**Section 2630.112 Standards for Selected Items of Cost**

a) Purpose and applicability.

1) Objective. This Section 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 a direct or indirect cost. Failure to mention a particular item of cost in these 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 in this Section for similar or related items of cost. These standards shall be applied in accordance with generally accepted accounting principles as promulgated by the Fair Accounting Standards Board, compiled and published in the Miller Comprehensive GAAP Guide, 1988, published by Miller Accounting Publications, Inc., a subsidiary of Harcourt Brace Jovanovich, Publishers, with no later amendments or editions. Any costs which were eligible for payment during the grant period but not identified until after the grant period close-out has been finalized, shall be eligible for payment by a grantee against the subsequent or current grant period budget of the same JTPA program upon written approval by the Department. In no event shall belated costs be approved unless there was an unexpended budget balance, equal to or exceeding the belated cost amount, remaining with the grant period budget under which the costs were incurred. Costs shall be recorded against the appropriate cost category and line item established under the current year budget.

3) Prior approval. In instances where prior approval of costs is required, approval will be granted if the cost is necessary, reasonable, allowable, affordable and in accordance with generally accepted accounting principles.

b) Standards for selected items of cost.

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 service agencies which establish and maintain these systems. The cost of maintaining central accounting records required for overall State or local government purposes, such as appropriate and fund accounts by the Treasurer, Comptroller, or similar officials, is allowable to the extent that the program receives coverage under such services.

2) Advertising. Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade paper, and the like. All such advertising costs disseminating program information are allowable.

3) Advisory Councils. Costs incurred by State and local advisory councils, boards, or committees expending effort on behalf of grant programs are allowable. Costs of like organizations are allowable when provided for in the State grants.

4) Audit services. The cost of audits necessary for the administration and management of functions related to grant programs is allowable. Costs of legislative branch audit and review activity of functions related to grant programs are allowable.

5) Automatic data processing. The cost of data processing services to grant programs is allowable. This cost includes lease of equipment or depreciation or use allowances on grantee-owned equipment. Prior approval for the lease, lease with option-to-purchase, or purchase of equipment is required and will be granted by the Department provided the cost is allowable in accordance with Section 2630.100(a).

6) Bad debts. Bad debts, including losses (whether actual or estimated) arising from accounts deemed uncollectible by the grantee and other claims (e.g., internal collection costs), related collection costs (e.g., collection agency costs), and related legal costs are unallowable.

7) Bid and proposal costs. These costs, also called preaward costs (as defined in subsection (b)(45)), are allowable only with prior approval of the Department.

8) Bonding costs.

A) Bonding costs arise when the Department requires assurance against financial loss to itself or others by reason of an act or default of the organization. Bonding costs arise also in instances where the organization requires similar assurance. Allowable bonding costs include such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.

B) Costs of bonding required pursuant to the terms of a grant agreement are allowable.

C) Costs of bonding required by the organization in the general conduct of its operations are allowable if such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

9) Building lease management. Costs for lease management, review of lease proposals, and related activities are allowable.

10) Building space and related facilities. The cost of space in privately or publicly owned buildings used for the direct or indirect benefit of the grant program is allowable. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost or comparable space and facilities in a privately owned building. The cost of space procured for grant program usage may not be charged to the program for periods of nonoccupancy without authorization of the Department. Instances when costs for nonoccupied space will be authorized by the Department include, but are not limited to, renovation of a facility or flood damage to building space used for purposes under the grant.

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

B) Maintenance and operation. The costs of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, not included in rental or other charges for space are allowable.

C) Rearrangements and alterations. Cost incurred for rearrangement and alteration of facilities or those that increase the value or useful life of the facilities are allowable when approved by the Department.

D) Subject to the limitations described in subsections (b)(10)(E) through (G), rental costs are allowable if the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.

E) Rental costs under sale and leaseback arrangements are allowable only up to the amount that would have been allowed had the organization continued to own the property.

