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GUIDELINES AND INFORMATION
FOR ASSISTING RMP'S IN
PHASING OUT RMP'S SUPPORT

4/73

APPLICABLE TO RMP ONLY

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GRANT ADMINISTRATION REQUIREMENTS

I. GENERAL RESPONSIBILITIES OF THE GRANTEE

The grantee is responsible for insuring compliance with all Federal requirements. Specifically every grant must be administered in accordance with (1) the Act, (2) the regulations thereunder, (3) other applicable regulations (i.e., Civil Rights), and (4) written Federal policies (e.g., the policies contained in this Manual). Grantees are also responsible for advising program staff, affiliates and all institutions and agencies participating in an RMP of the applicable Federal requirements and for instituting procedures to insure compliance.

Grantees are urged to safeguard their interests by requiring that institutions and agencies participating in the RMP execute a contract or affiliation agreement regarding the administration of RMPS funds. It would be advisable for such an agreement to include appropriate references to the Act, regulations and this Manual, and, further, to provide for reimbursement of the grantee in the event of audit liabilities incurred by others in connection with carrying out the grant.

II. ASSURANCES

The signature of the applicant's authorized representative on page 2 of the grant application provides assurance to the Federal Government that the grantee will comply with the following:

1. Assurances specified in Sections 903 and 904 of the Act.
2. Civil Rights requirements.

RMPS grants must be administered in conformance with the Civil Rights Act of 1964 and the regulation (45 CFR, Part 80) issued pursuant thereto by the Department of Health, Education, and Welfare. Title VI of the Civil Rights Act of 1964 and the Equal Employment Opportunity Act of 1972 state that no person in the United States shall, on the ground of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance. Every RMPS grantee organization is required to have an Assurance of Compliance (Form HEW 441) on file with the Office for Civil Rights, Office of the Secretary, DHEW, before a RMPS grant may be made to that institution.

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Grantees are responsible for insuring that all affiliates and other institutions participating in the RMP submit HEW-441 to the grantee, where they have not already done so, and comply with the assurances given. In addition, all organizations participating in an RMP must comply with Executive Order 11246, as amended, and superseded by Executive Order 11375 and 11478, respectively.

3. Requirement for care and treatment of laboratory animals.

A special assurance relating to animal care must be submitted for any RMPS program staff or operational activity which involves the use of animals for research or other purposes. Institutions and organizations using warm-blooded animals in projects or activities supported with RMPS grant funds must provide RMPS with written assurance that they will evaluate on a continuing basis their facilities in regard to the maintenance of acceptable standards for the care, use, and treatment of such animals.

The assurance must describe accreditation by a recognized professional laboratory animal accrediting body or the establishment of a committee, at least one of whose membership is a Doctor of Veterinary Medicine, to evaluate the care of all warm-blooded animals held or used for activities supported by RMPS grants, awards, or contracts; and commit the institution to comply with applicable portions of the Animal Welfare Act (PL 89-544, as amended) and to follow the guidelines prescribed in DHEW Publication No. (NIH) 73-23, formerly PHS Publication No. 1024, "Guide for the Care and Use of Laboratory Animals."

4. Requirement for protection of human subjects.

A plan for the protection of human subjects is required when any individual would be "at risk" - exposed to the possibility of physical, psychological, sociological or other harm - as a result of RMPS supported activities. No RMPS funds may be expended for such activities unless the required plan has been approved. In addition written prior RMPS approval is required before RMPS funds are utilized to support any activity involving the use of human subjects for research or experimentation.

Specifically, where applicable, a plan for the protection of human subjects must be submitted and approved in accordance with Chapter 1-40 of the HEW Grants Administration Manual. The plan must be applicable to the institution directly responsible for the activity in question (i.e., the institution identified as the

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project sponsor on pages 15 and 16 of an application, RMP-34-1). No grant for an activity involving human subjects shall be made unless the application for such support has been reviewed and approved by an appropriate institutional committee.

The institution must submit to RMPS, for its review, approval and official acceptance, a written assurance of its compliance with this policy. The institution must also provide with each proposal involving human subjects a certification that it has been or will be reviewed in accordance with the institution's assurance. This certification must be renewed annually on the basis of continuing review of the supported project. Guidelines for the establishment and operation of such a _____ system are provided in DHEW Publication No. (NIH) 72-102, the "Institutional Guide to DHEW Policy on Protection of Human Subjects," available from the Institutional Relations Section, Division of Research Grants, National Institutes of Health, Bethesda, Maryland 20014.

III. PATENTS AND INVENTIONS

In accordance with Department of Health, Education, and Welfare Regulations (45 CFR Subtitle A, Parts 6 and 8), all inventions made in the course of or under any RMPS grant shall be promptly and fully reported to the Assistant Secretary for Health, Department of Health, Education, and Welfare. Instructions for the proper method of reporting should be requested from RMPS. Determination as to ownership and disposition of invention rights, including whether a patent application shall be filed, and if so, the manner of obtaining, administering, and disposing of rights under any patent application or patent which may issue shall be made either:

- a. by the Assistant Secretary for Health whose decision shall be considered as final, or
- b. where the institution has a separate formal institutional agreement with the Department, by the grantee institution in accordance with such agreement.

Patent applications shall not be filed on inventions under (a) above without prior written consent of the Assistant Secretary for Health or his representative. Any patent application filed by the grantee on an invention made in the course of or under a RMPS grant shall include the following statement in the first paragraph of the specification:

"The invention described herein was made in the course of, or under, a grant from the Health Services and Mental Health Administration, Department of Health, Education, and Welfare."

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A complete written disclosure of each invention in the form specified by the Assistant Secretary for Health, DHEW, shall be made by the grantee promptly after conception or first actual reduction to practice, and, in any event, prior to publication. Upon request, the grantee shall furnish such duly executed instruments (prepared by the Government) and such other papers as are deemed necessary to vest in the Government the rights reserved to it under this policy statement to enable the Government to apply for and prosecute any patent application, in any country, covering each invention where the Government has the right to file such application.

In addition to immediate reporting, grant application forms require information pertaining to inventions conceived or actually reduced to practice during a period of active RMPS grant support. If no inventions were made, submission of a properly executed application will provide the necessary certification to that effect (i.e., on page 3 of Form RMPS 34-1). A Final Invention Statement and Certification (Form OS-489) is required within 30 days following the end of support of an RMPS support activity. All inventions which were conceived or first actually reduced to practice during the course of work under the grant from the original effective date of support through the date of completion, whether or not previously reported, shall be listed on the Statement. Each Statement will require the signature of the person responsible for the grant concerned and an institution official authorized to sign on behalf of the institution.

The grantee shall obtain appropriate patent agreements to fulfill the requirements of this provision from all persons who perform any part of the work under the grant, except such clerical and manual labor personnel as will have no access to technical data, and except as otherwise authorized in writing by the Department.

The grantee shall insert in any contract or agreement made under the grant which has experimental, developmental, or research work as one of its purposes, a clause making this provision applicable to such contractor and its employees. Agreements shall also be obtained by the grantee to govern disposition of rights to inventions resulting from screening of compounds synthesized under the grant.

As used in this provision, the stated terms are defined as follows for the purposes hereof:

- a. "Invention" or "invention or discovery" includes any art, machine, manufacture, design, or composition of matter, or any new and useful improvement thereof, or any variety of plant, which is or may be patentable under the Patent Laws of the United States.

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- b. "Made" when used in relation to any invention or discovery means the conception or first actual reduction to practice of such invention in the course of the grant.

IV. RECORD KEEPING AND REPORTING

Accounting for grant funds will be in accordance with generally accepted principles consistently applied, regardless of the source of funds. All supporting records of project expenditures must be compatible with RMPS reporting requirements.

All grantees and/or their affiliated institutions are required to maintain grant accounting records, identifiable by grant number, until audit on behalf of the Department or five years after the end of the budget period, whichever is less. Accounting records must contain adequate references for identifying and locating original documents in support of direct costs. These include invoices, checks, time records, and payrolls, etc.

V. APPEALS PROCEDURES

The DHEW has a policy of permitting grantees to appeal certain administrative decisions which may result in adverse effects on the grantee. There are two levels of appeal, an informal procedure at the HSMHA level and a formal procedure involving a Grant Appeals Board at the Department level. If an appeal is pursued, the grantee must exhaust the informal procedure of HSMHA before appealing to the Grant Appeals Board, Office of the Secretary.

Decisions which may be appealed are: (1) termination for nonconformity with grant terms, (2) disallowance of an expenditure charged to a grant, (3) a determination that the grantee has failed to account for grant funds, (4) voiding of a grant award, (5) establishment of indirect cost or research hospital patient care rates, and (6) the disapproval of a grantee's request for permission to incur an expenditure during the term of a grant.

VI. BONDING REQUIREMENTS

All non-profit organizations that are established solely for the receipt and administration of an RMP grant must obtain fidelity bond which will assure RMPS of the proper maintenance of Federal funds.

A fidelity bond, as distinguished from burglary insurance provides coverage solely for losses resulting from the dishonest acts of employees of an organization, while burglary insurance coverage other than such dishonest acts of employees of such organization.

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When an organization secures a fidelity bond, copies of such must be furnished to RMPS prior to the issuance by RMPS of an initial grant award to a newly established non-profit organization.

Provision should be made that such coverage continue for the length of RMPS support. The coverage secured must provide for payment of the amount of the coverage in the result of any defalcation to the United States of America - DHEW-PHS-RMPS. The bond should normally provide theft insurance in the amount of one month's normal draw of funds from the Federal treasury.

VII. APPLICABILITY OF FEDERAL OR INSTITUTIONAL POLICIES

In the absence of any contrary provisions of the Law, regulations, or written announced Federal policies, the institutional policies of the grantee or the affiliate are applicable as prescribed by the grantee.

Institutional policies applied to the management of grant funds must apply equally to all institutional activities irrespective of the source of funds. That is, the institution must have the same policies for expenditures from grants as for expenditures from non-Federally supported activities.

VIII. PRIOR APPROVALS

The following cost categories and types of activities require prior approval by RMPS before such costs may be incurred for the purposes indicated: (See specific cost categories for details.)

1. Foreign travel
2. Certain categories of printing
3. Certain types of films and videotapes
4. New construction
5. Patient care
6. Certain classes of drugs
7. End stage kidney disease
8. Activities jointly funded by two or more RMPs
9. Obligation of funds derived from grant-related income
10. Experimentation or other activities involving use of human subjects

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11. Alterations and renovations
12. Feasibility studies related to "Health Maintenance Organizations" (HMOs).

