review take place later than six months following the date on which the grant agreement was signed. Subsequent to this initial review, financial management systems will be reviewed as directed in paragraph 29c(2) below.

(2) Subsequent Reviews. FAA will review sponsor financial management systems as often as it is deemed necessary but reviews will be made at least every 24 months to determine if the sponsor complies with the standards.

(3) Results of Review. FAA will notify sponsors of the results of periodic reviews within 30 days of their completion.

d. Effect of Audit Findings on Grant Payment Procedures. Advance payments to a sponsor will not be made when the sponsor's financial management system does not meet the standards of FAR 152, Appendix K. Reimbursements will be made in lieu of advances when the sponsor's records are adequate for audit purposes.

CHAPTER 3. LAND, STRUCTURES, AND RIGHT-OF-WAY COSTS

30. GENERAL. During the land acquisition processes, the sponsor should accumulate and assemble all papers relating to the acquisition of specific parcels of land and disposal of any improvements thereon. This collective data will be necessary for compiling information to be submitted to FAA and for the audit of claimed land costs. Where practicable, all documents and correspondence pertaining to a particular parcel should be accumulated in a file folder for that particular parcel. This will constitute a chronological record of all events and costs, from inception to the completed land transaction.

31. BASIC RECORDS. The following documents and records will be required to support a sponsor's claim for land acquisition costs.

a. Identification of the acquired land:

(1) Parcel number assigned for the particular ADAP project and shown on the property map (Exhibit A).

(2) Acreage.

(3) Date acquired.

(4) Name of prior owner.

(5) Type of conveyance, interest acquired, and recorded: Date _____ Book _____ Page _____.

(6) Purchase price or claimed value.

(7) Type and value of improvements at date of purchase.

(8) Land credits.

(9) Appraised value and established just compensation.

b. Appraisal reports and evidence of appraisal review. Appraiser's billings must specify the fee charged for each parcel appraised.

c. Negotiator's agreement if costs are claimed for negotiator's fees.

d. Condemnation documents, where applicable, including petition to condemn, report of commissioners, stipulation, jury verdict and final decree (recorded).

e. Copy of purchase option and a copy of the closing statement for each parcel acquired by negotiation. For settlements different from the approved amount, adequate support for the amount paid shall be provided.

f. Original deeds or easements, or certified true copies, showing recording information.

g. Record of rental income derived from leasing of structures or facilities acquired with land.

h. Record of sales or other disposition of crops, timber, structures, or facilities acquired with land.

i. Plots of subdivisions, and/or area maps, if these are necessary to show the location and boundary lines of the several parcels and their relationship, before the taking, to roads, highways, and adjacent ownerships, also their relationship to the airport boundary.

j. Invoices and vouchers to support each item of claimed incidental land costs, identifying the particular parcel of land to which each charge relates.

k. Evidence of all payments, including paid checks or warrants.

l. Statement of just compensation.

m. Justification for land costs paid which are significantly above or below the established just compensation.

n. Legal fees incidental to land acquisition should identify the parcel or former landowner, the nature of the service, the hours applied, the dates of services rendered, and the rate per hour.

o. Record of relocation payments as discussed in Chapter 7.

32. LAND CREDITS. Generally, the amount claimed as a project cost will be the actual purchase price paid for the land, reduced by credits such as the following:

a. Revenue from sale of crops grown in years subsequent to the year in which the land was acquired.

b. The value or revenue from sale of timber acquired with land or, if not sold, its estimated net value except where the timber is to remain standing for reasons considered valid by FAA, such as sound absorption, environmental purposes, etc.

c. Rental revenue earned from the leasing of structures acquired with the land prior to the removal of such structures.

d. The value of improvements acquired with the land will be determined on the basis of the use or disposition of such improvements:

(1) Where nonairport improvements have been sold, the net proceeds from the sale will be deducted from the purchase price to determine the cost of land for project purposes. Improvements determined to have "no salvage value" must be accounted for by letter to the FAA, explaining what disposition was made of the improvements and the dates of such disposition.

(2) Where nonairport improvements have been leased or operated by the sponsor prior to their disposal, the net amount received, including any salvage value, not exceeding the portion of the purchase price attributable thereto, shall be applied to reduce acquisition costs.

(3) For improvements which are to remain in place indefinitely, the portion of the total price which was attributable to such improvements shall be determined and deducted from the total purchase price.

e. Net proceeds from the sale of portions of acquired tracts which are in excess of airport needs.

f. The value of buildings or facilities acquired with the land which the sponsor wishes to retain for some nonairport use.

g. The concept of "net cost of bare land needed for airport purposes" contemplates that the land will be cleared of nonairport structures and that the credits resulting therefrom, such as those previously enumerated, will be applied to reduce the cost of the land.

h. The cost of excess land cannot be participated in except in cases where the remaining part is considered to be an uneconomic remnant. Where the sponsor acquired a tract of land, only a portion of which is included in ADAP, Federal funds may be used to participate only in the project portion. Division of the purchase price between project land and nonproject land depends upon the relative values, usually determinable from analysis of appraisal reports prepared by qualified appraisers. In those instances where FAA has determined the specific area of land necessary for airport purposes prior to appraisal and the sponsor acquires the larger parcel, the appraiser

should be instructed to appraise the values of the project portion and the excess portion of the parcel separately. In those instances where the property owner will leave the owner with an uneconomic remnant, the sponsor will offer to acquire that remnant regardless of its present or potential estimated fair market value or the fact that such parcel may have value to a potential purchaser. Full disclosure of all facts concerning acquisition of excess land should be made available for review by the FAA Airports District or Regional Office.