F) Rental costs under less-than-arms-length leases are allowable only up to the amount that would have been allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to, those between divisions of an organization; between organizations under common control through common officers, directors, or members; and between an organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

G) Rental costs under leases which create a material equity in the leased property are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed (e.g., depreciation or use allowances, maintenance, taxes, insurance but excluding interest expense and other unallowable costs). For this purpose, a material equity in the property exists if the lease is noncancelable or is cancelable only upon the occurrence of some remote contingency and has one or more of the following characteristics:

i) The organization has the right to purchase the property for a price which, at the beginning of the lease, appears to be substantially less than the projected fair market value at the time it is permitted to purchase the property (commonly called a lease with a bargain purchase option);

ii) Title to the property passes to the organization at some time during or after the lease period;

iii) The term of the lease (initial term plus periods covered by bargain renewal options, if any) is equal to 75 per cent or more of the economic life of the leased property; i.e., the period of time the property is expected to be economically usable by one or more users.

11) 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.

12) Chief executive expenses. The salaries and expenses of the Office of the Governor of the State of Illinois or the chief executive of a political subdivision are not allowable. In the case of a political subdivision, expenses that are incurred solely for (and are directly and clearly identifiable as benefitting) JTPA purposes are allowable.

13) Commencement and convocation costs. Costs incurred for commencements and convocations are allocable to training agreements and are allowable.

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

15) Compensation for personal services.

A) Definition. Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the grant (except as otherwise provided in subsection (b)(15)(G)). It includes, but is not limited to, salaries, wages, director's and executive committee member's fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay differentials.

B) Allowability. Except as otherwise specifically provided in this subsection the costs of such compensation are allowable if:

i) Total compensation to individual employees is reasonable (as defined in Section 2630.100 (c)(5)) for the services rendered and conforms to the established policy of the organization consistently applied to both departmental and non-departmental activities; and

ii) Charges to grants, whether treated as direct or indirect costs, are determined and supported as required in this subsection.

C) Reasonableness.

i) When the organization's non-departmental activities constitute 50% or more of its total activities, compensation for employees on Department-sponsored work will be considered reasonable if it is consistent with that paid for similar work in the organization's other activities.

ii) When the organization's departmental activities constitute 50% or more of its total activities and in cases where the kind of employees required for the Government activities are not found in the organization's other activities, compensation for employees on Department-sponsored work will be considered reasonable if it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

D) Special considerations in determining allowability. Certain conditions require special consideration and possible limitations in determining costs under grants where amounts or types of compensation appear unreasonable. Among such conditions are the following:

i) Compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination shall be made by the Department when a questioned cost arises whether such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

ii) Any change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation, particularly when it is concurrent with an increase in the ratio of Department grants to other activities of the organization or any change in the treatment of allowability of specific types of compensation due to changes in Department policy.

E) Unallowable costs. Costs which are unallowable under other subsections shall not be allowable under subsection (b)(15) solely on the basis that they constitute personal compensation.

F) Fringe benefits.

i) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each activity, and are provided pursuant to a leave system.

ii) Payment of fringe benefits, in the form of employer contributions or expenses for social security, employee insurance, workers' compensation insurance, pension plan costs (see subsection (b)(15)(G)), and the like, are allowable, provided such benefits are granted in accordance with established, written organization policies. Such benefits, whether treated as indirect costs or as direct costs, shall be distributed to particular grants and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such grants and other activities.

iii) A self-insurance fund for unemployment compensation or workers' compensation is allowable to the extent that the fund represents reasonable estimates of the organization's liability for compensation that would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made shall not exceed the present value of the liability. Where an organization follows a consistent policy of expensing actual payments to or on behalf of, employees or former employees for unemployment compensation or workmen's compensation, such payments are allowable in the year of payment with the prior approval of the Department provided they are allocated to all activities of the organization.

iv) Cost of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility is allowable only to the extent that the insurance represents additional compensation. The cost of such insurance when the organization is named as beneficiary is unallowable.