The applicant or grantee is responsible for requesting approval as necessary. This may be done by letter to RMPS. In addition, inclusion of costs in a final budget submitted to support an award constitutes prior approval unless otherwise specified in the award.

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ALLOWABLE COSTS

I. GUIDE MATERIALS RELATING TO COSTS

Allowable costs under the RMP program are those specified below and in the following HEW Guides or the Grants Administration Manual.

1. "A Guide for Colleges and Universities--Establishing Indirect Cost Rates for Grants and Contracts with the Department of Health, Education, and Welfare." (OASC-1, Revised, or Grants Administration Manual, Chapter 2-65.)
2. "A Guide for Non-Profit Institutions, Cost Principles and Procedures for Cost Rates for Grants and Contracts with the Department of Health, Education, and Welfare." (OASC-5, Revised or Grants Administration Manual, Chapter 1-76.)
3. "A Guide for State Government Agencies--Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Department of Health, Education, and Welfare." (OASC-6 or Grants Administration Manual, Chapter 5-60.)
4. "A Guide for Hospitals--Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education, and Welfare." (OASC-3 or Grants Administration Manual, Chapter 2-66.)

II. ALLOWABLE COSTS

A. Use of List of Allowable and Not Allowable Costs

The following list of "allowable" and "not allowable" costs covers those items most frequently encountered. The stated policies apply unless otherwise specified in a Notice of Grant Award, or other communication from RMPs. Omission of a particular item of cost is not intended to imply that the omitted item is either allowable or not allowable.

B. Allowability of Costs

Advertising -- Allowable to recruit staff for project, procurement of scarce items used in conduct of project,

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disposal of scrap or surplus materials and bid advertising under construction grant programs.

Alteration and Renovation-- Allowable. Alteration and renovation means work required to change the interior arrangements or other physical characteristics of an existing facility of installed (built-in) equipment, so that it may be more effectively utilized for its current designated purpose, or adapted to a changed use, as a result of a programmatic requirement. Alterations and Renovations may include work referred to as improvements, conversion, rehabilitation, remodeling or modernization.

Under the law, RMPS participation in both construction and alteration and renovation (including the costs of built-in equipment) is limited to 90% of the costs of such construction or equipment.

Virtually all alterations and renovations supported through RMPS funds consists of rearrangement of space through relocation of non load-bearing walls or partitions and associated appurtenances, built-in equipment, and/or utilities. Alteration and renovation of this type should be classified as "Minor" in completing form RMPS-34-1, page 16, "Financial Data Record."

Regions with triennial status do not require prior RMPS approval to initiate alteration or renovation in the amount of \$25,000 or less RMPS costs. In all other cases prior RMPS approval is required for alteration and renovation.

Alteration and renovation costs requested in an approved application require no further RMPS approvals.

Animals -- Charges for the acquisition, care, and use of experimental animals are allowable.

Audits -- Allowable. Regional Medical Programs may schedule independent audits by certified public accountants provided it is grantee policy and not reimbursed as indirect costs. However, the HEW Audit Agency reserves the right to perform an audit regardless of whether an audit has been performed by a certified public accountant.

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Bad Debts -- Not allowable.

Basic Education (Training) -- Allowable for student support (tuition, stipends, etc.) and associated costs for training of new types of health personnel. Student support for basic education and training in established medical and allied health professions (including internships and residencies) is not allowable. The training institution may be reimbursed for services rendered to an RMP activity by residents, interns or other students

A health profession is considered established if a Board of Schools of the AMA Council on Medical Education, or some similarly recognized mechanism, has been set up to approve schools, outline standards for admission, curriculum requirements and certification procedures, and/or if definitive formal educational programs in the particular health occupation have already been instituted in the educational and training systems of hospitals, technical schools, junior and senior colleges.

Training of new types of health personnel is that training which relates to newly developing technologies or new modalities of diagnosis and treatment for which no standard curriculum is yet recognized, no minimum national standards for certification or licensure are yet established and which is not generally part of the regular offerings of the health-related educational and training system of hospitals and/or technical schools, junior and senior colleges.

Bonus Payment -- Not allowable

Books and Periodicals -- Allowable as a direct cost where required for the conduct of the project. Such items may be allowable as indirect costs when obtained for libraries for the general use of institution staff and students.

Communications -- Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable, provided that such costs are necessary to the activity and not treated as indirect cost.

Computers -- Allowable. Grant funds may be used to purchase computer time, or if the needs of the program are sufficient, the rental of a computer as with all other activities, the costs of acquiring computer capability must be measured against the benefits to be derived.

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Computer Assisted EKG Analysis -- Effective March 7, 1972 not allowable to implement, equip or operate new computer assisted electrocardiographic systems (CAE). Limited funding is allowable, however, for specific organizational phases of CAE system implementation. Such funding may assist in: establishing working relationships between participants, provision of technical consultation, and evaluation of the CAE proposal.

RMPS funding is also allowable for specific CAE studies in Regions that have the technological expertise, facilities, and potential EKG volume necessary to support an economical CAE system. Such staff support may take the form of participation in assessment of needs resources and priorities; technical consultation; organizational counseling; and institutional liaison.

CAE systems receiving RMPS support on or before March 7, 1972 will be continued under the terms of their current approvals. Additional support beyond the currently recommended period of support is subject to the restrictions stated above. (See NID Vol. 6, No. 35, 3/7/72.)

Construction -- Allowable after specific prior approval by RMPS in an application. Construction as defined in the Act means new construction of facilities for demonstrations, research, and training when necessary to carry out regional medical programs, alteration, major repair (to the extent permitted by regulations), remodeling and renovation of existing buildings (including initial equipment thereof), and replacement of obsolete, built-in (as determined in accordance with regulations) equipment of existing buildings.

New Construction includes the erection, installation or assembly of a facility, including the expansion, addition, extension of an existing facility which provides new floor space, cubeage, or applicable units of measurements; total replacement of a facility and/or the physical relocation of a facility from one location to another. For buildings and structures, it may include site preparation, including demolition, excavation, landfill, utility system connections and extensions, site improvements such as roads, walks, parking areas, landscaping, and exterior or interior real property installed (built-in) equipment. Completion of unfinished space is to be treated as new construction.

ALLOWABLE COSTS

Under the Law, RMPS participation in both construction and alteration and renovation (including the costs of built-in equipment) is limited to 90% of the costs of such construction or equipment.

Accounting for costs of construction and alteration and renovation shall be in accordance with the accounting policy of the grantee institution, consistently applied to all sponsors, regardless of the source of funds. The grantee must maintain accounting records to reflect that at least 10% of the project cost has been paid from the institution or other non-Federal funds. The cost of the facility, including construction project costs, must be kept in a prime account so that the grantee can furnish the following upon request:

- a. Total receipts
- b. Total disbursements
- c. Balance in the account
- d. Cost data as prescribed in the cost estimate outline.

Consultant Fees -- Consultant fees, including supporting costs such as travel and per diem, are allowable. Consultant Services must be procured and compensated in accordance with institutional policies.

An employee of the grantee or affiliate not normally employed in connection with RMP, may be employed as a consultant by a Regional Medical Program. In order to be paid a consultant fee in addition to regular institutional salary, such individual must perform services for the RMP which are in addition to his regular duties and carried out beyond the normal work week of the employing institution as defined by that institution's policies.

Within institutional policies, an employee of an RMP can serve as a consultant to another RMP or other health-related agency during his normal work week. Such employee may be reimbursed for travel and subsistence costs by either organization, but dual salary compensation for such consultation is not allowable.

An individual employed as a consultant by an RMP is acting as a private contractor in relation to the RMP and must be appointed as such. Ordinarily, consultants should be appointed only when it can be documented that:

ALLOWABLE COSTS

1. Services to be provided are essential and cannot be provided by persons receiving salary support under the grant or otherwise compensated for their services.
2. A selection process has been employed to secure the most qualified person available and that the selection has been approved by a senior officer of the grantee organization.
3. The charge is appropriate considering the qualifications of the consultant, his normal charges, and the nature of the services rendered.

Employees of the grantee or affiliate paid for services rendered to a Regional Medical Program within their normal work week are not consultants. The grantee or affiliate institution may be reimbursed in accordance with time or effort in connection with RMP for the salary of such employees. In such cases the individual employee receives his normal salary from the institution, and additional compensation is not allowable. Where frequent consultation from a given individual is required, consideration should be given to part-time employment of that person.

Members of the Regional Advisory Group may be reimbursed for actual and necessary expenses incurred in connection with service to the RMP. A RAG member may not serve as a paid consultant to the same RMP, since all advice and assistance to that RMP is provided in his capacity as a RAG member. Non-professional RAG members, however, who suffer loss of salary as a result of attending RAG meetings or other RMP activities, may be reimbursed for such losses.

Contingency Funds or Reserves -- Not allowable.

Contracts -- Allowable. Contracts may be used by grantee institutions for awards to affiliates, and by both grantees and affiliates for purchase of material and general support services. Care should be taken to insure that Contractors, grantees and affiliates observe all applicable Federal requirements.

Dependency Allowances -- See "Stipends and Training Costs."

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Depreciation or Use Charges (if equitably applied to all services) -- Not allowable as a direct cost but may be included in the grantee's indirect cost pool. Depreciation on that portion of equipment charged to Federal grant or contract funds is unallowable except where specifically authorized by a policy waiver and included in program guidelines.

Direct Assistance -- Allowable. At the request of any recipient of a grant for a Regional Medical Program, the payments to such recipient may be reduced by the fair market value of any equipment, supplies, or services furnished by the Secretary to such recipient and by the amount of the pay, allowance, traveling expenses, and any other costs in connection with the detail of an officer or employee of the Government to the recipient when such furnishing or such detail, as the case may be, is for the convenience of and at the request of such recipient and for the purpose of carrying out the Regional Medical Program to which the grant is made.

Dialysis -- See "Kidney Disease Activities."

Donors -- Payment is allowable to volunteers or research subjects who contribute blood, urine samples, and other body fluids or tissues which are specifically project related.

Drugs -- Federal funds will not be expended for purchasing any drug or drug product for which the Food and Drug Administration has made an initial determination published in the Federal Register that there is a lack of substantial evidence of effectiveness for all indications. This policy applies to all identical, similar, or related products, whether or not they are specifically mentioned in the Federal Register notice.

The following are exceptions to the above policy:

- a. Federal funds may be expended to purchase those drugs contained on the list filed by the Food and Drug Administration with the United States District Court for the District of Columbia and which therefore may remain on the market pending completion of scientific studies to determine effectiveness because there is a compelling justification of the medical need for the drug.

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- b. Federal funds may be expended to purchase drugs which lack substantial evidence of efficacy for use in the pursuit of approved clinical research projects.