33. INCIDENTAL LAND COSTS. Incidental land costs should be identified with the applicable land parcel. Incidental costs may include, but are not limited to the following, depending upon the terms of the purchase or other agreement between the buyer (sponsor) and seller.

a. Miscellaneous category includes recording fees, transfer taxes, and similar expenses incidental to conveying such real property to the sponsor.

b. Penalty costs for prepayment of any preexisting recorded mortgage entered into in good faith encumbering the real property.

c. Prepaid Real Property Taxes. The pro rata portion of any prepaid real property taxes which are allocable to a period subsequent to the date of vesting title in the sponsor or the effective date of possession of the real property by the sponsor, whichever is earlier.

d. Litigation Expenses. The costs discussed below are allowable after the effective date of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.

(1) In any condemnation proceeding brought by the sponsor to acquire real property, it shall reimburse the owner of any right, title, or interest in the real property for his reasonable costs, disbursements, and expenses, including attorney, appraisal, and engineering fees, actually incurred because of the proceeding, if -

(a) The final judgment is that the sponsor cannot acquire the real property by condemnation; or

(b) The proceeding is abandoned by the sponsor.

(2) In any inverse condemnation proceeding where the owner of any right, title, or interest in real property receives an award of compensation by judgment or settlement, the sponsor shall reimburse the plaintiff for his reasonable costs, disbursements, and expenses, including reasonable attorney, appraisal, and engineering fees, actually incurred because of

the proceeding.

34.-39. RESERVED.

CHAPTER 4. CONSTRUCTION AND PROJECT IMPROVEMENT COSTS

40. GENERAL. Construction work is performed by one of the following methods:

a. Contractual. All construction work must be accomplished by contract unless FAA determines the project or any portion of it can be more effectively and economically accomplished on a force account basis.

b. Sponsor's Force Account. This involves construction work performed by the sponsor with its own labor force or with the labor force of another public agency. Such work must have the prior written approval of FAA.

41. CONTRACT CONSTRUCTION. The following documents will be required for the auditor's examination of claimed construction and project improvement costs performed under contract:

a. Construction contract and all amendments.

b. Invoices for all work performed including all detailed supporting data.

c. Evidence of all payments including vouchers, and cancelled checks or warrants.

d. Charges for liquidated damages, if any.

e. In the case of a cost reimburseble type contract, the sponsor's audit file, showing scope of examination made by sponsor's auditors of the contractor's records, and the extent of the sponsor's verification work performed.

f. If the contract results in an overrun or underrun of 25 percent or more on a bid item that is 10 percent or more of the total contract, a supplemental agreement with the signature of the surety is required.

g. Record for materials or equipment salvaged under these contracts as a result of removal or replacement, or removal and storage of existing facilities and a determination of the value of each item.

h. Sales tax refund information, if applicable.

i. Final inspection report showing acceptance of the airport development performed under the project, and a record of disposition or correction of all unsatisfactory work, if any.

42. FORCE ACCOUNT CONSTRUCTION. The following information will be required to support claimed force account construction costs.

a. Labor Costs.

(1) Daily time reports of each employee describing the actual work performed on each project, the hourly rate and total hours.

(2) Project account.

(3) Payrolls for each pay period during which any work was performed on the project.

(4) Cancelled payroll checks.

(5) Employees' earnings records.

b. Fringe Benefits.

(1) Payroll tax returns.

(2) Insurance policies, earned premium audits, and applicable invoices.

(3) Pension plan; actual contribution for each employee if irrevocably paid.

(4) Recognized holidays.

(5) Vacation and sick leave policy.

c. Equipment Usage Charges.

(1) Daily equipment operating reports, showing name of operator, hours operated, and distribution to work orders.

(2) Rates; how derived; whether uniformly charged to all work of the sponsor; and FAA approval of such charges.

(3) Equipment operating cost accounts.

d. Materials Costs. Vendor's invoices; applicable purchase orders; freight bills; receiving reports; perpetual inventory records; method of pricing issues from stores' requisitions; stores' returns; production cost reports; depletion or royalty expense; weight tickets; physical inventories; production cost accounts.

43.-49. RESERVED.

CHAPTER 5. ARCHITECTURAL/ENGINEERING/CONSULTANT COSTS.

50. GENERAL. Architectural/engineering/consultant services for ADAP/PGP projects are normally obtained by one of the following methods:

a. Contractual. This involves a contractual arrangement with a professional architect/engineer/consultant.

b. Sponsor's Force Account. This is work performed by a sponsor's own employees or employees of another public agency retained by the sponsor. Sponsor's force account work must have the prior written approval of FAA.

51. CONTRACT SERVICES. The following documents will be required for the auditor's examination of costs claimed for contractual services:

a. Contracts executed after June 30, 1974, shall not provide for reimbursement on the basis of cost-plus-a-percentage-of-cost e.g., salary costs times a multiplier and percentage of construction costs.

b. Invoices for all services billed by contractor, including all detailed data submitted in support of the charges.

c. In case of a cost reimbursable type contract, the sponsor's audit file showing scope of examination made by sponsor's auditors of the contractor's records and the sponsor's determination of actual direct and indirect costs incurred by the contractor that are allocable to the project.

d. Evidence of all payments to the contractor, including vouchers, paid checks or warrants and receipts for cash payments.