G) Pension plan costs.

i) Costs of the organization's pension plan which are incurred in accordance with the established policies of the organization are allowable, provided: such policies meet the test of reasonableness; the methods of cost allocation are not discriminatory; the cost assigned to each fiscal year is determined in accordance with generally accepted accounting principles; the costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are unallowable.

ii) Pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1001b et seq. (1990) with no later amendments or editions) are allowable. Late payment charges on such premiums are unallowable.

iii) Excise taxes on accumulated funding deficiencies and other penalties imposed under the Employee Retirement Income Security Act are unallowable.

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

I) Overtime, extra pay shift, and multishift premiums are allowable pursuant to the grantee's personnel policies.

J) Severance pay. See subsection (b)(57).

K) Training and education costs. See subsection (b)(61).

L) Support of salaries and wages.

i) Charges to grants for salaries and wages, whether treated as direct costs or indirect costs, shall be based on documented payrolls approved by a responsible official(s) of the organization. The allocation of expenses for salaries and wages to grants must be supported by time sheets, time and attendance records or personnel activity reports as prescribed in subsection (b)(15)(L)(ii), except when a substitute system has been approved in writing by the Department.

ii) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to grants. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by nonprofit organizations to satisfy these requirements must meet the following standards: The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to grants. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. The reports must be signed by the individual employee and by a responsible supervisory official having first-hand knowledge of the activities performed by the employee stating that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods.

iii) Salaries and wages of employees used in meeting cost sharing or matching requirements on grants must be supported in the same manner as salaries and wages claimed for reimbursement from the Department.

16) Contingency provisions. Contributions to a contingency reserve or any similar provision made for events which cannot be foretold with certainty as to time, intensity, or with any assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves; pension funds; and reserves for normal severance pay.

17) Contributions. Contributions and donations by the organization to others are unallowable.

18) Depreciation and use allowances.

A) Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. 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, or where a recoverable disparity between the actual cost and the current fair market value exists, the current fair market value may be used in this computation. Fair market value can be determined by the grantee if supported by solicited bids for existing similar items. The computation will exclude the costs or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government or State of Illinois through charges to grant programs or otherwise irrespective of where title was originally vested or where it presently resides. Additionally, the computation will also exclude the cost of land. Depreciation or a use allowance on facilities in a sustained idle or excess state is not allowable, except when specifically authorized by the Department.

C) Where the depreciation method is followed, authentic property records must be maintained, and any method of calculating depreciation accepted under the Generally Accepted Accounting Principles of the American Institute of Certified Public Accountants (1983) shall be used in compiling depreciation. The method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected 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 capital improvements shall be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment (excluding items properly capitalized or building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment. (Note: Rates specified are effective as of start of the grantee's next fiscal year.)

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 (i.e., not exceeding six and two-thirds percent of acquisition cost for equipment and not exceeding two percent of cost for buildings) 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 its original purpose. (Note: Rates specified are effective as of the start of the grantee's next fiscal year.)

19) Disbursing services. 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 or accountability and reconciliation of such records with related cash accounts.

20) Donations

A) Services received.

i) Donated or volunteer services may be furnished to an organization by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost.

ii) The value of donated services utilized in the performance of a direct cost activity shall be considered in the determination of the organization's indirect cost rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs when the following circumstances exist: the aggregate value of the services is material; the services are supported by 15% or more of the indirect costs incurred by the organization; and the direct cost activity is not pursued primarily for the benefit of the grant.

iii) In those instances where there is no basis for determining the fair market value of the services rendered, the recipient and the Department shall negotiate an appropriate allocation of indirect cost to the services.

iv) Where donated services directly benefit a project supported by a grant agreement, the indirect costs allocated to manage the services will be considered as a part of the total costs of the project. Such indirect costs may be reimbursed under the grant agreement or used to meet cost sharing or matching requirements.

v) The value of the donated services may be used to meet cost sharing or matching requirements. Where donated services are treated as indirect costs, indirect cost rates will separate the value of the donations so that reimbursement will not be made.

vi) Fair market value of donated services shall be computed as follows: Rates for volunteers shall be consistent with those regular rates paid for similar work in other activities for the organization. In cases where the kinds of skills involved are not found in the other activities of the organization, the rates used shall be consistent with those paid for similar work in the labor market in which the organization competes for such skills. When an employer donates the services of an employee, those services shall be valued at the employee's regular rate of pay (exclusive of fringe benefits and indirect costs) provided the services are in the same skill for which the employee is normally paid. If the services are not in the same skill for which the employee is normally paid, fair market value shall be computed in accordance with this subsection.