List of drugs (1) which lack substantial evidence of efficacy and (2) which are exempt from this policy for compelling medical need are available from the Office of the Assistant Secretary for Health, Department of Health, Education, and Welfare, Washington, D.C. 20201.

Dues, Institutional -- Costs of the grantee or affiliate institution's membership in civic, business, technical, and professional organizations are allowable when necessary to accomplish the objectives of RMP.

Dues, Personal -- Costs of personal memberships in civic, business, technical and professional organizations are allowable only to the extent that they are (1) limited to one individual per headquarters or major field installation of the Regional Medical Program; (2) can be purchased at a lower price than institutional membership; (3) are required to obtain publications or for other purposes necessary to accomplish the objectives of RMP.

Entertainment -- Costs of amusements, social activities, entertainment, or incidental costs related thereto are not allowable.

Equipment -- Costs of Rental, purchase, maintenance, taxes, and delivery of equipment, including diagnostic and treatment equipment, for the planning or implementation of a program are allowable. When acquiring major items of equipment, consideration of the relative advantages of lease versus purchase should be considered. Rental of equipment owned by a grantee or affiliate is not allowable. but equipment may be charged to a grant if issued from a central stockroom.

Federal Employee Compensation -- Grant funds may generally not be used to pay fees and supporting costs to U.S. Government employees regardless of their employment or pay status, except that grant funds may be used to pay consultant fees to U.S. Government employees when:

- a. These employees are medical personnel of the Uniformed Services of the United States (excepting commissioned officers of the Public Health Service) qualified to provide the kind, type, and extent of medical services approved in the grant award.

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- b. Adequate numbers of qualified civilian medical personnel are not available to provide the kind, type, and extent of medical services approved in the grant award and medical personnel of the Uniformed Services of the United States (except commissioned officers of the Public Health Service) are hired only in addition to those qualified civilian medical personnel, if any, who are available.
- c. The medical personnel of the Uniformed Services of the United States (excepting commissioned officers of the Public Health Service) hired as consultants have prior written authorization from their commanding officers to work on the grant supported activity and to be paid for their efforts.

Travel or other supporting costs, but not consultant fees, for Federal employees may be paid when consultative assistance is required from a Federal program other than RMPS. (For example, if an RMP needed consultation from an Office of Education employee, it could pay his travel and subsistence in the event that the OE's travel funds were limited. Payment to Federal employees are also allowable when the employee is a patient or subject undergoing study in connection with research supported by the grant. In addition, salaries and travel for Federal employees are allowable when the employee is:

- a. working under a grant to a Public Health Service Hospital, Indian Health Service Hospital, Saint Elizabeth's Hospital, the Veterans Administration, or the the Bureau of Prisons.
- b. either on Leave Without Pay (LWOP) status or on detail to the States, the U.S. possessions and its territories and reimbursement is in accordance with terms mutually acceptable to the employing agency and RMPS

Films, Videotapes, and other Audiovisual Materials -- Allowable provided that the films or other audiovisual material is intended for viewing by restricted audiences. Grant funds may not be used to produce films, videotapes or other audiovisual materials, for viewing by the general public without prior approval of the Regional Medical Programs Service. While there is no universal rule for determining whether the intended audience for audiovisual material should be regarded as "general" or "restricted" the following situations are routinely considered as involving the general public:

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Grantees should copyright audiovisual materials produced through grants, since the copyright would afford grantees a legal basis for receipt of any income derived from the distribution of such materials.

Audiovisual materials developed with grant funds may be disposed of as follows:

- a. They may be sold by the grantee to a distributing organization,
- b. They may be retained by the grantee institution, and distributed as appropriate,
- c. They may be turned over to a Federal distribution center, (i.e., National Audio-visual Center, GSA).

All royalties or other fees received by grantees or their affiliated institutions from the use or distribution of audiovisual materials produced with grant funds, up to the amount they charged to the grant for production of the audiovisual materials, must be refunded to RMPS. In this regard, grantees shall be responsible for maintaining records for the receipt and disposition of the Federal share of income received from the distribution of these audiovisual materials in the same manner as required for the funds provided by the grant which gave rise to this income. Upon notification from a grantee that income has been generated from the distribution of the audiovisual materials, grantees will be advised as to the disposition of such funds. Any income received by a grantee or an affiliated institution from distribution of these audiovisual materials that is over and above the amount that is charged to the grant may be used by the grantee at its discretion. (See "Grant Related Income" for specific details.)

Consult Chapter 1-450 of the HEW Grants Administration Manual for detailed requirements concerning audiovisual materials. It should be noted that Chapter 1-450 does not (1) restrict the distribution of these audiovisual materials once produced in accordance with the policy contained therein; and (2) is not applicable where audiovisual materials are produced with other than Federal grant funds.

Foreign Travel -- Allowable only with prior RMPS approval.

Fringe Benefits -- The employer's share is allowable as a direct cost, if not included as an indirect cost, in proportion to the salary charged to the grant to the extent that such payments are made under formally established and consistently applied institutional policies. The employee's share is part of the gross salary and included therein.

Tuition or tuition remission for an individual is allowable as a fringe benefit under the following conditions: (a) benefits are granted in accordance with established institutional policy consistently applied without regard to the source of the funds; (b) a bona-fide employer-employee relationship exists between the grantee institution and the individual; and (c) the charges are directly proportional to the time or effort on the RMPS supported activity and the salary or wage accrued, with the proportion based on the number of hours ordinarily required for full-time employment for the specific class of employees.

Fund Raising -- Not allowable.

Home Dialysis Training -- See "Kidney Disease Activities."

Honoraria -- Not allowable. An honorarium is considered a payment or reward where the primary intent is to confer distinction on, or to symbolize respect, esteem, or admiration for the recipient.

Insurance -- Insurance is usually treated and reimbursed as an indirect cost. In certain situations, however, where special insurance is required because of risks peculiar to a particular activity, the premium may be charged as a direct cost. Consistent with institutional policy, such premiums might include those on hazard, malpractice, fidelity bonds and other liability insurance to cover full-time grant-supported personnel and activities.

A. Grantee Patients -- Payment of health insurance premiums for target populations can be charged to RMPS grants when specifically approved and under the following conditions:

1. The recipient is otherwise qualified to receive the benefits of the grant-targeted services but does not have access to coverage under other grant programs or third-party mechanisms such as Medicare and Medicaid;

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2. The recipient is below the program-defined income level at which he might be expected to pay for health services or purchase health insurance; and
 3. The recipient is located in an area where there are applicable prepaid capitation or insurance programs for which the recipient is eligible and such provider is a non-profit organization approved by the awarding component.
- B. Equipment -- costs for insuring equipment purchased with RMPS funds are unallowable unless the grantee's liability for the equipment is specifically provided in the grant award, or other specific authorization for such charges has been approved by RMPS.

Interest Costs -- Not allowable.

Kidney Disease Activities -- Allowable and not allowable costs of various specific categories of kidney disease activities are outlined below. Kidney disease programs are expected to be fully operational independently from RMPS support after the third year of grant support.

- a. Dialysis and Transplantation Facilities for Children -- Start-up costs are allowable for pediatric end-stage renal activities in selected areas of need.
- b. Education -- Training and continuing education of physicians, postgraduate renal nurses, and other allied health professionals to improve care for patients with end-stage renal disease is allowable, subject to the requirements and limitations of RMPS policies relating to educational and training activities. (Also see "Basic Education," and "Training Costs.")
- c. Home Dialysis Training -- Allowable where there is a demonstrated need. Home dialysis training programs must be affiliated with a transplantation program and provide or have access to acute dialysis backup.
- d. Low-overhead Limited-care Dialysis -- Allowable for the development of home dialysis training programs where there is a demonstrated need. Such programs must be affiliated with a primary care program and have access to acute medical resources.
- e. Organ Procurement Activities -- Allowable for start-up of a Region's organ procurement activities.

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- f. Organ Procurement and Communication Activities -- Allowable. Such activities must provide optimal use of harvested organs through sharing among many transplant centers serving several areas. These activities should, like other kidney disease activities, become self-sufficient over time as RMPS funding is reduced and eventually withdrawn. It is, however, more difficult for these activities to be financed by third-party carriers, and the costs of managing the organ-procurement network may be added to the individual cost per organ harvested.
- g. Public Education -- Allowable to provide limited support for appropriate public education activities which are clearly related to specific output of the end-stage renal program.
- h. Satellite Dialysis Facilities -- Allowable where appropriate to serve the backup needs of patients who are geographically removed from tertiary care facilities.
- i. Tissue Typing -- Allowable for start-up costs provided that the tissue typing labs are not redundant and duplicative.
- j. Transplantation -- Allowable for establishment of transplantation programs in areas of need. Direct patient care costs are not allowable.

Awards for end-stage kidney disease activities will be issued as part of the total award to the Regional Medical Program. The amount allocated for the kidney activity will be specified in Item 14, under "Remarks" of the Notice of Grant Award, Form HSM-457, or noted in the covering letter accompanying the award.

In some cases, an end-stage kidney proposal may be approved by RMPS but unfunded. An RMP may fund such a kidney project through rebudgeting other RMP funds to the kidney activity, but only to the level shown in the award. Rebudgeting of this nature should be undertaken only after the RAG has carefully considered the effect of such action on the remainder of the RMP program, and approved the rebudgeting of funds into end-stage kidney activities. The RAG may also approve rebudgeting among approved end-stage renal activities within the total amount specified for kidney in the award documents. The total amount available for end-stage kidney activities may not be increased or decreased through rebudgeting

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without prior approval by both the RAG and RMPS. The total amount available is the amount specified for kidney in the award documents plus any additional RMPS funds rebudgeted to end-stage kidney activities.

No RMPS funds, including grant related income, may be used to support any end-stage kidney disease activity unless the activity has been recommended by the National Advisory Council and approved by RMPS. Grant related income may not be spent for any purpose without prior RAG and RMPS approval.

Where RMPS approves the rebudgeting of funds into end-stage kidney activities, it should not be anticipated that RMPS will provide additional funds in the future to support the increased level of expenditure that has been created by the rebudgeting. Funds rebudgeted into end-stage kidney activities must be spent for such activities, and in no case may unexpended balances accruing in end-stage kidney activities be rebudgeted to non-kidney activities without prior RAG and RMPS approval.

Where funds are rebudgeted into or out of end-stage renal activities RMPS should be notified.

