



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

ORDER

DOT 4600.11A

9-9-82

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

1. PURPOSE. This Order provides instructions for implementing the requirements of Office of Management and Budget (OMB) Circular No. A-87 Revised, Cost Principles for State and Local Governments, of 1-15-81.
2. CANCELLATION. DOT 4600.11, PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND CONTRACTS WITH STATE AND LOCAL GOVERNMENTS, of 8-14-80.
3. REFERENCES. OMB Circular A-87 and OASC-10, A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government (the guide which was published by the U. S. Department of Health, Education and Welfare (HEW) in December 1976 and is maintained by its successor agency, the Department of Health and Human Services (HHS)).
4. APPLICABILITY. The provisions of Circular A-87 apply to all Federal grants and cooperative agreements awarded to State and local governments except where restricted or prohibited by law as defined in paragraph A3 of Attachment A of the Circular. The provisions of Section 1-15.7 of the Federal Procurement Regulations (FPR) shall apply to all direct Federal contracts awarded to State and local governments. The provisions of Circular A-87 also apply to State and local governments that are subrecipients under grants and cooperative agreements.
5. BACKGROUND.
 - a. Circular A-87 supersedes and is primarily a reissue of Federal Management Circular 74-4, Cost Principles Applicable to Grants and Contracts with State and Local Governments, of 7-18-74. Circular A-87 establishes a set of principles for measuring in a consistent manner the costs of programs administered by State and local governments under Federal grants and cooperative agreements.
 - b. The Circular requires State and local governments to substantiate indirect costs through formal indirect cost proposals/cost allocation plans, and provides for the negotiation, approval and audit of those plans. In the Federal Register of February 28, 1980, OMB issued an updated list of Federal agencies responsible for audit and approval of indirect cost rates and cost allocation plans. OMB has assigned the Department of Transportation (DOT) as the cognizant Federal agency for all State highway agencies (departments of transportation, highways, and public works) and other State transportation-related agencies, such as departments of aeronautics, motor vehicles and public safety.

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- c. Attachment P, Audit Requirements, to OMB Circular A-102, Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments, requires recipients to arrange for organization-wide audits by independent auditors. Attachment 11, Audit Requirements, to DOT 4600.9B Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments, implements Attachment P to A-102, and establishes a requirement for a DOT operating administration to be assigned cognizant administrative responsibility for DOT recipients.
 - d. As part of its primary cognizance responsibilities, HEW published OASC-10. The guide, which is maintained by the successor agency, HHS, describes the preparation of indirect cost proposals/cost allocation plans detailing the basis for preparation, minimum requirements, submission, audit and negotiation. It also provides examples of the types of proposals and negotiation agreements.
 - e. In accordance with Circular A-87 and OASC-10, the recipient is responsible for assuring that Federal funds that are subsequently passed through to other organizations are properly spent and accounted for.
6. POLICY. The costs of DOT grants and cooperative agreements performed or administered by State and local government agencies will be determined in accordance with the principles in Circular A-87. For direct contracts, the FPR should be referenced. No administrative restrictions (i.e., those restrictions not statutorily prescribed) concerning the allowability of State and local government administrative costs shall be applied which conflict with the provisions of the Circular.
7. RESPONSIBILITIES.
- a. Each operating administration and Secretarial Office administering grants or cooperative agreements to State and local government agencies shall incorporate the principles of the Circular fully or by reference in appropriate agency directives, circulars, handbooks or manuals. Statutory restrictions which preclude full compliance with these principles should be identified and explained. The cost principles shall be incorporated in all grants and cooperative agreements. Requests for exceptions to Circular A-87 by the operating administrations shall be submitted through the Assistant Secretary for Administration, and will be forwarded to OMB only when accompanied by sufficient justification.
 - b. In accordance with Attachment 11 to DOT 4600.9B, the operating administration assigned cognizant administrative responsibility under Attachment P of OMB Circular A-102 is also responsible for approving indirect cost rates/cost allocation plans when DOT has been assigned as the cognizant Federal agency by OMB. The cognizant DOT operating administration is responsible for requesting necessary audits, negotiating/approving the recipient's indirect cost rate/cost allocation plan, and for preparing the negotiation agreement. Each negotiation agreement should be forwarded to the Office of Installations and Logistics for distribution within DOT and to other Federal departments.