B) Goods and space.

i) Expendable donated goods, that is, expendable personal property and/or supplies, and donated use of space may be furnished to an organization. The value of the goods and space is not reimbursable either as a direct or indirect cost. Personal property is property belonging to the organization.

ii) The value of the donations may be used to meet cost sharing or matching share requirements. The value of the donations shall be determined in accordance with subsection (b)(20)(A)(iii). Where donations are treated as indirect costs, indirect cost pools shall provide for separation of the value of the donations so reimbursement shall not be made.

21) 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 local policy, are allowable. Income generated from any of these activities will be offset against expenses.

22) Entertainment costs. Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.

23) Equipment and other capital expenditures.

A) As used in this subsection, the following terms have the meanings set forth below:

i) "Equipment" means an article of nonexpendable tangible personal property having a useful life of more than one year and an acquisition cost of $300 or more per unit. An organization may use its own definition provided that it includes all nonexpendable tangible personal property as defined herein.

ii) "Acquisition cost" means the net invoice unit price of an item of equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective intransit insurance, freight, and installation, shall be included in or excluded from acquisition cost in accordance with the organization's regular written accounting practices.

iii) "Special purpose equipment" means equipment which is usable only for research, medical, scientific, or technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

iv) "General purpose equipment" means equipment which is usable for other than research, medical, scientific, or technical activities, whether special modifications are needed to make them suitable for a particular purpose. Examples of general purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and automatic data processing equipment.

B) Allowability

i) Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the Department.

ii) Capital expenditures for special purpose equipment are unallowable as direct costs except with the prior approval of the Department.

C) Capital expenditures for land or buildings are unallowable as a direct cost except with the prior approval of the Department.

D) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the Department.

E) Equipment and other capital expenditures are unallowable as indirect costs. However, see subsection (b)(18) for allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see subsections (b)(10)(A) and (D) through (G) for allowability of rental costs for land, buildings, and equipment.

24) Exhibits. Cost of exhibits relating to grantee services are allowable to the extent that grant program information is incorporated.

25) Fines and penalties. Costs of fines and penalties resulting from violations of, or failure of the organization to comply with, Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of a grant agreement or instructions in writing from the Department.

26) Idle facilities and idle capacity.

A) As used in this subsection the following terms have the meanings set forth below:

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

ii) "Idle facilities" means completely unused facilities that are excess to the organization's current needs.

iii) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between that capacity that could be utilized under 100 per cent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demands during the accounting period. A multishift basis may be used if it can be shown that this amount of usage could normally be expected for the type of facility involved.

iv) "Costs of idle facilities or idle capacity" means costs such as maintenance repair, housing rent, and other related costs: e.g., property taxes, insurance, and depreciation or use allowances.

B) The costs of idle facilities are unallowable except to the extent that:

i) The facilities are necessary to meet fluctuations in workload; or

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

C) The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuation of usage rates or indirect cost rates from period to period. Such costs are allowable, provided the capacity is reasonably anticipated to be necessary or was originally reasonable and is subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be idle facilities.

27) Independent research and development. Costs for independent research and development are allowable only with prior written approval of the Department.

28) Insurance and indemnification.

A) Insurance includes insurance which the organization is required by law to carry, or which is approved by the Department, under the terms of a grant and any other insurance which the organization maintains in connection with the general conduct of its operations. This subsection does not apply to insurance which represents fringe benefits for employees.

i) Costs of insurance required by law or approved by the Department, and maintained, pursuant to a grant are allowable.