52. SPONSOR'S FORCE ACCOUNT.

a. ADAP Projects. For ADAP projects, only direct costs which are identifiable with the project are eligible for Federal participation. Prorations of the sponsor's indirect costs (overhead) are not allowable costs. The same principles as applied to force account construction (see paragraph 42) will be used in determining that claimed force account costs were actually incurred.

b. PGP Projects. Force account costs should be accumulated as described in paragraph 42. In addition, indirect costs, if claimed by a sponsor, must be supported by a cost allocation plan as discussed in paragraph 63.

53. PRORATION OF ENGINEERING COSTS.

a. General. Where engineering costs relate to construction items or quantities both within and without the scope of the ADAP project, the engineering costs will be allocated to both the eligible and ineligible work. The engineering costs relating to the ineligible construction work is not an allowable cost. In addition, proration of engineering costs may be necessary when eligible items of construction qualify for differing rates of Federal participation.

b. Separate Records. Separate time and cost records for engineering work related to eligible and ineligible construction items should be maintained, if practicable. When such records are not maintained, engineering costs generally will be prorated over the entire cost of construction to which the engineering services relate.

54.-59. RESERVED.

CHAPTER 6. ADMINISTRATIVE COSTS

60. DIRECT COSTS. Direct costs are those that can be identified specifically with a particular cost objective. Examples of such costs which are listed below may apply either to ADAP or PGP but not necessarily to both.

a. Advertising. Cost of advertising for bids for materials, supplies, construction work, etc. Advertising and legal notices pertaining to the sale of bonds are not allowable project costs.

b. Project Formulation Costs. This includes all costs incurred by a sponsor in preparing, filing, and documenting the project application, including such costs as preparing necessary surveys, and the cost of title examination. All incidental costs of land acquired or to be acquired under a grant agreement for landing aids such as cost of title search, title certification, condemnation, and court costs and recording costs are not considered project formulation costs but are considered part of land costs and are eligible for Federal participation at a higher rate. Costs relating to locating and designing, making surveys and maps, sinking test holes, and other work prior to construction should be reported as preliminary expenses rather than as administrative expense.

c. Attorney Fees. Attorney fees, other than in connection with land acquisition, are classified as administrative costs. These costs normally are for legal services related to formulation of the project, preparation of contract and agreements, legal opinions, and legal advice associated with the project. If the project description does not contemplate land acquisition, the legal fees for title opinions required by FAA are classified as administrative costs.

d. Abstract of Title. The project application provides for detail on property interest in land previously acquired. Title examination and any curative work necessary are administrative costs incurred in formulation of the project. If the project description does not include land acquisition, fees incurred for the title examination and related work are classified as administrative costs.

e. Materials and Supplies. Materials and supplies used in the administration of the project are allowable if actual costs are established. Office supplies requisitioned from stock may be allowed provided the claim is predicated on actual cost. Items purchased specifically for the project will be allowed provided the quantity purchased is not in excess of the amount necessary for the project.

f. Stenographic, Clerical and Accounting. Time devoted to the project by the sponsor's regular employees is an eligible project cost. Records must be maintained for the distribution of payroll time, showing actual time devoted to the project, and the type of work

in which the employee was engaged. Administrative costs representing a part of the salaries of secretarial and clerical employees are not eligible costs unless:

(1) They represent specific work performed.

(2) The nature of the work is stated.

(3) It is disclosed how the services contributed to the accomplishment of the project.

g. Telephone and Telegraph. Long distance telephone calls and other types of telephone services, and telegrams, must be properly supported to assure that the subject matter pertains specifically to the project.

h. Postage. Postage costs claimed must have adequate supporting detail to be an allowable cost (purpose and to whom).

i. Travel. Travel expenses of the sponsor's employees. Claims must be supported in detail and indicate that travel was for the project and was essential.

61. REQUIRED DOCUMENTATION FOR DIRECT COSTS.

a. Advertising for Bids. The publisher's invoice supported by an "Affidavit of Publication."

b. Attorney Fees. The attorney's invoices, describing the services performed and relationship to the project, the date performed, time devoted and the rate per hour or day.

c. Other Administrative Costs. Salaries, postage, toll calls, travel expense and the like must be substantiated by records of dates, purpose and necessity, readily susceptible to audit verification.

d. Evidence of Payment. Invoices or claims and canceled checks or warrants and receipts for cash payments.

62. INDIRECT COSTS. Indirect costs which are defined in FAR 152, Appendix J, Part I, Section F, are not allowable costs for ADAP projects. Under certain conditions, such costs may be allowable under PGP if they are supportable by cost allocation plans.

63. REQUIRED DOCUMENTATION FOR INDIRECT COSTS. This paragraph provides procedures/guidelines for handling cost allocation plans required of sponsors under FAR 152, Appendix J, Part I, Section J.

a. Definitions.

(1) Cost allocation plan refers to a document that identifies, accumulates, and distributes allowable indirect costs under grants and contracts and identifies the allocation methods used for such distribution.

