

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS  
ACTION AGENDA SUMMARY

DEPT: Chief Executive Office

BOARD AGENDA # \*B-3

Urgent

Routine

CEO Concurs with Recommendation YES  NO   
(Information Attached)

AGENDA DATE January 13, 2015

4/5 Vote Required YES  NO

SUBJECT:

Approval to Lease 12 Vehicles for Use in the Community Services Agency and Approval to Purchase 5 Vehicles for Use in the Parks Department

STAFF RECOMMENDATIONS:

1. Approve the use of vehicle leases in Fiscal Year 2014-2015 for the Community Services Agency whose claiming process requires external financing in order to claim reimbursement for financing costs.
2. Authorize the General Services Agency to enter into lease agreements for 12 vehicles for use by the Community Services Agency.
3. Authorize the General Services Agency to purchase five vehicles for use by the Parks Department.

Continued on Page 2

FISCAL IMPACT:

The recommended vehicles leases for the Community Services Agency total \$263,200 for the life of the leases. Monthly payments are estimated to range from \$985 to \$1,250 based on a term of 60 months with financing of 2.2% APR. It should be noted that the most two recent third-party lease financings had interest rates of 2.2% and 2.18% respectively. The 2014-2015 Adopted Final Budget includes funding for the first year of the leases.

Continued on Page 2

BOARD ACTION AS FOLLOWS:

No. 2015-21

On motion of Supervisor Chiesa, Seconded by Supervisor Monteith

and approved by the following vote,

Ayes: Supervisors: O'Brien, Chiesa, Monteith, De Martini, and Chairman Withrow

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1)  Approved as recommended

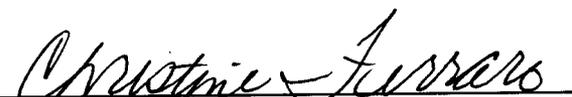
2)  Denied

3)  Approved as amended

4)  Other:

MOTION:

ATTEST:

  
CHRISTINE FERRARO TALLMAN, Clerk

File No.

**STAFF RECOMMENDATIONS (Continued):**

4. Direct the Auditor-Controller to adjust the Parks budget to move funds into Fixed Assets for the purchase of vehicles, as reflected in the Budget Journal form.
5. Direct staff to carefully analyze future requests for vehicle leases with a preference for vehicle purchase for those departments whose funding does not include external financing requirements.
6. Add the ability to do internal financing for vehicle leases to the County's Legislative Platform.

**FISCAL IMPACT (Continued):**

The recommended vehicle purchases for the Parks Department total \$133,900 and will be funded through the use of departmental Net County Cost savings from prior years. The attached budget journal reflects the transfer of funding from Net County Cost savings into the Fixed Assets account. The 2014-2015 Adopted Final Budget includes sufficient appropriations for the purchases and there is no impact to the General Fund.

**DISCUSSION:**

Background

On March 12, 2013, the Board of Supervisors approved the Stanislaus County Fleet Services Policy which includes provisions for the vehicle acquisition. Section 6, Vehicle Replacement Plan states,

“Departments have an option of purchasing vehicles outright or financing through a capital lease program. The capital lease program gave departments the ability to enter into a lease paying principle and interest for a period of three to five years. At the completion, the department would pay \$1 buyout and take ownership of the vehicle.”

Further, the policy requires departments to submit planned requests for new or replacement vehicles to the General Services Agency Fleet Manager during the annual Proposed and Final budget processes. The Fleet Manager then reviews the requests against vehicle life cycle and utilization guidelines to ensure the requested leases/purchases are appropriate and consistent with the Board's approved policy.

The Fiscal Year 2014-2015 Recommended Final Budget included recommendations to purchase and lease vehicles needed by several County departments. On September 16, 2014, during the Final Budget discussions there was a suggestion by Supervisor O'Brien that consideration be given to an internal borrowing/lease program as opposed to outside lease mechanism. When adopting the Final Budget, the Board of Supervisors directed staff “to return to the Board with a list of the proposed vehicles to be leased, that are ineligible to finance in-house for further direction, and to finance all remaining vehicles with in-house financing vs external financing.”

In particular, two County departments requested vehicle leases as part of the 2014-2015 Final Budget – Community Services Agency, which is included in the Special Revenue Funds and the Parks Department that is part of the General Fund. A total of 17 vehicles (12 for Community Services Agency, five for Parks) were requested to replace existing vehicles that could be rotated to other departments/Motor Pool or salvaged, consistent with the Fleet Services Policy.

