



# OMB Cost Principles Circular A-87

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- Office of Management and Budget Cost Principles Circular A-87 (For Tribal Governments)
- States Allowable costs for P.L. 93-638 contracts with Federally-recognized tribes

# OMB CIRCULAR A-87



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- **PURPOSE:** Circular establishes principles and standards for determining costs for Federal contract awards to Federally-recognized tribes.
- The principles are for determining allowable costs only.

# OMB CIRCULAR A-87



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- Policy Guides:
  - Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.
  - Government units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and terms and conditions of the Federal award.

# OMB CIRCULAR A-87



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- Policy Guides: (Continued)
  - Each government unit, 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.

# A-87 Circular



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- Cost Principles apply to:
  - State
  - Local Government
  - **Indian Tribal Government**

# A-87 Circular-Indian Tribal Governments



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- Basic Guidelines: *Allowability*

To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable.
- b. Be allocable to Federal awards.
- c. Be authorized or not prohibited.

# A-87 Circular-Indian Tribal Governments



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- Basic Guidelines: *Allowable* (Continued)
  - d. Conform to any limitations or exclusions set forth in these principles,.
  - e. Be consistent with policies, regulations, and procedures that apply uniformly.

# A-87 Circular-Indian Tribal Governments



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- Basic Guidelines: *Allowable* (Continued)
  - 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. Be determined in accordance with generally accepted accounting principles.



# A-87 Circular-Indian Tribal Governments



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- Basic Guidelines: *Allowable* (Continued)
  - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award.
    - i. Be the net of all applicable credits.
    - j. Be adequately documented.

# Attachment B

## Selected Items of Cost

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- **Table of Contents**
  1. **Accounting**
  2. **Advertising and public relation costs**
  3. **Advisory councils**
  4. **Alcohol beverages**
  5. **Audit services**
  6. **Automatic electronic data processing**

# Attachment B

## Selected Items of Cost

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- Table of Contents

**7. Bad debts**

**8. Bonding costs**

**9. Budgeting**

**10. Communications**

# Attachment B

## Selected Items of Cost



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- **Table of Contents (Continued)**

- 11. Compensation for personnel services**

- a. General
- b. Reasonableness
- c. Unallowable costs
- d. Fringe benefits
- e. Pension plan costs
- f. Post-retirement health benefits
- g. Severance Pay
- h. Support of salaries and wages
- I. Donated services

# Attachment B


## Selected Items of Cost

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- Table of Contents (Continued)
- 12. **Contingencies**
- 13. **Contributions and donations**
- 14. **Defense and prosecution of criminal and civil proceedings, and claims**
- 15. **Depreciation and use allowances**
- 16. **Disbursing service**
- 17. **Employee morale, health, and welfare costs.**

# Attachment B

## Selected Items of Cost



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- Table of Contents (Continued)

18. Entertainment

19. Equipment and other capital expenditures

20. Fines and penalties

21. Fund raising and investment management costs

22. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs

23. General government expenses.

24. Idle facilities and idle capacity

# Attachment B

## Selected Items of Cost



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- Table of Contents (Continued)

25. Insurance and indemnification

26. Interest

27. Lobbying

28. Maintenance, operations, and repairs

29. Materials and supplies

30. Memberships, subscriptions, and professional activities

31. Motor pools

32. Pre-award costs

33. Professional service costs

# Attachment B

## Selected Items of Cost

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- Table of Contents (Continued)

34. Proposal costs

35. Publication and printing costs

36. Rearrangements and alterations

37. Reconversion costs

38. Rental costs

39. Taxes

40. Training


41. Travel Costs

42. Underrecovery of costs under Federal agreements



# Attachment B

## Selected Items of Cost



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Sections 1 through 42 provide principles to be applied in establishing the allowability or unallowability of certain items of cost.

These principles apply whether a cost is treated as direct or indirect.

Determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

# Attachment B

## Selected Items of Cost

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1. **Accounting**. The cost of establishing and maintaining accounting and other information systems is **allowable**.
2. **Advertising and public relations cost**.
  - a. The term “advertising costs” means the costs of advertising media and collorary administrative costs. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like

# Attachment B

## Selected Items of Cost

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### 2. Advertising and public relations costs. (Cont'd)

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

# Attachment B

## Selected Items of Cost

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### 2. Advertising and public relations costs. (Cont'd)

- c. Advertising costs are **allowable** only when incurred for the recruitment of personnel, the procurement of goods and services, the disposal of surplus materials, and any other specific purposes necessary to meet the requirements of the Federal award. Advertising costs associated with the disposal of surplus materials are **not allowable** where all disposal costs are reimbursed based on a standard rate as specified in the grants management common rule.