(2) Grantee agency means any department or agency of a state or local government.

(3) Consolidated statewide cost allocation plan covers the distribution of the cost of central state support services provided to state grantee agencies.

(4) Indirect cost rate proposal covers the distribution of the indirect costs within an individual grantee or contractor agency, including the costs of services allocated to it under the consolidated statewide cost allocation plan, to all work performed by that agency.

(5) Consolidated local government-wide cost allocation plan covers the distribution of the cost of central support services provided to local government agencies.

(6) Indirect cost proposal covers the distribution of the indirect costs within an individual grantee agency, including the costs of services allocated to it under the consolidated local government-wide cost allocation plan, to all work performed by that agency.

b. Preparation of Cost Allocation Plans.

(1) State Agencies. Cost allocation plans and indirect cost rates should be prepared in accordance with the instructions contained in Department of Health, Education, and Welfare (HEW) publication OASC-6, entitled, "A Guide for State Government Agencies - Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Department of Health, Education, and Welfare."

(2) Local Governments. Consolidated local government-wide cost allocation plans and indirect cost proposals should be prepared in accordance with instructions contained in HEW publication OASC-8, entitled, "A Guide for Local Government Agencies - Establishing Cost Allocation Plans and Indirect Cost Proposals for Grants and Contracts with the Federal Government.

(3) Availability of HEW Publications. The publications mentioned in paragraphs 63b(1) and (2) may be purchased for a nominal charge from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

c. Requirements for Submission of Plans.

(1) Consolidated Statewide Cost Allocation Plan.

(a) Time for Submission. A statewide plan must be submitted annually, within six months after the last day of the state's fiscal year.

(b) Effects of Untimely Submissions. Awards made after a statewide plan becomes due will not provide for the recovery of statewide indirect costs. Any statewide indirect costs claimed against awards already made will be subject to disallowance.

(2) Indirect Cost Rate Proposal.

(a) Time for Submission. An annual indirect cost rate proposal must be submitted within four months after statewide cost allocation plan has been approved by the Department of Health, Education, and Welfare.

(b) Effects of Untimely Submissions. Awards made after a proposal becomes due will not provide for the recovery of indirect costs for the period of delinquency and indirect costs claimed against awards already made will be subject to disallowance.

(3) Consolidated Local Government-wide Cost Allocation Plan. A local Government-wide plan must be prepared annually for each fiscal year in which Federal grants and contracts are performed. Such plan will not normally be submitted for prior Federal approval unless specifically requested to do so by the cognizant Federal agency. The plan must be retained by the local government for subsequent Federal audit.

(4) Indirect Cost Proposal. The indirect cost proposal must be developed annually by the local government department. Such proposal should be retained by such department and be made available for audit review.

d. Responsibilities for Approval of Cost Allocation Plans. A listing has been prepared to reflect the agreements reached by the interagency committee assigning the audit and negotiation responsibilities to Federal agencies.

(1) Consolidated Statewide Cost Allocation Plan. HEW has been assigned responsibility for negotiation, approval, and audit of cost allocation plans submitted to it by the states covering central support services provided to state grantee departments.

(2) Indirect Cost Rate Proposal. At the grantee department level in a state, a single Federal agency will have responsibility similar to that set forth in a. above for the negotiation, approval, and audit of indirect cost rate proposals. FAA is the cognizant Federal agency for the department of aeronautics or similar state organizational elements.

(3) Consolidated Local Government-wide Cost Allocation Plan. These plans will be retained at the local government level for subsequent audit by a designated Federal agency except in those cases where that agency requests that cost allocation plans be submitted to it for negotiation and approval.

(4) Indirect Cost Proposal. At the grantee departmental level of local governments, the Federal agency with the predominant interest in the work of the grantee department will be responsible for necessary negotiation, approval, and audit of the indirect cost proposal.

e. Approval of Cost Allocation Plans within FAA.

(1) Approval Office. Regional directors have been delegated authority to negotiate, approve, and audit cost allocation plans for those state and local governments for which the administration is the cognizant Federal agency and which fall within his region. This authority may be redelegated to the chief, audit division.

(2) Assistance by Regional Auditors. Regional auditors are responsible for assisting the approval official in the negotiation, audit, and approval of cost allocation plans.

(3) Submission Requirements. In seeking approval of such plans, state agencies which are under FAA audit cognizance should submit their indirect cost rate proposal directly to the appropriate regional director. When justified, an extension of the time requirements for submission of indirect cost rate proposals (paragraph 63c(2)) may be approved by the regional director or his designee.

f. Sample Formats.

(1) State Agencies. Section IV of HEW publication OASC-6 contains (a) sample cost allocation plan formats, (b) suggested bases for cost distribution, (c) sample negotiation agreements, and (d) related material.

(2) Local Governments. Section III of HEW publication OASC-8 contains essentially the same type of information described in (1) above for local governments.

64.-69. RESERVED.

CHAPTER 7. RELOCATION ASSISTANCE COSTS

70. GENERAL. Each sponsor shall keep a record of the following general information concerning the project.

a. Project and acquired land parcel identification.

b. Name and address of each displaced person and his new address and telephone number, if available.

c. Name of sponsor employee who offers relocation assistance.