ii) Costs of other insurance maintained by the organization in connection with the general conduct of its operations are allowable subject to the following limitations: Types and extent of coverage shall be in accordance with sound business practice, and the rates and premiums shall be reasonable under the circumstances. Costs allowed for business interruption or other similar insurance shall be limited to exclude coverage of management fees. Costs of insurance or of any provisions for a reserve covering the risk of loss or damage to Department property are allowable to the extent that the organization is liable for such loss or damage. Provisions for a reserve under a self-insurance program are allowable to the extent that types of coverage, extent of coverage, rates and premiums would have been allowed had insurance been purchased to cover the risks. However, provision for known or reasonable estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the present value of the liability. Cost of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibilities are allowable only to the extent that the insurance represents additional compensation (see subsection (b)(15)). The cost of such insurance when the organization is identified as the beneficiary is unallowable.

iii) Actual losses which could have been covered by insurance (through the purchase of insurance or a self-insurance program) are unallowable unless expressly provided for in a grant, except: costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice are allowable, and minor losses not covered by insurance, such as spoilage and breakage, which occur in the ordinary course of operations, are allowable.

B) Indemnification includes securing the organization against liabilities to third persons and any loss or damage not compensated by insurance or otherwise. The Department is obligated to indemnify the organization only to the extent expressly provided in a grant.

29) Interest incurred on capital leases is allowable. A capital lease must meet at least one of the following criteria:

1) The lease transfers ownership of the equipment at the end of the lease period.

2) The lease contains a bargain purchase option.

3) The lease term is equal to 75% or more of the estimated economic life of the leased equipment.

4) The present value of the payments at the beginning of the lease equals or exceeds 90% of the fair value of the leased property.

All other interest or financial costs are unallowable unless prior written approval is given by the Department.

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

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

32) Legislative expenses. Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisor, city councils, school boards, etc., whether incurred for purpose of legislation or executive direction, are not allowable.

33) Losses on other awards. Any excess of costs over income on any award is unallowable as a cost of any other award. This includes, but is not limited to, the organization's contributed portion by reason of cost sharing agreements or any underrecoveries through negotiation of lump sums for, or ceiling on, indirect costs.

34) 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.

35) Management studies. The cost of management studies intended to improve the effectiveness and efficiency of grant management for ongoing programs is allowable. Cost of studies performed by agencies, committees, and other organizations other than the grantee department or outside consultations are allowable.

36) 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 of stockrooms should be charged at cost using any method of pricing accepted under the Generally Accepted Accounting Principles of the American Institute of Certified Public Accountants (1983). Incoming transportation charges are a part of material cost.

37) Meetings, conferences.

A) Costs associated with the conduct of meetings, and conferences, such as the cost of renting facilities, meals, speakers' fees, and related costs are allowable.

B) To the extent these costs are identifiable with a particular cost objective, they should be charged to that objective. These costs are allowable provided they meet the general tests of allowability as provided in Section 2630.110.

C) Costs of meetings and conferences held to conduct the general administration of the organization are allowable.

38) Memberships, subscriptions and professional activities. The cost of membership in civic, business, technical, professional, and similar organizations is allowable. The cost of books, and subscriptions to civic, business, technical, professional, and like organization periodicals is allowable. Costs of attendance at meetings and conferences are allowable.

39) Motor pools. The costs of a service organization which provides vehicles to user grantee agencies and/or provides vehicle maintenance, inspection and repair services are allowable.

40) On-the-job training. On-the-job training (OJT) costs include salaries, wages, fringe benefits, and related costs of individuals placed in OJT programs. JTPA reimbursement limitations for costs are specified in Section 141(g) of the Act. Both grantee and employer support of such individuals are allowable during the period of OJT status only. Once an individual leaves OJT status, related costs are unallowable, except where grantee follow-up costs are incurred.

41) Organization costs. Expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization, in connection with establishment or reorganization of an organization, are unallowable except with prior approval of the Department.

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

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

44) Plant security costs. Necessary expenses incurred to comply with Government security requirements or for facilities protection, including wages, uniforms and equipment or personnel are allowable.

45) Preaward costs. Preaward costs are those incurred prior to the effective date of a grant directly pursuant to the negotiation and in anticipation of the grant where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the effective date of a grant and only with the written approval of the Department.

46) Printing and reproduction. Costs for printing and reproduction services including, but not limited to forms, reports, manuals, and informational literature, are allowable. Publication costs of reports or other media relating wholly or in part to grant program accomplishments or results are allowable.