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- c. The Office of Inspector General (OIG) is responsible for performing or arranging for audits of recipients' indirect cost proposals/cost allocation plans when audits are necessary. Audits of recipients' proposals will normally be performed in the following cases:
 - (1) The recipient is working on its first assistance project or has not previously had an indirect cost rate proposal/cost allocation plan reviewed and accepted;
 - (2) The recipient has made a change in its accounting system, thereby affecting the previously approved indirect cost rate/cost allocation plan and its basis of application; or
 - (3) The recipient's proposed indirect cost rate/cost allocation plan varies significantly from the amounts and rates approved for the previous year(s).
- d. In accordance with Circular A-87, the cognizant DOT operating administration will negotiate/approve recipients' indirect cost rates/ cost allocation plans at the State department level. Rates/plans of local governments will be negotiated/approved where the cognizant DOT operating administration requests that the rate proposals/plans be submitted to it for negotiation and approval; however, the rate proposals/plans of local governments should normally be retained for review at the time of the organization-wide audit of the recipient. Provisional rates should be negotiated/approved for billing purposes when one of the cases listed in paragraph 7c occurs. In other instances, the cognizant DOT operating administration is encouraged to negotiate fixed rates with a carry-forward provision for indirect costs applicable to grants where DOT has ongoing programs with the recipient, and the cost experience and other pertinent facts available are deemed sufficient to reach a judgment on the probable level of indirect costs to be incurred. Under the carry-forward provision, any under or over recovery of indirect costs that occurred because of applying the fixed rate is considered in determining the fixed rate to be used in a future year. Using the fixed rate procedure will provide for earlier closeout of grant projects because the prior years are not adjusted to actuals, as is the case for provisional rates. Appendix 5 to OASC-10 contains guidelines on the computation and use of fixed rates with a carry-forward provision.
- e. In accordance with Federal policy, operating administrations will accept indirect cost rate and cost allocation plan agreements negotiated/approved by the Federal cognizant agency or by the operating administration within DOT having cognizant administrative responsibility.
- f. Departmental involvement in dealing with subrecipients' indirect costs is normally limited to providing technical assistance in cases where recipients need help in determining reasonable, allocable and allowable subrecipient costs and indirect cost rates. The cognizant DOT operating administration should review the procedures that are followed by the recipient in determining the subrecipient's indirect cost rate. When it is satisfied with the propriety of the recipient's approval of the

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satisfied with the propriety of the recipient's approval of the subrecipient's rate, the cognizant DOT operating administration shall certify or endorse the rate so that it can be relied upon by all agencies providing Federal funds to the organization, e.g., where the Federal Highway Administration has instructed a State recipient to negotiate and approve the indirect cost rate of a Metropolitan Planning Organization (MPO), and the MPO is a direct recipient of Urban Mass Transportation Administration funds. In cases where the audit of the indirect cost proposal of the subrecipient is performed by the OIG or other Federal auditors, the cognizant DOT operating administration shall negotiate an indirect cost agreement directly with the subrecipient. Documents setting forth the approved rates for subrecipients and the cognizant DOT operating administrations' endorsements of the propriety of recipients' approvals of subrecipients' rates should be forwarded to the Office of Installations and Logistics for distribution within DOT and other Federal departments.

- g. Operating administrations shall issue instructions to their recipients on the procedures for preparing and submitting indirect cost rate proposals/cost allocation plans. The standards to be adhered to are:
 - (1) Proposals/plans must be developed annually when recipients intend to seek payment for indirect costs, and should be prepared in accordance with the following:
 - (a) All activities of State or local government agencies are considered;
 - (b) Distribution of indirect costs are based on methods reasonably indicative of the amount of services provided;
 - (c) Services provided are necessary for successful conduct of the Federal programs;
 - (d) Costs incurred are reasonable, allocable and allowable in accordance with Circular A-87; and
 - (e) Costs for State or local government central services that are included in departmental indirect cost rate proposals are in conformance with the applicable government-wide cost allocation plans.
 - (2) Recipients must certify that the prepared plan is according to the standards in Circular A-87.
- h. Operating administrations shall include specific instructions on travel of elected officials and board members, and executive director costs when implementing the standards for selected items of costs contained in Attachment B to Circular A-87 in agency directives, circulars, handbooks or manuals. Basically, for the costs to be allowable, they must be necessary and reasonable in the performance of grant projects, and not a general expense of the State or local government. Travel costs of elected

officials and board members to attend seminars or general policy meetings are generally unallowable on the basis that such travel is seldom specifically related to a Departmental grant program. If the travel costs of these officials can be shown to be specifically related to the grant program, prior approval by the operating administration is required for the costs to be allowable. Because of the diverse makeup of planning boards, this policy covers the travel of all board members, notwithstanding whether they are elected or nonelected officials. The portions of chief executive and executive director salaries and expenses that are directly attributable to managing and operating Federal programs are allowable.

8. IMPLEMENTATION. The policy and procedures contained in this Order are effective immediately. Implementing directives should be submitted within 60 days following publication of this Order.

FOR THE SECRETARY OF TRANSPORTATION



Robert L. Fairman
Assistant Secretary for
Administration