71. DISPLACEMENTS FROM DWELLINGS. Each sponsor shall keep a separate record/file containing the following information for each individual or family displaced from a dwelling in connection with the project.

a. General.

(1) Number in family or number of individuals.

(2) Type of dwelling and number of rooms.

(3) Fair market value of acquired dwelling or monthly rent.

(4) Dates of all personal contacts made with each displaced person.

(5) Date each displaced person is given notice of relocation payments and services.

(6) Whether the offer of assistance is declined or accepted, and the name of the individual who accepts or declines the offer.

(7) Date each displaced person is required to move.

(8) Date of actual relocation, and whether relocation was accomplished with the assistance of the sponsor concerned, other agencies, or without assistance.

(9) Evidence that the displaced person has relocated into a decent, safe, and sanitary dwelling.

(10) Type of tenure held by each displaced person before and after relocation.

b. Moving Expenses.

(1) The date the personal property is moved, and the original and new locations of the personal property.

(2) If the personal property is stored temporarily:

(a) The place of storage;

(b) The duration of storage; and

(c) A statement as to why storage is necessary.

(3) An account of all moving expenses that are supported by receipted bills or similar evidence of expense.

(4) Amount of reimbursement claimed, amount allowed, and an explanation of any difference.

(5) If payment is based upon schedule, paragraphs 71b(2), (3), and (4) are not necessary. The files should indicate the basis for the moving expense payment.

c. Replacement Housing Payments.

(1) The date the application for payment is received.

(2) The date application for payment is approved or rejected.

(3) Data substantiating the amount of payment.

(4) If replacement housing is purchased, a copy of the closing statement indicating the purchase price, down payment, and incidental expenses.

(5) Whenever a rental payment is made by annual installment, a statement confirming that the tenant still occupies a decent, safe, and sanitary dwelling.

(6) A copy of the Truth in Lending Statement, or other data, including computations, that confirm the increased interest payment.

72. DISPLACED BUSINESSES/FARM OPERATIONS. Each sponsor shall keep a separate record/file of the following information concerning each business displaced in connection with the project.

a. General.

(1) Type of business.

(2) Whether or not it was relocated. If relocated, distance moved.

(3) Data supporting a determination that the business cannot be relocated without a substantial loss of its existing patronage and that it is not part of a commercial enterprise having at least one other establishment not being acquired by the sponsor. This also pertains to farm operations.

b. Moving Expenses.

(1) Similar information as described in paragraph 71b.

(2) In the case a business or farm operation that receives a fixed allowance in lieu of moving expenses, data underlying the computation of such payment.

73. RELOCATION ASSISTANCE ADVISORY SERVICES.

a. General. Relocation assistance advisory services may be provided by employees of the sponsor or by contract with any qualified individual, firm, association, corporation, or another State or local government agency.

b. Contractual Services. The following documentation will be required to support a sponsor's claim for reimbursement for relocation assistance advisory services performed by a contractor.

(1) A copy of the contract and all amendments.

(2) Invoices for all services rendered including detailed supporting data.

(3) Evidence of all payments including vouchers and canceled checks or warrants.

(4) If the contractor pays moving expenses or replacement housing payments to displaced persons, the documentation described in paragraphs 70, 71, and 72 is required.

c. Services Provided by Sponsor. When the relocation assistance advisory services are provided by the sponsor's employees, the following documentation will be required.

(1) Labor costs and fringe benefits. The documentary evidence contained in paragraph 42a and 42b is applicable.

(2) Materials costs. See paragraph 42d.

(3) Other costs such as space, telephone service, postage, advertising, etc. Documentation for such costs should include: invoices, vouchers, canceled checks or warrants.