Leave -- Allowable for employees when earned on the project which the grant is supporting and prorated in accordance with the salary charged to the grant. Leave is not allowable for trainees and fellows. Trainees and fellows in academic institutions are not entitled to vacations as such. They are, however, entitled to the normal short student holidays observed by their training institutions. Trainees and fellows in non-academic institutions are entitled to the holiday and vacation schedule applicable to all trainees at the institution.

Additional payment for leave not taken may not be claimed, but terminal leave is allowable.

Legal Fees -- Allowable when separately incurred specifically for a grant related purpose, such as establishment of a new corporation to administer the RMP or the development of new nonprofit educational consortia. When the grantee or affiliate is reimbursed indirect type costs by means of an indirect cost rate legal fees incurred by the grantee or affiliate on a "retainer basis" may be reimbursed only through the indirect cost allowance, and may not be charged directly to the grant.

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Library Activities -- Allowable as an RMP operational or program staff activity when approved by the Regional Advisory Group. (Also see "Books and Periodicals.")

Low-overhead Limited-care Dialysis -- See "Kidney Disease Activities."

Meals -- Allowable within institutional policy provided that costs are reasonable and that the meals are incidental to a conference or meeting concerning RMP business. No alcoholic beverages or entertainment may be charged to the grant account. Meals may not be charged separately where per diem is paid. Meals are also allowable for subjects and patients under study, or when an institution customarily provides for meals to employees working beyond the normal workday, or as a part of a formal salary arrangement. Guest meals are not allowable.

Motion Picture Production -- See "Films, Videotapes and other Audiovisual Materials."

Moving Costs -- See "Recruitment" costs.

Organ Procurement -- See "Kidney Disease Activities."

Organ Procurement and Communication Activities -- See "Kidney Disease Activities."

Outpatient and Subject Costs -- See "Patient Care" Costs.

Overtime -- See "Salaries and Wages."

Patient Care -- Allowable subject to prior RMPS approval for hospital, medical and/or other care of patients which is incidental to research, demonstration or training activities. Patient care costs may include inpatient, outpatient, subject, normal volunteer and donor costs. No patient shall be furnished hospital, medical, or other care at any facility unless he has been referred to such facility by a practicing physician, or dentist as appropriate.

Reimbursement of individuals for personal expenses incurred in order for them to comply with the terms of the grant, including travel with escort, if required, is allowable. This applies to all classes of subjects, e.g., inpatient, outpatient, subject, normal volunteer, donor, etc., and regardless of their employment status.

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No experimentation with human subjects shall be carried out without specific prior approval by RMPS. In addition, activities of this nature shall be conducted only in accordance with a plan for the protection of human subjects approved by the National Institutes of Health.

Printing Costs -- Allowable except that any grant activity which would require printing in excess of 5,000 units of one page or 25,000 units in the aggregate of multiple pages must be considered as printing substantially for the Government and must be done through regular Government channels. (See Grants Administration Manual Chapter 1-463.)

Publications -- Costs of publication of work in scientific and technical journals may be paid from grant funds if all of the following conditions are met:

- 1) the papers report work supported by the grant,
- 2) the merit of the paper is used by the journal as the first criterion in acceptance for inclusion in the journal,
- 3) any charges for publication by the journal are equitably applied to all papers regardless of the source of financial support
- 4) the journal involved is not operated for profit, and
- 5) the copyright is owned and managed by a nonprofit institution.

Such costs may include amounts for special plates, charts, and diagrams; part of the cost of all papers published where required by the scientific journal; and reprints of the published material.

Costs of publishing books, monographs, and pamphlets reporting the work supported by a grant are allowable.

Particular care must be exercised to assure that books or publications to be produced with RMPS funds facilitate the purpose for which the funds were awarded and that acknowledgement of RMPS support is indicated in the publication. Such acknowledgement must be expressed in the following language:

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"Development of this publication was supported by Grant No. _____ from the Regional Medical Programs Service. However, its contents are solely the responsibility of (Name of grantee organization) and are in no way the responsibility of the Regional Medical Programs Service, the Health Services and Mental Health Administration, or the Department of Health, Education, and Welfare."

Grantees or their affiliated institutions may produce and distribute publications, or contract for the development and distribution of such materials with RMPS funds, provided that the publication in question includes the required acknowledgement and the disclaimer shown above.

When publications are developed with RMPS support, the grantee is free to arrange for copyright without prior RMPS approval. Copyrighted materials are subject to a royalty-free, nonexclusive and irrevocable license to the Federal Government to reproduce, translate, and publish them, and to authorize others to do so. (Also see Grant Related Income.)

Purchased Services -- Costs associated with services purchased from third parties are allowable.

Recruitment Costs -- (for recruiting staff for RMP activities) Allowable only for full-time employment on RMPS supported activities, if payment of such costs is normally made by the grantee, or affiliate, regardless of source of funds. Costs may include moving the individual, his family, dependents, household goods, and personal belongings. Costs of relocating an employee must be credited to the grant account when the employee resigns within 12 months after employment for reasons within his control. Not allowable for individuals recruited for part-time or temporary employment on an RMP program staff or operational activity.

Recruitment, Health Careers (as a program staff or operational activity) -- Not allowable for direct recruitment of individuals into health careers. RMP program staff activities related to stimulating, planning and coordinating health careers recruitment by appropriate institutions and agencies in the area served by the RMP, however, is allowable. RMPs are encouraged to use staff assistance to stimulate cooperative efforts between professional associations, clinical resources, educational institutions and other appropriate agencies to provide new opportunities for recruitment into health careers and to plan health careers recruitment activities as part of and coordinated with the overall manpower strategy for the area served.

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Registration Fees -- Allowable if it can be shown that they are necessary to accomplish program objectives.

Rental of Equipment -- See "Equipment."

Rental of Space -- Allowable when charges are made in conformance with normal grantee policies regardless of the source of funds. No rental charge may be made for space owned or controlled (managed or administered) by the grantee or by an affiliate; except that a charge may be allowed equivalent to the cost of ownership, e.g., depreciation or use allowance taxes and normal maintenance and operating costs unless included in indirect cost. Also, when an organization transfers a facility to a third party through sale, lease, or otherwise, and then leases the facility back from that third party, the lease costs which may be charged to the grant may not exceed the equivalent of the "cost of ownership."

Rental costs under unexpired leases, i.e., leases for space, equipment, and/or maintenance contracts, etc., are generally allowable if (a) the amount of such rental claims does not exceed the reasonable use value of the property leased for the period of the activity, and (b) the grantee and affiliates make all reasonable efforts to terminate, assign, settle or otherwise reduce the cost of such lease.

Sabbatical Leave -- Sabbatical leave salary, as such, is not allowable, but sabbatical leave costs to the institution may be included in a composite fringe benefit rate. Salary from a grant for services rendered the project by an individual during his sabbatical period is allowable provided that the salary is proportional to the service rendered. RMPS funds may not be used to pay a total salary during the sabbatical leave period which exceeds the individual's regular full-time salary from the institution.

Salaries and Wages -- Allowable for time spent on a grant-supported activity. No supplementation of base salary is permitted. Salary and wage rates must be in conformity with those permitted by institutional wage and salary scales and policies. RMP program staff salaries should be reasonable and not exceed the salaries of full-time personnel with equivalent responsibilities in major medical institutions in the Region. Direct charges for professionals must be supported by either:

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- a. An adequate appointment and workload distribution system, accompanied by monthly reviews performed by responsible officials and a reporting of any significant change in workload distribution of each professional (i.e., an exception reporting system) or
- b. A monthly after-the-fact certification system which will require persons in supervisory positions having firsthand knowledge of the services performed to report the distribution of effort (i.e., a positive reporting system). Such reports must account for the total salaried effort of the persons covered. A system which provides for the reporting only of effort applicable to Federally-sponsored activities is not acceptable.
- c. Direct charges for salaries and wages of non-professionals must be supported by time and attendance and payroll distribution records.

An employee or consultant may not receive additional compensation for services performed for an RMP where such services are performed within the individual's full-time work week. (See "Consultant Fees.")

The grant may be charged in proportion to the percentage of time or effort an individual devotes to the grant within his full-time work week.

"Full-time salaries may include such activities as (a) scholarly writing, (b) service on advisory groups, (c) delivery of an occasional lecture, or symposium related to the project provided these activities remain incidental and are undertaken within the policy of the grantee institution.

Where the individual is "part-time" (including "geographic full-time"), the base salary on which the percentage may apply will be the salary which he would have earned if he had been full-time. Where an institution provides a guaranteed salary, plus an additional amount dependent on such things as the total income of a group clinic operated by the institution, full-time salary may be considered to be the combination of the guaranteed amount and of the additional amount, not to exceed a formally established ceiling, or the amount that reflects the individual's most recent full-year's experience, whichever is smaller.

ALLOWABLE COSTS

No overtime pay for professional personnel may be charged to grant funds. When all of the salary of nonprofessional personnel is charged to projects supported by grants and contracts, overtime may be charged to RMPS grants on which the overtime was worked. When the salary is charged partly to grant or contract funds and partly to institution funds, the total of the salary (both the regular rate amount and the premium rate amount) must be prorated in accordance with the time spent on the RMP project. Where the institution has a policy of charging premium overtime to the indirect cost pool, no premium overtime can be charged directly to an RMP grant.

Where personnel costs apply to two or more grants, the costs will be prorated to each grant involved.

Satellite Dialysis Facilities -- See "Kidney Disease Activities."

Service Charges -- Allowable for use of certain types of services and central facilities owned by the grantee institution, e.g., computer services, motor pool, animal facilities, etc., providing the charge is designed to cover only the actual costs and is applied equally to all users and not included in the indirect cost pool.

Severance Pay -- Allowable. Severance pay is an allowable cost only when it is required by (a) law, (b) employer-employee agreement, (c) established policy that constitutes, in effect, an implied agreement on the institution's part, or (d) circumstances of the particular employment. Regional Medical Programs Service will not consider severance pay an allowable cost unless the basis for payment for any of the four options listed above is a formal written policy or agreement of the grantee institution, which existed prior to the February 1, 1973, notice of phase-out.

Stipends and Training Costs -- Allowable. Grant funds may be used for the payment of stipends and other benefits related to RMP training activities. Stipends may not be paid for short-term training of more than a single academic session or training conferences and seminars. Maximum allowances for long term training are set forth below:

Post-doctoral -

1. \$6,000 (no relevant post-doctoral experience)

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2. \$6,500 (one year relevant post-doctoral experience)
3. \$7,000 (two or more years relevant post-doctoral experience)

Pre-doctoral -

1. \$2,400 (first post-baccalaureate year)
2. \$2,600 (years between first and terminal year)
3. \$2,800 (terminal year)

Pre-doctoral - Experienced Student Support -

<u>*Months of Related Professional Work Experience</u>	<u>Yearly Stipend Amount</u>
Less than 12 months	\$3,000
12-23 months	\$3,300
24-35 months	\$3,600
36-47 months	\$3,900
48 or more months	\$4,200

* Each single full-time academic year of graduate experience as defined by the institution, beyond the baccalaureate level, shall equal 12 months of related professional work experience for stipend level purposes.