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

48) Professional service costs.

A) Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the organization, are allowable, subject to subsections (b)(48)(B), (C) and (D) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Department.

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

i) The nature and scope of the service rendered in relation to the service required.

ii) The necessity of contracting for the service, considering the organization's capability in the particular area.

iii) The past pattern of such costs, particularly in the years prior to Department grants.

iv) The impact of Department grants on the organization's business (i.e., what new problems have arisen).

v) Whether the proportion of Department work to the organization's total business is such as to influence the organization in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Department grants and contracts.

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

vii) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Department grants.

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

C) In addition to the factors in subsection (b)(48)(B), retainer fees to be allowable must be supported by documented evidence of benefit to the grant to which the cost is charged. In the absence of such documentation, the payment of retainer fees shall be considered equivalent to payment to a contingency fund, which is unallowable. Additionally, the retainer fee paid must yield an equivalent benefit to the grant to which payment is charged.

D) Cost of legal, accounting, and consulting services, and related costs incurred in connection with defense of antitrust suits, and the prosecution of claims against the Department, are unallowable. Costs of legal, accounting and consulting services, and related costs, incurred in connection with patent infringement litigation, organization and reorganization, are unallowable unless provided for in the grant agreement.

49) Profits and losses on disposition of depreciable property or other capital assets.

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

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

i) The gain or loss is processed through a depreciation reserve account and is reflected in the depreciation allowable under subsection (b)(18).

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

iii) A loss results from the failure to maintain permissible insurance, except as otherwise provided in subsection (b)(28)(A)(iii).

iv) Compensation for the use of the property was provided through use allowances in lieu of depreciation in accordance with subsection (b)(18).

C) Gains and losses arising from mass or extraordinary sales, retirements, or other dispositions shall be considered on a case-by-case basis.

D) Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection (b)(49)(A) shall be excluded in computing grant costs.

50) Program income. Program income constitutes revenue generated by the grantee agency as a direct result of grant program activities. Such income shall be either returned to the State or retained by the grantee to enable further program expenditures. The Department will instruct each grantee on which method shall apply either in the grant agreement or in subsequent amendments.

51) Proposal costs. Costs of preparing proposals on potential Federal and/or State grants are allowable.

52) Public information service costs. Public information service costs are allowable and include the cost associated with pamphlets, news releases, and other forms of information services. Such costs are normally incurred to:

A) inform or instruct individuals, groups, or the general public;

B) interest individuals or groups in participating in a service program of the organization;

C) disseminate the results of sponsored and nonsponsored activities.

53) Rearrangement and alteration costs. Costs incurred for ordinary or normal rearrangement and alteration of facilities are allowable. Special arrangement and alteration costs incurred specifically for the project are allowable with the prior approval of the Department.

54) Reconversion costs. Costs incurred in the restoration or rehabilitation of the organization's facilities to approximately the same condition existing immediately prior to commencement of Department grants, fair wear and tear excepted, are allowable, with the prior approval of the Department.

55) Recruiting costs. The following recruiting costs are allowable: cost of "help wanted" advertising, operating costs of an employment office, costs of operating an educational testing program, and travel expenses including food and lodging of employees while engaged in recruiting personnel.

56) Royalties and other costs for use of patents and copyrights.

A) Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the grant are allowable with prior approval of the Department unless:

i) The Department has a license or the right to free use of the patent or copyright.

ii) The patent or copyright has been adjudicated or administratively determined to be invalid.

iii) The patent or copyright is unenforceable.

iv) The patent or copyright is expired.

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

i) Royalties paid to persons, including corporations, affiliated with the organization.

ii) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Government grant would be made.

iii) Royalties paid under an agreement entered into after a grant is made to an organization.

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

57) Severance pay. Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by law, or by the organization's written internal policy as approved by its board of directors.

58) Specialized service facilities.

A) The costs of services provided by highly complex or specialized facilities operated by the organization, such as electronic computers, are allowable provided the charges for the services meet the conditions of either subsections (b)(58)(B) or (C) and, in addition, take into account any items of income or grant financing that qualify as credits.