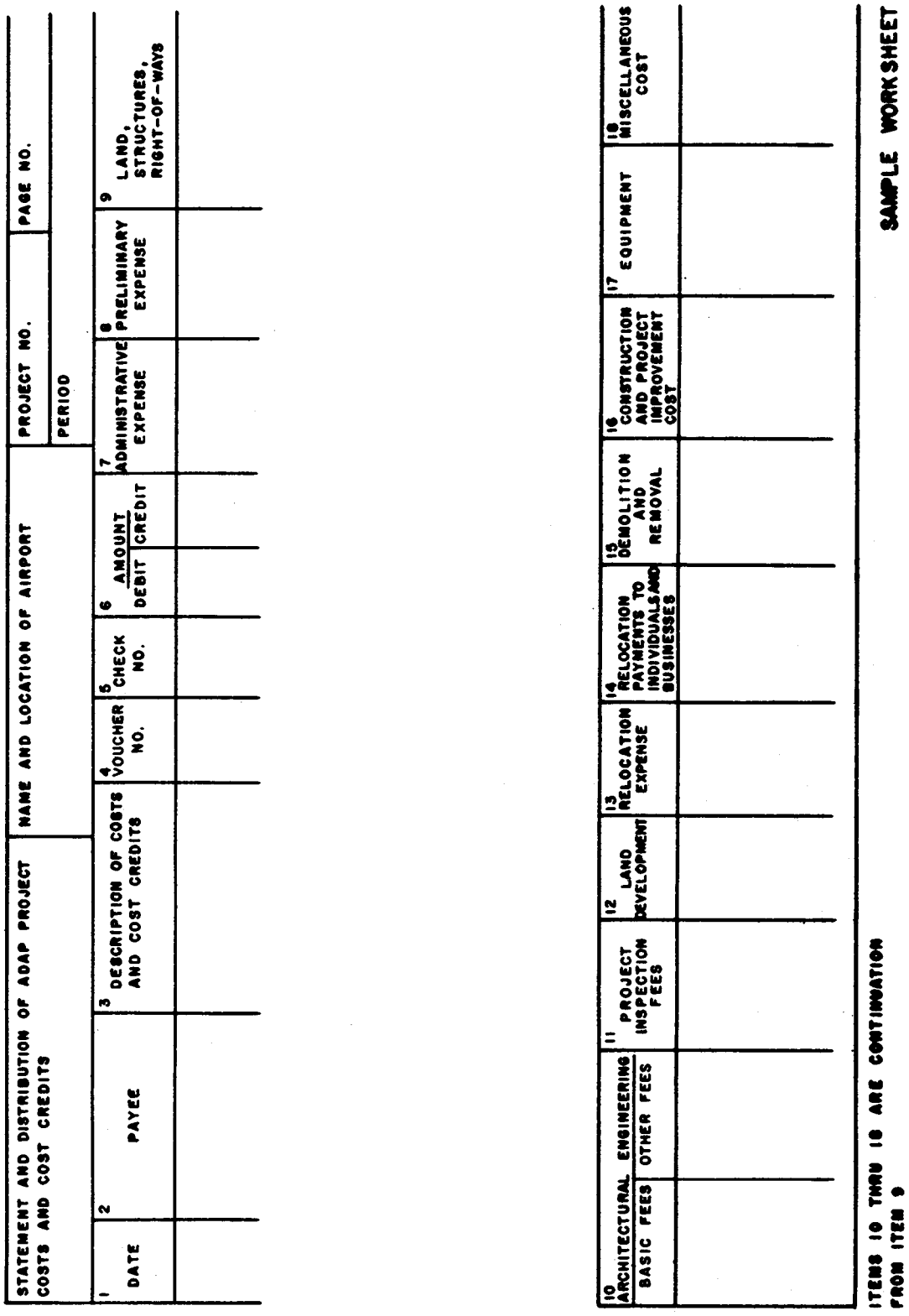
74. LAST RESORT HOUSING.

a. General. When it is determined that adequate replacement housing is not available, the sponsor, with FAA approval, may take such action to provide such housing.

b. Documentation. The required documentation will be essentially the same as required for land acquisition and construction (see chapters 3 and 4). In addition, the file should contain sufficient data to show the need for last resort housing.

75.-79. RESERVED.

APPENDIX 1. STATEMENT AND DISTRIBUTION OF ADAP PROJECT COSTS AND COST CREDITS



STATEMENT AND DISTRIBUTION OF ADAP PROJECT COSTS AND COST CREDITS	NAME AND LOCATION OF AIRPORT	PROJECT NO.	PAGE NO.
		PERIOD	

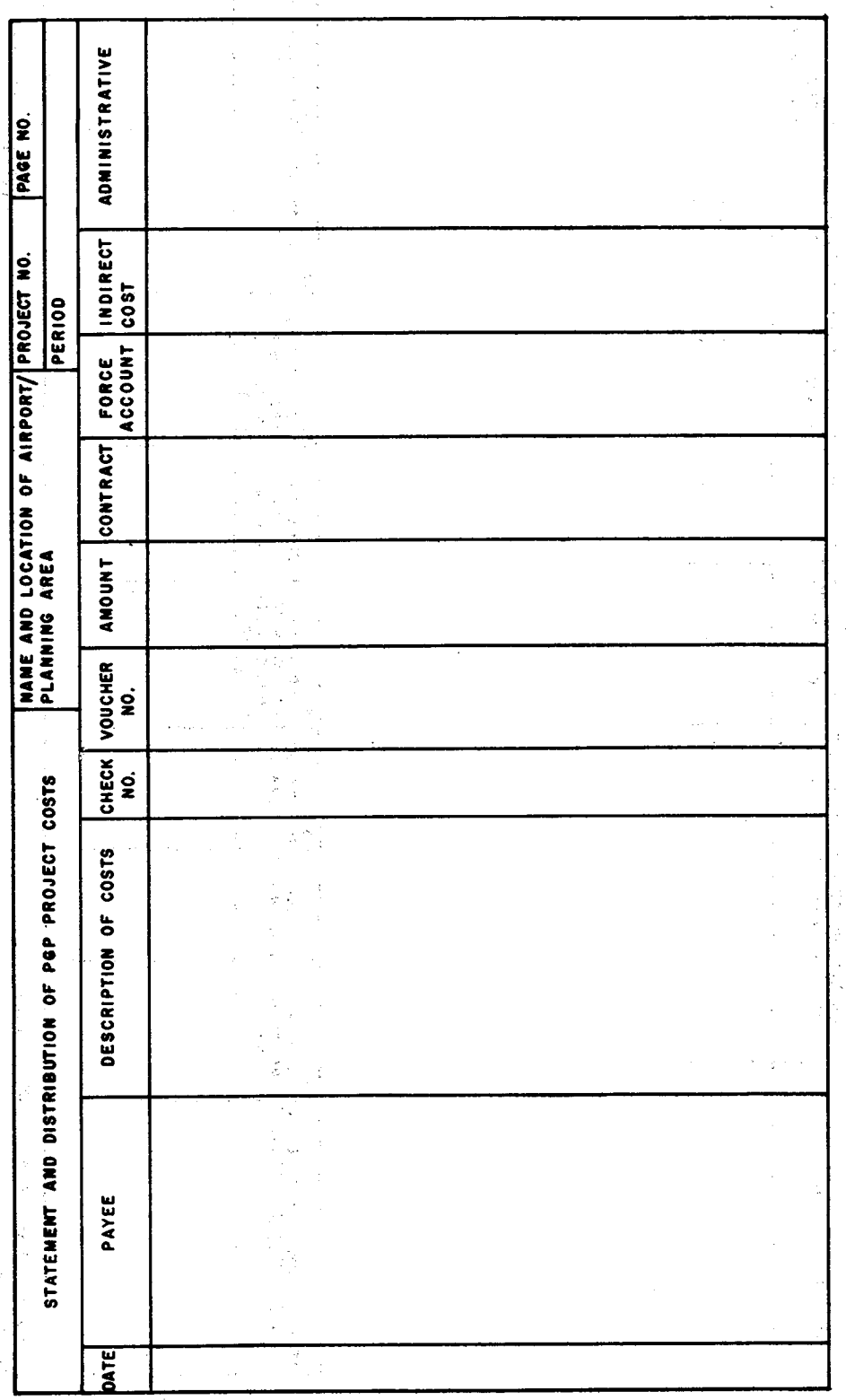
1 DATE	2 PAYEE	3 DESCRIPTION OF COSTS AND COST CREDITS	4 VOUCHER NO.	5 CHECK NO.	6 AMOUNT DEBIT	6 AMOUNT CREDIT	7 ADMINISTRATIVE EXPENSE	8 PRELIMINARY EXPENSE	9 LAND, STRUCTURES, RIGHT-OF-WAYS