Dependency allowances for those long-term trainees, who are in training for a full academic year, may be awarded an amount not to exceed \$600 per annum for each dependent who would meet the criteria developed by the Internal Revenue Service for dependency. (Consult IRS for details.)

Reimbursement for per diem and travel for trainees should be made in accordance with the travel policies of the grantee institution, or in the absence thereof, in accordance with currently effective DHEW travel regulations.

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Subgranting -- Not allowable. However, allocation of RMPS funds by grantees to affiliates and other institutions to support RMP activities is necessary to establish the regional cooperative arrangements among health, medical, and related institutions required by Title IX of the Public Health Service Act, as amended. Such allocations, therefore, do not constitute subgrants.

Subject Costs -- (See "Patient Care.")

Supplies -- Allowable for supplies directly required for RMP activities.

Taxes -- Allowable. Taxes which an institution is required to pay as they relate to employment, services, travel, renting, or purchasing for a project are allowable. Property taxes on land, building, equipment, or supplies in other than construction programs are not allowable. Institutions should avail themselves of any tax-free status exemptions for which activities supported by Federal funds may qualify. On construction projects, State sales and use taxes for materials and equipment are allowable only when no refund or exemption on such taxes is granted by the States to the grantee.

Transplantation -- See "Kidney Disease Activities."

Transportation -- When equipment is moved from one grantee institution to another, the cost of transportation may be charged to the grant at either the original or the new institution, depending upon the circumstances, and the availability of funds in the appropriate active grant.

Travel -- Allowable where such travel will provide direct benefit to the program being supported, including attendance at meetings.

The costs of transporting patients to the site where services are being provided are allowable. This cost may include public transportation and purchase of motor vehicles provided the purchase is treated as an item of equipment and prior approval of the awarding component is obtained.

Prior RMPS approval is required for each foreign trip and attendant travel expenditure. Domestic travel is performed within the grantee's own country and travel between the

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United States and Canada for grants made to institutions within the U.S. or Canada. The U.S. includes Guam, American Samoa, Puerto Rico, the Virgin Islands, Canal Zone, and the Trust Territory of the Pacific Islands. Travel within the U.S. or Canada enroute to or returning from a foreign destination is considered foreign travel. Other travel performed to, between or within a country other than the grantee's own country is defined as foreign travel.

Travel costs are limited to the extent provided by formal institutional travel policy except that, less than first-class air travel on United States carriers must be used when available. If the grantee institution has no formal travel policy, HEW travel regulations shall be applied in determining the amount for travel chargeable to grant funds.

Tuition and Related Costs -- Tuition and related costs of employees are allowable when the training is required to gain specific skills or information needed for the successful prosecution of the objectives of the project funded by the grant to which the tuition will be charged. The instruction is not to be given primarily to fulfill the requirements for an academic degree for the employee for whom the tuition support is to be paid. Other tuition costs (tuition and remission) are not allowable unless treated consistently as a fringe benefit.

III. INDIRECT COSTS

Within the limits of allowable costs and the total award, the grant may be charged for indirect costs incurred in connection therewith.

1. Provision of Services

Any institution reimbursed for indirect costs under a grant must actually provide for the grant those services used to justify the indirect cost rate.

2. Duplicate Charges

Services used to justify an indirect cost rate may not be charged again as direct costs to a grant. (If they were, this would mean either, (1) that the Government was paying for duplicate services, (2) that the institution receiving reimbursement for indirect costs was not providing the services for which payments were made, or (3) that the requested indirect cost rate was insufficient and required adjustment.)

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3. Separation of Cost Categories

Funds awarded for indirect costs may not be transferred to any direct cost category.

APPLICABLE TO RMP ONLY

INDIRECT COSTS

I NATURE OF INDIRECT COSTS

A. Definition and Elaborations

Indirect costs are those costs of an institution which are not readily identifiable with a particular project or activity, but nevertheless are necessary to the general operation of the institution and the conduct of the activities it performs. Indirect costs are not peculiar to government sponsored activities, as they are generated to some extent by all business ventures. Indirect costs are normally calculated as a percentage of either (a) direct salaries and wages, or (b) total direct costs exclusive of capital expenditures. Indirect costs are earned by the institution and may be used for general institutional purposes without further accounting to the Federal Government.

B. Examples of Usual Types of Indirect Costs

The following type expenses of an institution are normally considered as indirect costs, and are reimbursed to an institution by means of an indirect cost rate:

1. The cost of operating and maintaining buildings and equipment--which usually includes: heating, air conditioning, lighting, service cleaning and maintenance contracts, and minor repairs.
2. Depreciation--which usually includes writing off the cost of buildings and equipment over their estimated useful life.
3. Salaries of administrative officials concerned with general management of the institution--usually include the personnel employed in central executive offices, the purchasing office, the public relations office, and the accounting and finance departments.
4. General telephone expenses--which usually include the monthly rental and usage charge for all telephone and long distance calls by the administrative staff.
5. General travel, supplies, and other expenses--which usually include all travel by the central administrative staff (not program staff), all supplies necessary for the operation and maintenance of the building, as well as the offices and facilities within the building, and the insurance, payroll taxes, other taxes, and any other fringe benefits, generated by the administrative payrolls.

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C. Incurrence of Indirect Cost

Where any of the above types of costs or other central service costs are used by a grantee or affiliated institution to justify an indirect cost rate in connection with RMP supported activities, the services for which the costs are incurred must actually be provided to the grant supported activity. (e.g., if all equipment and supplies for an activity are purchased by the RMP program staff, an affiliated institution sponsoring the activity could not include the costs of its central purchasing department as part of the justification for its indirect cost rate.)

II FACTORS AFFECTING DETERMINATION OF RMP INDIRECT COST RATES

A. Guides for Institutions

Indirect cost rate is simply a device for determining fairly and expeditiously what proportion of an institution's overhead expenses should be charged to grant-supported projects or activities. The Department has issued separate guides for educational institutions, hospitals, State government agencies, and nonprofit institutions which set forth uniform principles for the establishment of indirect cost rates.

The cost principles set forth in the guide covering the specific type of institution receiving RMPS funds will be used as the basis for computing a submission for a proposed indirect cost rate.

B. Special Indirect Cost Rates for RMPs

Because of the complex organizational structure of RMPs, a single ICR applicable to all RMP-supported activities will ordinarily not be able to be developed. In some RMPs, program staff is employed by more than one institution and operational activities are carried on by various institutions which change over time as old activities are phased out and replaced by new activities under different sponsorship. For these reasons, RMP indirect cost rates, when requested, will have to be determined separately for the grantee institution and for each affiliate which receives RMPS funds either for support of program staff or operational activities.

While many RMP grantees and affiliates have approved indirect cost rates applicable to biomedical research projects, different indirect cost rates specifically applicable to RMPS-supported functions may have to be developed. In the case of RMP, many types of expenses ordinarily treated as general administration costs by the grantee for other types of grants are charged as direct costs to RMP. For example, many RMPs provide for their own purchasing, personnel administration, financial management and

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bookkeeping, whereas the usual research grant would rely on the central administrative mechanisms of the grantee institution for such services.

For the above reasons, then, it will usually be necessary to determine an appropriate RMP indirect cost rate for the grantee and each affiliated institution. In addition, the indirect cost rate determined for a given institution for RMP will usually be different from the indirect cost rate approved for other types of grants. The methods for negotiation and approval of indirect cost rates for: (a) RMP grantees; and (b) affiliated institutions receiving RMP support is discussed in the following sections.

III NEGOTIATION OF INDIRECT COST RATES FOR GRANTEE INSTITUTIONS

A. Method of Negotiation

The Office of Grants Administration Policy, (OGAP), in the Department of Health, Education, and Welfare, has the responsibility for negotiating indirect cost rates with each grantee institution requesting indirect costs.

Each grantee which wishes to be reimbursed for indirect cost must submit an annual indirect cost rate proposal within six months after the last day of each of the fiscal years for which it receives an RMPS grant.

Each institution's indirect cost rate proposal should propose as many indirect cost rates as are deemed necessary for the equitable allocation of indirect costs to its awards. For example, if the grantee conducts RMP activities at several different locations, it may propose separate rates for each, where appropriate (i.e., on-campus rates, off-campus rates, etc.).

Indirect cost rate proposals should be submitted to:

Division of Cost Policy and Negotiation
Office of Grants Administration Policy
Department of Health, Education, and Welfare
330 Independence Avenue, S.W.
Washington, D.C. 20201

Once an indirect cost rate has been negotiated by OGAP, it will be incorporated into an official negotiation agreement setting forth the results of the negotiation, indicating therein the applicable rate for RMPS grants.

B. Provisional and Final Rates

The indirect cost rate negotiated by OGAP may be either a provisional or a final rate.

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A provisional indirect cost rate is a temporary rate established to allow the obligation and payment of funds RMPS grants, until such time as actual indirect costs can be determined and a final indirect cost rate established. Provisional indirect cost rates are subject to adjustment by OGAP at some future date. A provisional rate is used to compute indirect costs on grant applications and on grant reports of expenditures.

A final indirect cost rate is established after an institution's actual cost for a given accounting period (normally its fiscal year) are known. Once established, a final indirect cost rate is used as its current provisional rate.

If RMPS makes an award to an institution that has in good faith negotiated on indirect cost rate with OGAP, that rate will be used on a provisional basis by RMPS, irrespective of the applicability of this rate to RMPS, subject to the finalization by OGAP of an indirect cost rate applicable to the RMPS grant.

IV NEGOTIATING INDIRECT COST RATES FOR AFFILIATES

A. Grantee Responsibilities

1. Required Grantee Action

The grantee institution is responsible for negotiating indirect cost rates for RMP affiliates when:

- a. The affiliate has no established indirect cost rate and none is currently being negotiated with OGAP for any other HEW program.
- b. An indirect cost rate has been negotiated for specific programs of the affiliate other than RMP and is not applicable across the board to all HEW support

The grantee is also responsible for verifying the appropriateness for RMPS supported activities of any indirect cost rates previously negotiated with the affiliate by OGAP. In the case of any discrepancy, the grantee is responsible for informing OGAP and for establishing a special rate for the affiliate's RMPS supported activities.