B) The costs of such services, when material, must be charged directly to applicable grants based on actual usage of the services on the basis of a schedule of rates or established methodology that

i) does not discriminate against grant supported activities of the organization, including usage by the organization for internal purpose, and

ii) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all indirect costs. However, advance agreements made by the organization with other funding sources are considered important in evaluating special situations.

C) Where the costs incurred for a service are not material, they may be allocated as indirect costs.

59) Taxes.

A) In general, taxes which the organization is required to pay and which are paid or accrued in accordance with generally accepted accounting principles, and payments made to local governments in lieu of taxes which are commensurate with the local government services received are allowable, except for

i) taxes from which exemptions are available to the organization directly or which are available to the organization based on an exemption afforded the Government, and in the latter case, when the Department makes available the necessary exemption certificates,

ii) special assessments on land which represent capital improvements, or

iii) federal income taxes.

B) Any refund of taxes, and any payment to the organization of interest there on, which were allowed as grant costs, will be credited either as a cost reduction or cash refund, as appropriate, to the Department.

60) Termination costs. Termination of grants generally give rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the grant not been terminated. All such costs, including any costs after termination, shall be negotiated with the Department on a case by case basis, using standards found in Section 2630.110.

61) Training and education costs.

A) Costs of preparation and maintenance of a program of instruction, including but not limited to on-the-job, classroom, and apprenticeship training designed to increase the vocational effectiveness of employees, including training materials, textbooks, salaries or wages of trainees (excluding any additional compensation, or any overtime compensation to trainees which arise therefrom), and

i) salaries of the director of training and staff when the training program is conducted by the organization; or

ii) tuition and fees, when the training is in an institution not operated by the organization, are allowable.

B) Costs of part-time education, at an undergraduate or postgraduate college level, including that provided at the organization's own facilities, are allowable only when the course or degree pursued is relative to the field in which the employee is now working and are limited to:

i) Training materials,

ii) Textbooks,

iii) Fees charged by the educational institution,

iv) Tuition charged by the educational institutional, or in lieu of tuition, instructor's salaries and the related share of indirect costs of the educational institution to the extent that the sum thereof is not in excess of the tuition which would have been paid to the participating educational institution,

v) Salaries and related costs of instructors who are employees of the organization, and

vi) Straight-time compensation of each employee for time spent attending classes during working hours not in excess of 158 hours per year and only to the extent that circumstances do not permit the operation of classroom or attendance at classes after regular working hours.

C) Costs of attendance of up to 4 weeks per employee per year at a specialized program specifically designed to enhance the effectiveness of executives or managers or to prepare employees for such positions are allowable. Such costs include enrollment fees, training materials, textbooks and related charges, employees' salaries, and travel. Costs allowable under this subsection do not include those for courses that are part of a degree-oriented curriculum, which are allowable only to the extent set forth in subsection (b)(61)(B).

D) Maintenance expense, and normal depreciation or rental, on facilities owned or leased by the organization for training purposes are allowable to the extent set forth in subsections (b)(10) and (18).

E) Contributions or donations to educational or training institutions, including the donation of facilities or other properties, and scholarships or fellowships, are unallowable.

F) Training and education costs in excess of those otherwise allowable under subsections (b)(61)(B) and (C) shall be allowed if granted prior approval of the Department. To be considered for approval, the organization must demonstrate that such costs are consistently incurred pursuant to an established training and education program, and that the course or degree pursued is relative to the field in which the employee is now working.

62) 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.

63) Travel costs.

A) Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the organization. Travel costs are allowable subject to subsections (b)(63)(B) through (E), when they are directly attributable to specific work under an award or are incurred in the normal course of administration of the organization. Travel status is defined by the organization's own internal personnel policies.

B) 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 results in charges consistent with those normally allowed by the organization in its regular operations.