An analysis was conducted to determine if the County would be able to provide internal financing for vehicle leases. A critical factor in the analysis comes from the State Controller's Office Handbook of Cost Plan Procedures for California Counties (Attachment 1), which allows financing costs to be claimed for State and Federal reimbursement so long as the financing is provided by a bona fide third party external to the government unit. The Community Services Agency's request for vehicle leases is tied directly to the State requirement which is consistent with 2 CFR Part 225 Cost Principles for State, Local and Tribal Governments (OMB Circular A-87, Attachment 2). If the Agency purchases a vehicle, the costs associated with the purchase are 100% County Share of Cost at the time of purchase. The Agency then claims the depreciation for Federal and State reimbursement over the life of the vehicle, usually a period of five years. When the Agency leases a vehicle, the lease payment is claimed for Federal and State reimbursement in the period the lease payment is made. The County share of the lease payment is approximately 4.4% over the life of the vehicle versus 100% upfront when the vehicle is purchased.

The Community Services Agency receives a substantial General Fund contribution to meet its mandated match requirement and as part of the year-end close process, any funds not spent are generally returned to the General Fund. The Parks Department is part of the General Fund and does not have a separate fund balance; however, the Department has Net County Cost savings earned in prior years that could be used to purchase vehicles.

### Options

KNN Public Finance, the County's financial advisor, provided staff with a briefing that described municipal finance processes in general and a review of Stanislaus County's debt program. During the briefing, it was determined that the County's Capital Improvements Financing Authority (CIFA) is not a bona fide third party external to the government unit and would not be a viable leasing agent for an internal financing program. County Counsel concurs with this determination. There is no other mechanism within the County that would allow for an internal borrowing and qualify as a bona fide third party for reimbursement purposes.

Staff also reviewed the use of the interest earned on the Tobacco Endowment Funds for an internal financing option; however, this would not be considered bona fide third party financing and would not allow the Community Services Agency to be reimbursed for the financing cost of a lease. Current Board direction on the interest earned allocates 80% of the interest earned on the 2002 Tobacco Endowment to the Health Services Agency long-term deficit and the remaining 20% is reinvested in the Endowment.

Finally, staff considered a borrowing from the General Fund Committed Fund Balance that has been repaid from the Animal Services Capital Project (funded from an internal borrowing of the Tobacco Endowment Funds). These funds would be repaid into the Committed Fund Balance by the departments over a five year period. This also would not qualify as a bona fide third party financing and would not allow the Community Services Agency to be reimbursed for the financing cost of a lease. Additionally, the use of the Committed Fund Balance would reduce the availability of funding for future capital projects. This commitment was established by the Board as a "revolving fund" for future capital needs.

### Recommendations

In keeping with the Board of Supervisors direction to staff "to return to the Board with a list of the proposed vehicles to be leased, that are ineligible to finance in-house for further direction, and to finance all remaining vehicles with in-house financing vs external financing," and in accordance with the County's Fleet Services Policy, it is recommended to approve the use of a capital lease program for vehicles for use at the Community Services Agency. It is also recommended that the Parks Department use existing appropriations funded from Net County Cost savings to purchase vehicles for use in the Parks Department. Future requests to lease vehicles will be carefully reviewed by General Services Agency and Chief Executive Office staff to ensure all funding requirements are known prior to presenting any recommendations to the Board of Supervisors for consideration.

### **POLICY ISSUE:**

The Board of Supervisors is asked to consider adding the ability to lease vehicles through an internal borrowing with the ability to claim the financing costs to the County's Legislative Platform.

The recommendations included in this report are in accordance with the County's Fleet Services Policy and support the Board of Supervisors' priorities of Efficient Delivery of Public Services by enabling departments to have adequate business transportation in a cost-effective manner.

### **STAFFING IMPACTS:**

Existing staff within the General Services Agency, Community Services Agency and the Parks Department will implement the staff recommendations.

### **CONTACT:**

Cindy Thomlison, Deputy Executive Officer. (209) 525-6333



## Section 2500: Depreciation and Use Allowances

Depreciation and use allowances are two methods of allocating the cost of fixed assets to specific time periods in which the county benefits from the use of the assets

### **2510: Depreciation Defined**

Depreciation is used to allocate the cost of fixed assets throughout their useful life. Depreciation must be based upon the actual cost of the asset and not upon its replacement value. Accelerated depreciation is not allowed; only straight-line depreciation may be used. The useful life of any asset is that established for the applicable class of assets in Internal Revenue Service guidelines for straight-line depreciation, unless a county can propose a reasonable, objective, and independently derived alternative schedule. If a government unit changes from use allowance (see below) to depreciation, depreciation expense for each asset in the class being depreciated must be computed as though the depreciation had been charged from original date of acquisition.

### **2520: Use Allowance Defined**

When a government unit claims a use allowance for a category of fixed assets, a standard percentage of the total cost of each fixed asset in this category may be claimed each year that the asset is in use. Six and two-thirds percent (6 2/3%) of the total acquisition cost of each piece of equipment and two percent (2%) of the total capitalized cost of each building may be claimed.