2. Cases in which the Grantee's Negotiation is not Required

The grantee is not required to negotiate an indirect cost rate for an affiliate when:

- a. There is an established rate for the affiliated institution which is applicable to all HEW support and determined by the grantee to be appropriate for RMPS supported activities.

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- b. OGAP is in the process of negotiating the affiliate's indirect cost rate for other HEW programs (in which case OGAP will simultaneously establish a rate for RMPS support).
- c. The grantee decides at its discretion to reimburse all of an affiliate's costs as direct charges to the grant.

3. Staffing for Indirect Cost Studies by the Grantee

A grantee's negotiation or verification of indirect cost rates for affiliates can be carried out by either the grantee's own financial staff or through the employment of qualified accountants or accounting firms as consultants. In addition, OGAP may be called upon for advice as necessary.

B. Provisional and Final Rates for Affiliates

Where the grantee institution negotiates indirect costs directly with an affiliated institution, it will be the grantee's responsibility to negotiate both provisional and final indirect cost rates with each affiliate institution. Once a final rate is agreed upon between the grantee and an affiliate, it will not be subject to further review or change, and will be considered to be the final rate as if negotiated by OGAP.

Before finalizing an indirect cost rate, the following steps must be taken by the grantee to support the reasonableness of the finally established indirect cost rate:

1. Review the adequacy of the affiliate's procedures, the reliability of the records, and the effectiveness of their internal controls.
2. Review the completeness of the base used for distributing the overhead costs, including an evaluation of the reasonableness and applicability of the base utilized (i.e., direct labor hours, direct labor dollars, etc.) to the subject and purpose of the project to which applied.
3. Review the pool of indirect expenses for those expenses which may be fully or partially unallowable, based upon their nature or content.
4. Selectively analyze the remaining accounts in the overhead pool for applicability to the RMP activity. Eliminate from the pool any expenses where similar type expenditures were previously recovered as a direct charge. Do not automatically eliminate overhead accounts from the pool purely by expense nomenclature if items of the same expense category are recovered as direct charges. Before elimination of

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any accounts from the overhead pool, a review should be made of the expenses comprising the account to ascertain if these expenses are really similar to those included as direct charges. The basis for determining the specific areas to be selected for intensive review and testing, and the depth and scope of the review should be determined by a review of a listing of the account balances of the various indirect costs, comparison with prior periods, and with the current year's operating budget. The reviewer should obtain or prepare a schedule of indirect expense accounts for the period under review and select for thorough analysis those accounts which are significant in amount, vary from developed trends, or which, on the basis of nomenclature review, appear to be sensitive in nature and likely to contain questionable costs.

5. Reconcile the affiliated institution's overhead submission to their general books of account. Ascertain in relation to the nature of the project whether a special overhead rate is warranted for the RMP activity.
6. Where applicable review the reasonableness of the rates utilized for depreciation, and whether the depreciation was based upon acquisition value or appraised value of the institution's assets. Ascertain if large repair and maintenance expenses have been incurred which may be justifiably reclassified to a capitalization account rather than annually expended.
7. Determine whether fringe benefits are included in both the overhead pool and base, and evaluate the reasonableness of this procedure.
8. Ascertain whether any income accounts from the "Income Statement" should be an offset to any of the expense accounts in the overhead submission.
9. When RMP project activities are performed at off-site locations, determine whether a separate overhead expense is warranted at this off-site location. If such a study is available, evaluate the reasonableness of allocations contained therein. If not, evaluate the reasonableness of the application of the main facility's overhead rate to off-site activities.
10. After eliminating unallowable items, the remaining total expenditures should be segregated between: (a) expenditures applicable to overhead functions, and (b) expenditures for all other purposes (direct). Expenditures applicable to an institution's overhead function normally include Administration and General Expenses, Housekeeping, Laundry and Linen, Maintenance of Plant, and Provision for Depreciation. *

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11. To obtain an indirect cost rate, the total amount of direct costs is divided by the total amount of indirect costs (after the exclusion of unallowable items). The resulting percentage is the indirect cost rate.
12. The resulting rate should be applied to the direct costs of the project to arrive at the allowable amount of indirect costs.

Full documentation of the above steps should be retained by the grantee institution as evidence that required procedures have been carried out.

PROCEDURE FOR EFFECTING SETTLEMENT OF DIFFERENCES BETWEEN PROVISIONAL AND FINAL INDIRECT COST RATES

A. Summary Report of Expenditure Adjustment Sheet

Chapter 1-80, of the DHEW Grants Administration Manual entitled, "Award and Payment of Indirect Costs on Project Grants," relates to the award and payment of indirect costs on grants and the method for effecting settlement of claims for unrecovered indirect costs resulting from the establishment of final negotiated rates. Chapter 1-80 specifies that "A Summary Report of Expenditure Adjustment Sheet (SROEAS) shall be submitted by each grantee to the Office of Financial Management (NIH) reflecting the necessary adjustment (upward or downward) in the indirect costs to be made on each grant by operating agency and appropriation." The format for a SROEAS is illustrated in Chapter 1-80.

Wherever the Grantee for a Regional Medical Program submits a Report of Expenditures, using provisional indirect cost rates, for either their own or an affiliated organization, and a final rate is subsequently established by the Office of Grants Administration Policy, for either their own or an affiliated organization, RMPS will expect the grantee to initiate a SROEAS to process any adjustments resulting from the difference between provisional and final indirect cost rates.

As indicated in 3-4, above, grantees are responsible for negotiating final as well as provisional indirect cost rates for affiliated institutions, that do not have an OGAP established indirect cost rate. When establishing final indirect cost rates for affiliates, RMPS grantees shall report the difference between the final and provisional indirect cost rates in accordance with procedures specified in 3-5, below. A SROEAS must be submitted to reflect final rates that are lower than the provisional rate, as well as those that are higher.

When a final rate is established that is different from the provisional rate, it is not-necessary to revise any previously submitted

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expenditure reports which include an amount for indirect costs based on the provisional rate. All adjustments in the amount of indirect cost paid will be made on the basis of the SROEAS.

Since the Office of Grants Administration Policy reminds the grantee, or affiliated institutions as appropriate, with its covering letter transmitting the executed indirect cost negotiation agreement, upward adjustments for increased indirect costs will not be considered if a SROEAS is not submitted within this time limitation. RMPS shall consider that the date of this one year grace period shall start with the effective date of the earliest negotiation agreement processed by the Office of Grants Administration Policy, which establishes a final indirect cost rate for the applicable budget period, for an institution participating in the grant.

B. Special Requirements for RMPs

In addition to the requirements imposed by Chapter 1-80 of the Grants Administration Manual, there are additional requirements that must be followed by Grantees for a Regional Medical Program when preparing a SROEAS.

These are:

- (1) The SROEAS must reflect indirect cost adjustments to the RMP grant, separately from those indirect cost adjustments applicable to all other grants of the grantee institution.
- (2) The initial SROEAS submitted for a particular budget period should reflect as many adjustments as are necessary, and can be processed within the one year grace period.
- (3) When appropriate, addenda to a SROEAS should be processed for those institutions whose indirect cost rates were not finalized at the time of submission of the initial SROEAS for a particular budget period.
- (4) The grantee should indicate on the initial SROEAS submitted, how many of their affiliates were reimbursed indirect costs, based on either an indirect cost rate established by their own organization or the Office of Grants Administration Policy. This will serve to inform RMPS (a) as to which affiliates' indirect costs adjustments were included on the initial SROEAS submitted and which affiliates' indirect cost adjustments would be expected to be processed on addenda to the initial SROEAS, and (b) inform RMPS as to when the total amount of indirect cost adjustments were processed by the grantee.

INDIRECT COSTS

- (5) When the grantee submits the final SROEAS for a particular budget period, such Report should be annotated as the "final report." The final report should also indicate the balance of indirect costs claimed on the Report of Expenditures submitted for which no adjustment will be requested.

C. Processing of Indirect Cost Adjustments

When appropriate, each grantee shall submit a SROEAS to the Office of Financial Management (NIH) reflecting the necessary adjustments in indirect costs to be made by RMPS for each project or activity. Upon receipt of the SROEAS by the Office of Financial Management (NIH), a copy will be forwarded to the Grants Management Branch (RMPS), via the Office of Grants Management, HSMHA. The RMPS Grants Management Branch Staff will review the information submitted to determine whether or not the adjustments, as reflected, are correct. RMPS will then forward a transmittal memo to the Office of Financial Management, NIH, via the Office of Grants Management, HSMHA, along with the SROEAS, reflecting any changes that may be necessary.

Upon receipt of notification of approval, or exceptions, to the SROEAS submitted by the Office of Grants Management, HSMHA, the NIH will institute a payment or collection of funds. A single Treasury check or Bill of Collection will be forwarded to the grantee reflecting the net total dollars of indirect cost adjustments submitted and approved.

APPLICABLE TO RMP ONLY

GRANT RELATED INCOME

I. COMPONENTS OF GRANT RELATED INCOME

A. Definition and Elaboration

Grant related income is the Federal share of the net income derived by a grantee or affiliate from fees or charges made in connection with activities supported in whole, or in part, by an RMPS grant, or, where applicable, derived from the sale of items developed with RMPS grant support (e.g., publications, films, medical or other devices).

Net income is income derived from an RMPS supported activity less any direct or administrative cost relating to the generation of such income.

B. Treatment of Commonly Occuring Items of Income

1. Income from Construction

Where RMPS funds are awarded for construction of a facility, the income derived from the operation of the completed facility does not constitute grant-related income except where the income is generated through specific RMPS supported activities carried on in the facility.

2. Income from Government Agencies

Income received from other RMPs or from Federal or other governmental agencies on jointly-supported projects is not grant related income. Income derived from fees, or charges, or sales to such agencies, however, would constitute grant-related income.

3. Credits

Credits or receipts (e.g., refunds, rebates, discounts, adjustments, and other allowances) which offset or reduce an expense chargeable to a grant do not constitute grant-related income.

4. Income from Educational Programs

Normally, tuition and related fees received by an educational institution for a regularly offered course are not considered to be grant related income. Tuition and related fees, however,

GRANT RELATED INCOME

received by an educational institution must be treated as grant-related income when the course of instruction developed, sponsored, and supported by an RMP is not a regularly offered course. A regularly offered course is a course that:

- a. is regularly offered during school semester.
- b. is required or can count toward a degree.
- c. requires a formal set of prerequisite courses prior to enrollment.
- d. is open to all students meeting the necessary prerequisites, subject to space availability.