C) The difference in cost between first-class air accommodations and less than first-class air accommodations is unallowable except when less than first-class air accommodations are not reasonably available to meet necessary mission requirements, such as where less than first-class accommodations would

i) require circuitous routing,

ii) require travel between 7 PM and 6 AM or on weekends or holidays,

iii) greatly increase the duration of the flight (i.e., travel which exceeds normal travel time by three hours or longer),

iv) result in additional costs which would offset the transportation savings, or

v) offer accommodations which are contrary to those prescribed by the traveler's physician.

D) Necessary and reasonable costs of personnel movements of a special or mass nature are allowable, subject to allocation on the basis of work or time period benefited whichever is appropriate. Advance agreements made by the organization with other funding sources are considered important in evaluating special situations.

E) Direct or indirect foreign travel costs are not allowable.

64) Participant Supportive Services. Participant supportive services costs are considered allowable only if the costs are necessary to enable an individual (enrolled for training under the Act, but who cannot afford to pay for such services) to participate in a training program funded under the Act. Payments for participant medical examinations and inoculations, when required of all students entering a training program, are appropriately charged as a direct training service or retraining cost. These payments may be charged as a supportive service cost when provided to participants on an as needed basis. Supportive services payments shall be in accordance with Section 4(24) of the Act. Payments for supportive services to Title III participants under the Act are also subject to the provisions of Section 314(c)(15) of the Act. Participant supportive service costs, in the form of payments to participants, must be supported by documentation which verifies receipt of payments to the participant. For the participant to receive supportive services, documentation must confirm that the participant was engaged in an activity approved by the grantee, or was in an activity in compliance with a grantee policy defining excused absences, on the dates for which supportive services were made. The need for supportive service payments shall be documented in the participant's Individual Service Strategy (ISS).

65) Needs-Based Payments. Needs-based payments are limited to payments necessary for an individual to participate in a JTPA program under sections 204(c)(3), 264(d)(4) and 314(e). All payments must be in accordance with a locally developed formula and procedures which are described in the SDA's approved two year plan. Needs-based payments must be supported by documentation which indicates the need for such payment, the amount, verification that the payment was received by the participant's, as well as documentation which indicates that the conditions for receiving the payments were met, as described in the participant's Individual Service Strategy (ISS). The basis for needs-based payments shall be documented in the participant's ISS, detailing the amount to be paid and the conditions under which payment is earned.

66) Incentive and Bonus Payments. Incentive and bonus payments to program participants are allowable only under Title II-C of the Act. Such payments must be paid in accordance with a locally developed policy, as described in the SDA's approved two year plan. Incentive and bonus payments must be supported by evidence that the participant met the established criteria to earn the payment, as well as verification that the payment was received by the participant.

67) Fund Raising. Fund raising is not an allowable JTPA cost without prior written approval of the Department. The written request must identify the purpose, anticipated cost, the party or parties involved in the fund raising and the type of fund raising being conducted. There must be a direct benefit to the JTPA program and the fund raising activities must be charged a fair share of indirect cost and other administrative cost.

68) Stand In Costs. Stand in costs are costs paid from non-Federal sources which a recipient proposes to substitute for Federal costs which have been disallowed as a result of an audit or other review. In order to be considered as valid substitutions, the cost must have been reported by the grantee as uncharged program costs under the same Title and in the same year in which the disallowed costs were incurred, and must have been incurred in compliance with laws, regulations, and contractual provisions governing JTPA.

69) Profits. Commercial organizations may be allowed an amount of profit equal to no more than 12% of the total contract amount under a non-commercially available training program. The justification of the actual amount of profit allowed in a particular contract must be determined and documented in accordance with provisions of paragraph 627.420(e)(3) of the JTPA federal regulations. The profit must be shown as a distinct reimbursement item on the contract budget. The total profit may be awarded only after the contractor has met required program performance criteria designated in the contract in support of profit earnings. All costs charged to a contract must be allowable in accordance with the Job Training Partnership Act, the Federal and State regulations and any other contractual requirements of the awarding agency.

70) Employment Generating Activities. Employment generating activities, economic development activities, investment in revolving loan funds, capitalization of businesses, investment in contract bidding resource centers, and similar activities are all unallowable activities.

(Source: Amended at 18 Ill. Reg. 9935, effective June 17, 1994)