### **2530: Depreciation and Use Allowance Conditions**

All assets of a single class must be treated in the same manner. Complete property records must support all use allowances or depreciation charges. Physical inventories must be taken at least every two years. Depreciation records must show depreciation taken each period, the total amount of accumulated depreciation charged, the useful life of each fixed asset, and the remaining value of each fixed asset. Depreciation or use allowance may not be claimed for a fixed asset after the total acquisition cost and the costs of any capitalized additions to the fixed asset have been fully recovered, either through depreciation or use allowance. Inventory records must identify assets purchased with federal funds. The federal government may not be charged for the use of equipment it has purchased. Use allowances and depreciation are discussed in Section 3240, page 90.

### **2540: Allowable Financing Costs**

Financing costs associated with otherwise allowable costs of fixed assets are allowable if these costs (including interest) were paid or incurred after the effective date of the current 2 CFR Part 225, and if the following conditions are met.

1. The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the government unit.
2. The assets are in support of federal awards

OMB Circulars and Guidance

Pt. 225, App. A

§ 225.50 Policy review date.

This part will have a policy review three years from the date of issuance.

§ 225.55 Information contact.

Further information concerning this part may be obtained by contacting the Office of Federal Financial Management, Financial Standards and Reporting Branch, Office of Management and Budget, Washington, DC 20503, telephone 202-395-3993.

APPENDIX A TO PART 225—GENERAL PRINCIPLES FOR DETERMINING ALLOWABLE COSTS

TABLE OF CONTENTS

A. Purpose and Scope

1. Objectives
2. Policy guides
3. Application

B. Definitions

1. Approval or authorization of the awarding or cognizant Federal agency
2. Award
3. Awarding agency
4. Central service cost allocation plan
5. Claim
6. Cognizant agency
7. Common rule
8. Contract
9. Cost
10. Cost allocation plan
11. Cost objective
12. Federally-recognized Indian tribal government
13. Governmental unit
14. Grantee department or agency
15. Indirect cost rate proposal
16. Local government
17. Public assistance cost allocation plan
18. State

C. Basic Guidelines

1. Factors affecting allowability of costs
2. Reasonable costs
3. Allocable costs
4. Applicable credits

D. Composition of Cost

1. Total cost
2. Classification of costs

E. Direct Costs

1. General
2. Application
3. Minor items

F. Indirect Costs

1. General
2. Cost allocation plans and indirect cost proposals
3. Limitation on indirect or administrative costs

G. Interagency Services

H. Required Certifications

General Principles for Determining Allowable Costs

A. Purpose and Scope

1. Objectives. This Appendix establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, cost reimbursement contracts, and other agreements with the Federal Government (collectively referred to in this appendix and other appendices to 2 CFR part 225 as "Federal awards"). The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. Provision for profit or other increment above cost is outside the scope of 2 CFR part 225.

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

(1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

b. Federal agencies should work with States or localities which wish to test alternative mechanisms for paying costs for administering Federal programs. The Office of Management and Budget (OMB) encourages Federal agencies to test fee-for-service alternatives as a replacement for current cost-reimbursement payment methods in response to the National Performance Review's (NPR) recommendation. The NPR recommended the fee-for-service approach to reduce the burden associated with maintaining systems for charging administrative costs to Federal programs and preparing and approving cost allocation plans. This approach should also increase incentives for administrative efficiencies and improve outcomes.

3. Application.

a. These principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards (including subawards) except those with (1) publicly-financed educational institutions subject to, 2 CFR part 220, Cost Principles for Educational Institutions (OMB Circular A-21), and (2) programs administered

by publicly-owned hospitals and other providers of medical care that are subject to requirements promulgated by the sponsoring Federal agencies. However, 2 CFR part 225 does apply to all central service and department/agency costs that are allocated or billed to those educational institutions, hospitals, and other providers of medical care or services by other State and local government departments and agencies.

b. All subawards are subject to those Federal cost principles applicable to the particular organization concerned. Thus, if a subaward is to a governmental unit (other than a college, university or hospital), 2 CFR part 225 shall apply; if a subaward is to a commercial organization, the cost principles applicable to commercial organizations shall apply; if a subaward is to a college or university, 2 CFR part 220 (Circular A-21) shall apply; if a subaward is to a hospital, the cost principles used by the Federal awarding agency for awards to hospitals shall apply, subject to the provisions of subsection A.3.a. of this Appendix; if a subaward is to some other non-profit organization, 2 CFR part 230, Cost Principles for Non-Profit Organizations (Circular A-122), shall apply.

c. These principles shall be used as a guide in the pricing of fixed price arrangements where costs are used in determining the appropriate price.

d. Where a Federal contract awarded to a governmental unit incorporates a Cost Accounting Standards (CAS) clause, the requirements of that clause shall apply. In such cases, the governmental unit and the cognizant Federal agency shall establish an appropriate advance agreement on how the governmental unit will comply with applicable CAS requirements when estimating, accumulating and reporting costs under CAS-covered contracts. The agreement shall indicate that 2 CFR part 225 (OMB Circular A-87) requirements will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the governmental unit.

e. Conditional exemptions.