5. Other Common Examples of Grant-Related Income

Examples of grant-related income that may result from RMPS supported activities are:

- a. sale of services such as laboratory tests or computer time.
- b. payments received from patients or third parties for medical or hospital services.
- c. fees received for personal services performed in connection with and during the period of grant support.
- d. lease or rental of films or videotapes and
- e. rights or royalty payments resulting from patents and copyrights developed or acquired by the RMP in connection with RMPS grants.

6. Gifts and Donations

Grant related income does not include contributions, gifts, donations or other grants given to an organization to further an RMPS supported activity. A contribution, gift or donation is distinguished from grant related income if the donor or the grantor neither expects, nor receives any goods or service in return for his financial support.

7. Investment Income

Interest or other income to a grantee or affiliate derived from investment of RMPS grant funds is not treated as grant-related income. All such investment income must be repaid to the Federal Government and may not be waived to or retained by a grantee or affiliate.

II. USE OF GRANT-RELATED INCOME

Except for royalties from copyrights and patents, special treatment of which is discussed below, all grant-related income shall be

GRANT RELATED INCOME

treated in accordance with one or a combination of the following options:

1. used by the grantee for any purposes which further the objectives of legislation under which the grant was made;
2. deducted from the total project costs.

RMPS may, and ordinarily will, authorize the use of grant-related income to further the purposes of the RMP.

Grantees are required to submit written requests for the disposition of net grant-related income. Such requests should indicate, in sufficient detail, the expected sources and amounts of such revenues and plans for their use.

Where grant-related income is expected to be generated during a budget period, a prospective plan for the disposition of such income in connection with RMP must be submitted as early as possible, based on estimates of sources and amounts of funds. Grant-related income must be spent within the budget period in which it is earned.

After evaluating such plans, RMPS will advise the grantee of the amounts and authorized uses of grant-related income waived to the grantee, and/or the amount to be refunded to the Federal Government, if any.

Grant-related income can be used (where permission is requested and granted by RMPs) for purposes such as the following: (1) to assist in phasing-in community support for activities initiated by an RMP, (2) to expand successful operational or program staff activities, (3) to initiate additional activities within the scope of the program, and (4) to continue kidney dialysis and transplant activities. Grant-related income may be used only for allowable costs.

III. CALCULATING THE AMOUNT OF GRANT-RELATED INCOME THAT MUST BE REPORTED TO THE FEDERAL GOVERNMENT

The amount of grant-related income to be reported to the Federal Government is determined by (1) the RMP's share of the direct costs of the project; (2) the production costs of the material which generated the income; and (3) the amount of revenue generated by the material. Grantees and affiliates are accountable for and must report such income, whether earned during or after the period of active RMPS support.

The RMP's share of the direct costs is the ratio of RMP direct costs to the total project cost. If the entire direct cost of a project is provided by an RMP, the RMP's share is 1.0. If half the direct costs are provided by the RMP and half by other funding sources, the RMP's share would be 0.5, etc.

GRANT RELATED INCOME

Production costs are the direct costs of producing the income generating materials--including the time, effort, material and other costs directly attributable to their development, manufacture and distribution.

The amount of grant-related income that must be reported to the Federal Government is calculated as follows:

1. Where the income exceeds production costs, the RMP's share of the production costs must be reported.

$$\text{Accountable Amount} = \frac{\text{RMP Direct Costs}}{\text{Total Direct Costs}} \times \text{Production Costs}$$

2. Where the income is equal to or less than production costs, the accountable amount is the RMP's share of the income.

$$\text{Accountable Amount} = \frac{\text{RMP Direct Costs}}{\text{Total Direct Costs}} \times \text{Income}$$

Grantees and affiliates do not have to account to the Federal Government for any grant-related income which is in excess of the amounts determined above.

IV. SPECIAL RULES FOR CALCULATING INCOME FROM PATENTS AND COPYRIGHTS

RMPS grantees and affiliates from time to time derive income from patented or copyrighted materials--usually films, videotapes, or publications. Special policies apply to the disposition of such grant-related income.

Any royalties or other proceeds from patented or copyrighted material developed in whole or in part with RMPS funds must be credited to the grant account or returned to the Federal Government up to the accountable amount. (See Section III, above.)

V. REPORTS, RECORDS AND ACCOUNTABILITY

The grantee is expected to maintain or require affiliates to maintain adequate records to support the computation of net RMP grant-related income.

The grantee is accountable to RMPS for grant-related income earned by the RMP or affiliates.

APPLICABLE TO RMP ONLY

EQUIPMENT ACCOUNTABILITY

I. GENERAL PROVISIONS

Title to equipment acquired either partially or fully with RMPS funds is normally vested in the grantee institution, irrespective of whether the equipment is acquired by the grantee or one of its affiliated organizations. Thus, although an affiliated institution purchases equipment with grant funds for a specific RMP activity, title to, and accountability for equipment is normally vested with the grantee institution for the life of the equipment.

Grantees, however, may request RMPS to grant permission for a waiver of title to or accountability for equipment, or both, purchased with Title IX grant funds from the grantee to either an affiliated institution or an institution not affiliated with the RMP, as long as there is an assurance that the equipment will be used in support of an activity specifically approved by the RMPS or an activity that would be supportable under Title IX of the PHS Act.

II. MANAGEMENT REQUIREMENTS

Grantees and their affiliates are expected to apply to equipment acquired with RMPS funds the same policies, procedures, and controls normally applied to all of their other equipment, provided that the following requirements are met.

Grantees and affiliates are required to be prudent in the acquisition and management of equipment acquired with grant funds. Careful screening should take place to assure that equipment is needed and that the need cannot be met with equipment already in the possession of the institution. A grantee or an affiliate may be reimbursed for an item of equipment already owned by the respective institution only when such equipment is in an institution's central purchasing department and held in a central stock room for issuance and sale to a using activity.

For purposes of charging the grant, the cost of a single item or piece of equipment includes necessary accessories, duty, excise and sales taxes. If the institution policy provides that charges for transportation, protective in-transit insurance, and installation are a part of the cost of equipment, such charges may be included as direct costs of equipment.

When equipment is sold by a grantee or an affiliate, the net proceeds of sale must be credited to the grant account.

Equipment for which accountability has not been waived may, subject to RMPS approval, be disposed of by the grantee after termination of the project period provided the grant account is credited with the fair market value as of the date of disposition of such equipment. The accounting obligation shall apply to that portion of new equipment that has been purchased by using accountable equipment as a credit or trade-in. (This is not applicable to equipment which has a residual value of less than \$100.)

III. WAIVER OF TITLE AND ACCOUNTABILITY

Once support of an activity is terminated, it is expected that the affiliated institution will continue to support the activity. However, when support of the activity is discontinued, the institution sponsoring the activity may no longer be affiliated with the grantee institution who has retained title to and accountability for the equipment purchased for the activity. Grantees may elect to permit the institution supporting the activity to retain possession and obtain title to and accountability for such equipment. If a need does not exist for the equipment at the grantee institution, grantees may relinquish title to, and accountability for such equipment in the following manner:

1. The RMPS Grants Management Branch will entertain requests from grantees to transfer either title to or accountability for equipment, or both, to another institution upon termination of project support.
2. Upon receipt of such requests, RMPS will advise grantees as to whether their disposition of the equipment is approved, or if the RMPS has other plans for the equipment for which disposition instructions will be forwarded to grantees.
3. Grantees will be responsible for documenting their records, and advising the Grants Management Branch of the basis for the proposed action. This documentation should include as a minimum an itemization of the specific equipment to be transferred with signed disposition and receipt records by responsible parties of each institution and an assurance from the recipient institution that such equipment will be used for the furtherance of RMPS activities. Subsequent to approval by RMPS of the proposed action, grantees may make final arrangements for the transferrance of either title to or accountability for the proposed equipment, or both.
4. Grantees will also be responsible for advising the recipients of the proposed equipment that any transfer to such equipment is made conditionally upon compliance by the recipients with the obligation to use the equipment for the purposes for which the

EQUIPMENT ACCOUNTABILITY

original grant was made during the entire useful life of the equipment. If the recipient of the proposed equipment does not fulfill this obligation, the Federal Government may exercise its right to recover its proportionate share of the residual value of said equipment from the so designated recipient. The recipient of said equipment shall label the equipment to distinguish it from all other equipment within its facility, and keep appropriate records of the current status, location and eventual disposition of said equipment at the completion of its useful life.

IV. SUGGESTED FORMS

Suggested forms are attached that may be utilized by RMPs to transfer title and accountability for equipment purchased with RMPS funds to another appropriate institution.

- A. Communication from grantee to RMPS requesting transfer
- B. Communication from grantee to affiliate advising of approval of transfer
- C. Affiliate's certification re: continued use of equipment

EQUIPMENT ACCOUNTABILITY

A

To: Regional Medical Programs Service

From: Grantee Institution

The requested transfer is recommended for approval. If approved by Regional Medical Programs Service, the affiliated institution will be advised at the time of transfer regarding its responsibilities for the maintenance and use of such equipment, the maintenance of appropriate records, and the rights of the U.S. Government should the institution not fulfill its obligations as certified above.

Authorized Office, Grantee Institution

EQUIPMENT ACCOUNTABILITY

B

To _____
(Affiliated Institution)

From Grantee Institution

Transfer of title and accountability for the equipment listed has been approved by the Regional Medical Programs Service.

You are advised that the following conditions apply:

1. The equipment will continue to be used for the furtherance of RMPS activities.
2. The equipment shall be labeled to distinguish it from all other equipment within the facility.
3. Appropriate records will be kept of the current status, location, and eventual disposition of said equipment at the completion of its useful life.
4. The Federal Government may exercise its right to recover its proportionate share of the original value if said equipment of the above three conditions are not met.

Authorized Official, Grantee Institution

Equipment List

<u>Item</u>	<u>I.D. No.</u>	<u>Description</u>	<u>Purchase Date</u>	<u>Original Cost</u>
1				
2				
3				
4				
5				
6				
7				

C

To

From _____

(Affiliate)

The _____

is

no longer receiving Regional Medical Program operational funding and requests the transfer of title to and accountability for the equipment listed. All of this equipment was purchased with RMPS funds under Grant Number _____

(Project No. and Title)

It is hereby certified that all of the equipment listed will continue to be used during its useful life for an activity which is approved by the Regional Medical Programs Service or supportable under Title IX of the Act. In the event the equipment at any time ceases to be used, the Regional Medical Programs Service, Grants Management Branch, will be notified.

Authorized Official, Affiliated
Institution

From

To Grantee Institution

The above requested transfer is recommended for approval.