10 ARCHITECTURAL ENGINEERING: BASIC FEES	10 ARCHITECTURAL ENGINEERING: OTHER FEES	11 PROJECT INSPECTION FEES	12 LAND DEVELOPMENT	13 RELOCATION EXPENSE	14 RELOCATION PAYMENTS TO INDIVIDUALS AND BUSINESSES	15 DEMOLITION AND REMOVAL	16 CONSTRUCTION AND PROJECT IMPROVEMENT COST	17 EQUIPMENT	18 MISCELLANEOUS COST

ITEMS 10 THRU 18 ARE CONTINUATION FROM ITEM 9

SAMPLE WORKSHEET

APPENDIX 2. STATEMENT AND DISTRIBUTION OF PGP PROJECT COSTS



APPENDIX 3. FEDERAL AVIATION REGULATIONS, PART 152, AIRPORT AID PROGRAM, APPENDIX L, PROPERTY MANAGEMENT STANDARDS

APPENDIX L

There is set forth below property management standards applicable to grants under the Airport and Airway Development Act of 1970.

PROPERTY MANAGEMENT STANDARDS

1. This Appendix prescribes uniform standards governing the utilization and disposition of property furnished by the Federal Government or acquired in whole or in part with Federal funds by State and local governments. The grantees shall be authorized to use their own property management standards and procedures as long as the provisions of this Appendix are included.

2. The following definitions apply for the purpose of this Appendix.

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

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

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

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

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

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

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

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

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

4. Standards and procedures governing ownership, use, and disposition of nonexpendable

personal property furnished by the Federal Government or acquired with Federal funds are set forth below:

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

(1) The grantee shall retain the property acquired with Federal funds in the grant program as long as there is a need for the property to accomplish the purpose of the grant program whether or not the program continues to be supported by Federal funds. When there is no longer a need for the property to accomplish the purpose of the grant program, the grantee shall use the property in connection with other Federal grants it has received in the following order of priority:

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

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

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

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

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

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

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

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

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

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

(iii) If disposition instructions are not issued within 120 days after reporting, the grantee shall sell the property and reimburse the Federal

grantor agency an amount which is computed by applying the percentage of Federal participation in the grant program to the sales proceeds. Further, the grantee shall be permitted to retain $100 or 10 percent of the proceeds, whichever is greater, for the grantee's selling and handling expenses.

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

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

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

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

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

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

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

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

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

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

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

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

a. If any program produces patents, patent rights, processes, or inventions, in the course of work aided by a Federal grant, such fact shall be promptly and fully reported to the grantor agency. The grantor agency shall determine whether protection

on such invention or discovery shall be sought and how the rights in the invention or discovery—including rights under any patent issued thereon—shall be disposed of and administered in order to protect the public interest consistent with "Government Patent Policy" (President's Memorandum for Heads of Executive Departments and Agencies, August 23, 1971, and Statement of Government Patent Policy as printed in 36 F.R. 16889).

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

APPENDIX 4. FEDERAL AVIATION REGULATIONS, PART 152, AIRPORT AID PROGRAM, APPENDIX J, PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND CONTRACTS WITH STATE AND LOCAL GOVERNMENTS

APPENDIX J

There is set forth below principles for determining costs applicable to grants and contracts with State and local governments under the Airport and Airway Development Act of 1970:

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

PART I—GENERAL.

A. *Purpose and scope.*

1. *Objectives.* This Appendix sets forth principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a particular grant. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended. Under § 152.47, indirect costs are not allowable costs for Airport Development Projects.