(1) OMB authorizes conditional exemption from OMB administrative requirements and cost principles for certain Federal programs with statutorily-authorized consolidated planning and consolidated administrative funding, that are identified by a Federal agency and approved by the head of the Executive department or establishment. A Federal agency shall consult with OMB during its consideration of whether to grant such an exemption.

(2) To promote efficiency in State and local program administration, when Federal non-entitlement programs with common purposes have specific statutorily-authorized consolidated planning and consolidated administrative funding and where most of the State agency's resources come from non-

Federal sources, Federal agencies may exempt these covered State-administered, non-entitlement grant programs from certain OMB grants management requirements. The exemptions would be from all but the allocability of costs provisions of Appendix A subsection C.3 of 2 CFR part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); Appendix A, Section C.4 of 2 CFR 220, Cost Principles for Educational Institutions (Circular A-21); Appendix A, subsection A.4 of 2 CFR 230 Cost Principles for Non-Profit Organizations (Circular A-122); and from all of the administrative requirements provisions of 2 CFR part 215, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (Circular A-110), and the agencies' grants management common rule.

(3) When a Federal agency provides this flexibility, as a prerequisite to a State's exercising this option, a State must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of 2 CFR part 225 (OMB Circular A-87), and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: Funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not used for general expenses required to carry out other responsibilities of a State or its subrecipients.

#### B. Definitions

1. "Approval or authorization of the awarding or cognizant Federal agency" means documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a State/local-wide cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval.

2. "Award" means grants, cost reimbursement contracts and other agreements between a State, local and Indian tribal government and the Federal Government.

3. "Awarding agency" means (a) with respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, and (b) with respect to a subaward, the party that awarded the subaward.

4. "Central service cost allocation plan" means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

5. "Claim" means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency.

6. "Cognizant agency" means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2 CFR part 225 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies.

7. "Common Rule" means the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule" originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles.

8. "Contract" means a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to): Awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and, bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 *et seq.*

9. "Cost" means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.

10. "Cost allocation plan" means central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. Each of these terms is further defined in this section.

11. "Cost objective" means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

12. "Federally-recognized Indian tribal government" means the governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat. 688) certified

by the Secretary of the Interior as eligible for the special programs and services provided through the Bureau of Indian Affairs.

13. "Governmental unit" means the entire State, local, or federally-recognized Indian tribal government, including any component thereof. Components of governmental units may function independently of the governmental unit in accordance with the term of the award.

14. "Grantee department or agency" means the component of a State, local, or federally-recognized Indian tribal government which is responsible for the performance or administration of all or some part of a Federal award.

15. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate as described in Appendix E of 2 CFR part 225.

16. "Local government" means a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under State law), any other regional or interstate government entity, or any agency or instrumentality of a local government.

17. "Public assistance cost allocation plan" means a narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies as described in Appendix D of 2 CFR part 225.

18. "State" means any of the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

#### C. Basic Guidelines

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

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

b. Be allocable to Federal awards under the provisions of 2 CFR part 225.

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

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a

direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

i. Be the net of all applicable credits.

j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

c. Market prices for comparable goods or services.

d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

d. Where an accumulation of indirect costs will ultimately result in charges to a Federal

award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.

4. Applicable credits.

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

b. In some instances, the amounts received from the Federal Government to finance activities or service operations of the governmental unit should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to Federal awards. (See Appendix B to this part, item 11, "Depreciation and use allowances," for areas of potential application in the matter of Federal financing of activities.)

D. *Composition of Cost*

1. Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

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

E. *Direct Costs*

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.

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

c. Equipment and other approved capital expenditures.

d. Travel expenses incurred specifically to carry out the award.

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

*F. Indirect Costs*

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

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

3. Limitation on indirect or administrative costs.

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

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

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

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

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

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

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

APPENDIX B TO PART 225—SELECTED  
ITEMS OF COST

TABLE OF CONTENTS

1. Advertising and public relations costs
2. Advisory councils
3. Alcoholic beverages
4. Audit costs and related services
5. Bad debts
6. Bonding costs
7. Communication costs
8. Compensation for personal services
9. Contingency provisions
10. Defense and prosecution of criminal and civil proceedings, and claims
11. Depreciation and use allowances
12. Donations and contributions
13. Employee morale, health, and welfare costs
14. Entertainment costs
15. Equipment and other capital expenditures
16. Fines and penalties
17. Fund raising and investment management costs
18. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs
19. General government expenses
20. Goods or services for personal use
21. Idle facilities and idle capacity
22. Insurance and indemnification
23. Interest
24. Lobbying