Coordinator or Director

RMPS Grant

APPLICABLE TO RMP ONLY

CONTRACTING BY GRANTEES

I INTRODUCTION

In general, contracts may be used by grantee institutions for (1) awards to affiliates and/or, (2) purchases of equipment, supplies or services. The purpose of this chapter is to outline recommended contracting procedures which will help to avoid audit problems.

This chapter covers suggested procedures for both competitive bidding and for sole source contracts. Discussion of competitive bidding is necessarily more extensive than that relating to sole source contracts. It should not be inferred, however, that RMPS necessarily prefers or requires competitive bidding where contracts are used.

In making contracts, the grantee should follow its own institutional policies. Where the grantee has no formal contracting policies or where such policies are not as extensive as those outlined below, it is recommended that the procedures discussed in this Sub-Chapter be followed.

II USE OF CONTRACTS BY RMPS GRANTEES

While the use of contracts for purchasing is generally well understood, their use by RMPS grantees as a mechanism for allocating grant funds to affiliates or other organizations for carrying out the purposes of the grant requires some discussion.

A. Distinction Between Affiliation Agreements and Obligation of Funds

Most RMPS grantees have some form of written affiliation agreement with the other institutions carrying out program staff and operational activities. In most cases, an affiliation agreement can be regarded as a memorandum of understanding between the grantee and other parties, but it is not an award or obligations of funds. It usually does not commit specific amounts of grant funds to the affiliate, and the agreement usually has an indeterminate life for the duration of the affiliate's participation in the RMP program.

B. Obligation of Funds to Profit-making Organizations

While an affiliate must always be nonprofit, the grantee may make use of the services of profit making firms. Profit making firms may be paid from grant funds for the use of facilities, the purchase of equipment and supplies, and for services rendered. (These types of expenses are normally budgeted under the "sub-contract" budget category for the applicable activity.)

CONTRACTING BY GRANTEES

C. Required Allocations Through Contracts

Grantees can allocate funds to affiliates or others through either a contract or other instrument of commitment (i.e., a letter, a special purpose form, etc.) Contracts, however, must be used to allocate grant funds when:

1. The funds are provided to a profit making firm.
2. Material having a security classification is involved.
3. Payment of an amount in excess of actual costs (i.e., a profit or fee) is contemplated.

D. Choice of Methods for Allocation of Funds by Grantees

Except where contracts are required as indicated above, the choice of whether grantees should allocate funds through contracts or other instruments is up to the grantee institution. Small purchases will usually be made through purchase orders in accordance with institutional policy.

In general, a contract is considered to be the most desirable mechanism for allocating funds when:

1. The funds are to be used for the purchase of a specified service
2. The funds are to be used for the purchase of a particular end product, such as a publication, report, or device.
3. Considerable direction and control by the grantee is required with respect to the manner of performance or timing of the work.
4. The funds must be formally obligated within a specific time period.

RMPS experience indicates that most grantees do not use formal contracts in allocating funds to affiliates to carry out specific activities. Usually, letters or other documents are issued by the grantee indicating the amounts, purposes and period for which funds are allocated, and the grantee relies on the understandings in the affiliation agreement to insure proper use of funds and compliance with federal and grantee requirements. Dealing with affiliates in this manner provides greater financial flexibility than the usual contract and enhances the RMPS concept of "cooperative arrangements" among the institutions participating in a Regional Medical Program.

The source of a proposal should not necessarily influence the choice of an award mechanism. For example, a contract is not necessarily required because the initiative for an activity originated with an affiliate.

CONTRACTING BY GRANTEES

E. Types of Contracts

Where contracts are used, these may be of two types, (1) fixed price, (2) cost-reimbursement. A fixed price contract may be used where a definite cost can be established in advance. A cost-reimbursement contract, therefore, specifies an estimated rather than an actual cost.

F. Obligations and Expenditures

All contracts (and purchase orders) by grantees for RMP purposes constitute obligations of grant funds for Federal accounting purposes. Federal auditors have taken the position that other forms of allocations do not constitute obligations.

Where a grantee makes a contract which continues beyond the fiscal year of the grant, the funds are obligated immediately (even though actually paid out later) and would be shown in the entire amount of the contract on the expenditure report for the fiscal year in which the contract was initiated.

Adjustments for any unexpended balance would be reported on the expenditure report submitted for the subsequent fiscal year in which the contract terminated.

III RECOMMENDED CONTRACTING PROCEDURES

It is recommended that grantees follow the procedures recommended below when making contracts involving RMPS funds.

A. Requests for Bids

Where competitive bidding is used, the grantee must prepare a "Request for Bids" to inform potential contractors. The "Request for Bids" should include the following information, as applicable:

1. A "scope of work" statement which includes (1) a broad, non-technical description of the work to be done or items or services to be purchased, (2) stages of work, technical specifications, reports, drawings and publications.
2. The period of performance.
3. The quantity needed.
4. A list of property to be furnished by the grantee or the contractor, if any.
5. Delivery requirements.
6. Reports required. (e.g., progress reports, etc.)
7. The initial dollar estimate of costs.
8. Required approvals and clearances.
9. Other necessary technical information or instructions.
10. A list of potential contractors, if known.

A Request for Bids should be worded to make more than one interpretation virtually impossible. It should state specifically what the contractor and grantee are to do. Ambiguous work statements can lead to unsatisfactory performance, delays, and disputes and possibly result in increased costs.

CONTRACTING BY GRANTEES

When completed the Request for Bids can be disseminated to potential bidders through advertising in appropriate publications or through direct notification by mail.

B. Evaluation of Bids

Bids submitted should be evaluated from (1) a technical and (2) a business standpoint.

1. Technical Evaluation

The technical evaluation of bids should be based on the evaluation criteria contained in the "request" and a rating or weight should be assigned to each criterion. The technical rating and the accompanying narrative of evaluation generally should cover:

- a. The Contractor's understanding of the scope of work as shown by the scientific and technical approach proposed.
- b. Availability and competence of experienced scientific and technical personnel.
- c. Availability of necessary facilities.
- d. Experience or pertinent novel ideas in the specific branch of science involved.
- e. The contractor's willingness to devote his resources to the proposed work.
- f. The contractor's proposed plan for achieving the quality of performance required.
- g. The reasonableness of the proposed manhours, validity of subcontracting, and the necessity of proposed travel.

After the offers are rated, a narrative statement should be prepared expressing the strength or weakness of each proposal and any reservations or qualifications that might bear on the selection of the source of negotiation or award.

2. Business Evaluation

The business evaluation usually centers around cost analysis and analysis of the contractor's financial strength and management capability. Elements considered in cost analysis generally include direct material and labor costs, subcontracting, overhead rates, general and administrative expense, travel costs, and profit or fee. Elements considered in evaluating the contractor's financial strength and management capability include

CONTRACTING BY GRANTEES

organization, past performance, reputation for reliability, availability of required facilities, cost control, personnel practices, financial resources, etc.

C. Contract Issuance

1. Type of Contract

Once it is decided to issue a contract, a decision should be made by responsible grantee personnel as to the most effective contract instrument available, fixed price, or cost reimbursement.

The influencing factors in selecting and negotiating a contract are:

- a. Type and complexity of the product or service.
- b. Stability of the design.
- c. Prospective period of the contract performance.
- d. Adequacy of the contractor's estimating and accounting system.
- e. Urgency of the requirement.
- f. Degree of the competition.
- g. Availability of the comparative cost or pricing data, market prices, and wage levels:
- h. Administrative cost to both parties.

2. Negotiation

Once the type of contract is determined, negotiations normally commence between the representative of the grantee institution and the proposed contractor. The contract negotiation will usually entail:

- a. Reaching agreement with a proposed contractor on the technical requirements--which is included in the workscope (if there is a true change in the requirements, all offerors must be given an opportunity to revise their proposals.)
- b. Reaching an agreement on the type of contract--the objective is to negotiate that type of contract and price which includes a reasonable amount of cost responsibility and risk to the contractor, while at the same time, providing him with the greatest incentive for efficient and economical performance.

- c. Reaching an agreement on the pricing and all other provisions which will condition his performance of the contract.
- d. Setting forth all terms and conditions in a mutually acceptable contractual document which includes terms and conditions required in relation to (1) civil rights, and (2) wage rates and related matters as specified in Section 904 of the Act.
- e. Justifying and documenting the contract negotiated.

D. Contract Administration

Once the contract is issued and performance commences, the grantee institution should assign a project officer to administer the contract. This function will normally entail the following:

1. Monitoring of Performance

The project officer should be responsible for providing technical assistance and monitoring the performance of the contract. It is essential that he monitor a contractor's progress closely and identify problems that threaten contract performance so that remedial measures may be taken if necessary. The contractor should usually be required to submit periodic progress reports which could be used by the project officer to evaluate contractual progress. These reports should provide the project officer with most of the information necessary regarding the progress of the work.

The terms of the contract govern and they can only be modified by the Project Officer after he has reached an agreement with the contractor.

2. Contract Modifications

During the administration of a contract, different types of modifications may be necessary to incorporate new requirements or to handle contingencies which may develop after contract placement. The project officer must be careful in distinguishing between a modification and a new contract.

3. Property Administration

When property is provided by a grantee to a contractor, the project officer should be called upon to advise or assist in the acquisition and/or utilization of property to be furnished. His assistance or advice may be required:

- a. In determining the necessity for the property to be provided.

- b. In determining the kind and quantity of property required and the period of use.
- c. In ensuring proper utilization of property.

4. Inspection and Acceptance

The project officer must ensure that the work performed under the contract is measured against the work statement. If performance does not meet contract requirements, it is incumbent upon the project officer to identify deficiencies, and plan for remedial action that can be taken.

Once final acceptance of the work effort by the project officer has been accomplished, the contractor is no longer responsible for unsatisfactory effort. This concludes performance by the contractor, except for administrative details relating to contract closing.

5. Contract Closing

A contract is completed when all services have been rendered, all articles, material, reports data, exhibits, etc., have been delivered and accepted; all administrative actions accomplished; and final payment has been made to the contractor.

E. Final Audit and Close-out

Upon the physical completion of the contract, action should be taken to provide assurance that:

1. All services have been rendered.
2. All articles have been delivered and accepted.
3. All payments and collections have been accomplished.
4. Release from liabilities, obligations, and claims have been executed by the contractor.
5. All administrative actions have been completed, including disputes, protests, litigation, determination of final overhead rates, release of funds, etc.

Before final payment is made under a cost-reimbursement type contract, a representative of the grantee institution should verify the allowability and reasonableness of all costs reimbursed. When appropriate, verification of total costs reimbursed can be obtained from the DHEW audit agency in the form of a final audit report. Similar verification of actual costs must be made for fixed price contracts when costs incentives or price redetermination is involved.