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

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

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

c. Each grantee or contractor organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.

3. *Application.* These principles are applicable in determining costs incurred by State and local governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) under the Airport and Airway Development Act of 1970.

B. *Definitions.*

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

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

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

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

5. Federal agency means the Federal Aviation Administration.

6. Grant means an agreement between the Federal Government and a State or local gov-

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

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

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

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

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

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

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

C. *Basic guidelines.*

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

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

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

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

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

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

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

g. Be net of all applicable credits.

2. *Allocable costs.*

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

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

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

3. *Applicable credits.*

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipment, and scrap; income from personal or incidental services; and adjustments of overpayments or erroneous charges.

b. Applicable credits may also arise when Federal funds are received or are available

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

D. *Composition of cost.*

1. *Total cost.* The total cost of a grant program is comprised of the allowable direct cost incident to its performance, plus its allocable portion of allowable indirect costs, less applicable credits.

2. *Classification of costs.* There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential therefore that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under grant programs are provided in the sections which follow.

E. *Direct costs.*

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

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

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

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

c. Equipment cost and other approved capital expenditures incurred specifically for the purpose of the grant.

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

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

F. *Indirect costs.*

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

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

a. *Predetermined fixed rates for indirect costs.* A predetermined fixed rate for computing indirect costs applicable to a grant may be negotiated annually in situations where the cost experience and other pertinent facts available are deemed sufficient to enable the contracting parties to reach an informed judgment (1) as to the probable

level of indirect costs in the grantee department during the period to be covered by the negotiated rate, and (2) that the amount allowable under the predetermined rate would not exceed actual indirect costs.

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

3. *Limitation on indirect costs.*

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

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

G. *Cost incurred by agencies other than the grantee.*

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

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

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

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

H. *Cost incurred by grantee department for others.*

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

J. *Cost allocation plan.*

1. *General.* A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges.

2. *Requirements.* The allocation plan of the grantee department should cover all joint costs of the department as well as costs to be allocated under plans of other agencies or organizational units which are to be included in the costs of Federally sponsored programs. The cost allocation plans of all the agencies rendering services to the grantee department,

to the extent feasible, should be presented in a single document. The allocation plan should contain, but not necessarily be limited to, the following:

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

b. The items of expense to be included.

c. The methods to be used in distributing cost.

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

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

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

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

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

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

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

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

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

6. *Resolution of problems.* To the extent that problems are encountered among the Federal agencies in connection with 4. and 5. above, the Office of Management and Budget will lend assistance as required.

PART II—STANDARDS FOR SELECTED ITEMS OF COST.

A. *Purpose and applicability.*

1. *Objective.* This part of Appendix J provides standards for determining the allowability of selected items of cost.

2. *Application.* These standards will apply irrespective of whether a particular item of cost is treated as direct or indirect cost. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable, rather

determination of allowability in each case should be based on the treatment of standards provided for similar or related items of cost. The allowability of the selected items of cost is subject to the general policies and principles stated in Part I of this Appendix.

B. *Allowable costs.*

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

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

a. Recruitment of personnel required for the grant program.

b. Solicitation of bids for the procurement of goods and services required.

c. Disposal of scrap or surplus materials acquired in the performance of the grant agreement.

d. Other purposes specifically provided for in the grant agreement.

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

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

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

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

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

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

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

10. *Compensation for personal services.*

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

employees required for the Federally assisted activities are not found in the other activities of the State or local government, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

b. *Payroll and distribution of time.* Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and approved in accordance with generally accepted practice of the State or local agency. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

11. *Depreciation and use allowances.*

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

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

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

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

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

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

13. *Employee fringe benefits.* Costs identified under a. and b. below are allowable to the

extent that total compensation for employees is reasonable as defined in section B.10.

a. Employee benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are: (1) provided pursuant to an approved leave system, and (2) the cost thereof is equitably allocated to all related activities, including grant programs.

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

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

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

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

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

18. *Materials and supplies.* The cost of materials and supplies necessary to carry out the grant programs is allowable. Purchases made specifically for the grant program should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

19. *Memberships, subscriptions and professional activities.*

a. *Memberships.* The cost of membership in civic, business, technical and professional organizations is allowable provided: (1) the benefit from the membership is related to the grant program, (2) the expenditure is for agency membership, (3) the cost of the membership is reasonably related to the value of the services or benefits received, and (4) the expenditure is now for membership in an organization which devotes a substantial part of its activities to influencing legislation.

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

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

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

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

22. *Personnel administration.* Costs for the recruitment, examination, certification, classification, training, establishment of pay stand-

ards and related activities for grant programs, are allowable.

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

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

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

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

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

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

C. *Costs allowable with approval of grantor agency.*

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

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

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

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

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

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

e. *Occupancy of space under rental-purchase or lease with option-to-purchase agreement.* The cost of space procured under such arrangements is allowable when

specifically approved by the Federal grantor agency.

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

4. *Insurance and indemnification.*

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

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

(1) Types and extent and cost of coverage will be in accordance with general State or local government policy and sound business practice.

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

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

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.

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

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

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

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

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

D. *Unallowable costs.*

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

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

3. *Contributions and donations.* Unallowable.

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

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

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

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

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

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

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