# Attachment B

## Selected Items of Cost

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### **2. Advertising and public relations costs.** (Cont'd)

d. Public relations costs are **allowable** when:

- (1) Specifically required by the Federal award and then only as a direct cost;
- (2) Incurred to communicate with the public and press pertaining to specific activities or accomplishments that result from performance of the Federal award and then only as a direct cost; or...

# Attachment B

## Selected Items of Cost

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### **2. Advertising and public relations costs.** (Cont'd)

d. Public relations costs are **allowable** when: (Continued)

(3) Necessary to conduct general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of Federal contract/grant awards, financial matters, etc.

# Attachment B

## Selected Items of Cost

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### 2. Advertising and public relations costs. (Cont'd)

e. **Unallowable** advertising and public relations costs include the following:

- (1) All advertising and public relations costs other than as specified in subsections c. and d.;
- (2) Except as otherwise permitted by these cost principles, costs of conventions, meetings, or other events related to other activities of the governmental unit including:
  - (a) Costs of displays, demonstrations, and exhibits;

# Attachment B

## Selected Items of Cost

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### 2. Advertising and public relations costs. (Cont'd)

(2) Except as otherwise permitted by these cost principles, costs of conventions, meetings, or other events related to other activities of the governmental unit including:(cont'd)

(b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and

(c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;



# Attachment B

## Selected Items of Cost

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### 2. Advertising and public relations costs. (Cont'd)

(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs; and

(4) Costs of advertising and public relations designed solely to promote the governmental unit.

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

# Attachment B

## Selected Items of Cost

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4. **Alcoholic beverages**. Costs of alcoholic beverages are **unallowable**.
5. **Audit services**. The costs of audits are **allowable** provided that the audits were performed in accordance with the Single Audit Act, as implemented by Circular A-128, “Audits of State and Local Governments.”

# Attachment B

## Selected Items of Cost

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### 5. Audit services. (Continued)

[Note: In June 1997, OMB rescinded Circular A-128 and co-located all audit requirements in a re-titled A-133, “Audits of States, Local Governments, and Non-Profit Organizations.”] Generally, the percentage of costs charged to Federal awards for a single audit shall not exceed the percentage derived by dividing Federal funds expended by total funds expended by the recipient or sub recipient (including program matching funds) during the fiscal year. The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs.

Other audit costs are allowable if specifically

# Attachment B

## Selected Items of Cost

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6. **Automatic electronic data processing**. The cost of data processing services is **allowable** (but see section 19, Equipment and other capital expenditures).
7. **Bad debts**. Any losses arising from uncollectible accounts and other claims, and related costs, are **unallowable** unless provided for in Federal program award regulations.
8. **Bonding costs**. Costs of bonding employees and officials are **allowable** to the extent that such bonding is in accordance with sound business practice.

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## Selected Items of Cost

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9. **Budgeting**. Costs incurred for the development, preparation, presentation, and execution of budgets are **allowable**.
10. **Communications**. Costs of telephone, mail, messenger, and similar communication services are **allowable**.

# Attachment B

## Selected Items of Cost

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### 11. Compensation for personnel services.

- a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are **allowable** to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:
- (a) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;

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## Selected Items of Cost

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### 11. Compensation for personnel services.

#### a. General. (Continued)

(2) Is determined and supported as provided in subsection h.

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## Selected Items of Cost

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### 11. Compensation for personnel services.

b. **Reasonableness.** Compensation for employees engaged in work on Federal awards will be considered **reasonable to the extent** that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered **reasonable to the extent** that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be



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## Selected Items of Cost

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### 11. Compensation for personnel services.

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

d. Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans.

# Attachment B

## Selected Items of Cost

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### 11. Compensation for personnel services.

#### d. Fringe benefits.

- (1) (Continued) Except as provided elsewhere in these principles, the costs of fringe benefits are **allowable to the extent** that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

# Attachment B

## Selected Items of Cost

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### 11. Compensation for personnel services.

#### d. Fringe benefits. (Continued)

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

# Attachment B

## Selected Items of Cost

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### 11. Compensation for personnel services.

d. Fringe benefits. (Continued)

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

# Attachment B

## Selected Items of Cost

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### 11. Compensation for personnel services.

#### d. Fringe benefits. (Continued)

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

# Attachment B

## Selected Items of Cost

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### 11. Compensation for personnel services.

#### d. Fringe benefits. (Continued)

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 25, Insurance and indemnification); pensions plan costs (see subsection e.); and other similar benefits are **allowable**, provided such benefits are granted under established written policies

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## Selected Items of Cost

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### 12. Contingencies


Contributions to a contingency reserve...made for events the occurrence of which cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening, are **unallowable**.

### 13. Contributions and donations

Contributions and donations, including cash, property, and services, by governmental units are **unallowable**.

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### 14. Defense and prosecution of criminal and civil proceedings, and claims.

- (a) The following costs are **unallowable**...
  - (1) Costs incurred in defense of any civil or criminal fraud proceeding...
  - (2) Costs incurred by a contractor in connection with any criminal, civil or administrative proceeding...
- (b) Legal expenses required in the administration of Federal programs are **allowable**. Legal expenses for prosecution of claims against the Fed. Govt. are **unallowable**.



# Attachment B

## Selected Items of Cost



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### 15. Depreciation and use allowances.

Varies according to item

# Attachment B

## Selected Items of Cost

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### 16. Disbursing service.

The cost of disbursing funds by the Treasurer or other designated officer is **allowable**.

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

The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications and any related expense incurred in accordance with an governmental unit's policy are **allowable**.

# Attachment B

## Selected Items of Cost

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### 18. Entertainment.

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

# Attachment B

## Selected Items of Cost

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### 19. Equipment and other capital expenditures.

Varies according to item

### 20. Fines and penalties.

Fines, penalties and other settlements resulting from violations (or alleged violations) of, or failure of the government unit to comply with, Federal, State, local, or Indian tribal laws and regulations are **unallowable**, except when incurred as a result of compliance with specific provisions of the Federal award...

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## Selected Items of Cost

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### 21. Fund raising and investment management costs.

- a. Costs of organizing fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are **unallowable**, regardless of the purpose for which the funds will be used.
- b. Costs of investment counsel...incurred to enhance income from investments are **unallowable**.

# Attachment B

## Selected Items of Cost

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

Varies according to item.

# Attachment B

## Selected Items of Cost

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### 23. General government expenses.

- a. The general costs of government are **unallowable** (except as provided in section 41). These include:
  - (1) Salaries and expenses of the Office of the Governor,..Chief executives of federally-recognized Indian tribal governments;
  - (2) Salaries and..expenses of tribal councils,..school boards...
  - (3) And other specified entities.

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## Selected Items of Cost

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### 24. Idle facilities and idle capacity.

Varies according to item

### 25. Insurance and indemnification.

- a. Costs of insurance required or approved and maintained, pursuant to the Federal award, are **allowable.**
- b. Others allowable according to limitations



# Attachment B

## Selected Items of Cost

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### 26. Interest.

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

# Attachment B

## Selected Items of Cost



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### 29. Materials and supplies.

The cost of materials and supplies is **allowable**.

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## Selected Items of Cost

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### 30. Membership, subscriptions, and professional activities.

- a. Costs of the governmental unit's membership in business, technical, and professional organizations are **allowable**.
- b. Costs of the governmental unit's subscriptions to business, professional, and technical periodicals are **allowable**.
- c. Costs of meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are **allowable**.

# Attachment B

## Selected Items of Cost

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### 30. Membership, subscriptions, and professional activities. (Continued)

- d. Costs of membership in civic and community, social organizations are **allowable** as a direct cost with the approval of the Federal awarding agency.
- e. Costs of membership in organizations substantially engaged in lobbying are **unallowable**.

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## Selected Items of Cost

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### 31. Motor pools.

The costs of a service organization which provides automobiles to user governmental units at a mileage or fixed rate and/or provides vehicle maintenance, inspection, and repair service are **allowable.**

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## Selected Items of Cost

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### **32. Pre-award costs.**

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

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## Selected Items of Cost

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### 33. Professional service costs.

- a. Cost of professional and consultant services...are **allowable** subject to: (see section)

### 34. Proposal costs.

Costs of preparing proposals for potential Federal award are **allowable**. (should normally be treated as indirect costs) (see section)

### 35. Publication and printing costs.

Publication costs...distribution, promotion..are **allowable**.

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## Selected Items of Cost

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### 36. Rearrangement and alterations.

Costs incurred for ordinary and normal rearrangement and alteration of facilities are **allowable**.

### 37. Reconversion costs.

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



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### 38. Rental costs.

- a. Subject to limitations described in subsections b. through d. of this section, rental costs are **allowable** to the extent that the rates are reasonable....(see section)

### 39. Taxes.

- a. Taxes that a governmental unit is legally required to pay are **allowable**, except: (see section)

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### 40. Training.

The cost of training provided for employee development is **allowable**.

### 41. Travel costs.

a. General. Travel costs are **allowable** for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business. (See section)

# Attachment B

## Selected Items of Cost



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42. Under-recovery of costs under Federal agreements.

Any excess costs over the Federal contribution under one award agreement are **unallowable** under other award agreements.



# Standards governing Allowability

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- Reasonable
- Allocable
- Authorized and Legal
- Limits on Costs
- Consistent Application
- Consistent Treatment
- Accounting Principles
- No Double-Charging



# Standards governing Allowability

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- Net of Applicable Credits
- Documentation
- Cost Accounting Standards