Cost Principles for Cost-Reimbursement Contracts Under MCC-Financed Grants

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1.0 Introduction

1.1 Scope

a. This policy document sets forth the Millennium Challenge Corporation's (MCC) cost principles applicable to the cost-reimbursable elements of contracts financed, in whole or in part, under grants financed by MCC, unless such contracts are entered into directly by MCC or otherwise specified in writing by MCC. Grants include all those signed by MCC with a Recipient Country: a Compact entered into under the authority of section 605 of the Millennium Challenge Act of 2003 (the “MCA”) or a grant under section 609(g) of the MCA. Contracts entered into directly by MCC are subject to the Federal Acquisition Regulations, not this policy document. This policy document primarily outlines cost principles to be used in cost-reimbursement-type contracts (including those with a commercial or other non-governmental Accountable Entity). These principles should also be applied to cost-reimbursable elements in fixed-price contracts. This policy document may also be used as a guide to assist in negotiating time-rate and fixed-price contracts.

b. These cost principles provide a framework within which items of direct and indirect cost can be incorporated in a cost-reimbursement contract or subcontract. They identify, in general, the allowable and allocable items (see Section 2.0) of cost normally associated with MCC-financed contracts. They are especially intended for use in (1) the review of contracts by MCC personnel, (2) negotiations between the Procurement Agent and the contractor, and (3) contract administration and audit.

1.2 Definitions

a. Grant—means either of the following documents signed by MCC with a Recipient Country:

1. a Compact entered into under the authority of section 605 of the Millennium Challenge Act of 2003 (the “MCA”) and its supplemental documents, or
2. a grant under section 609(g) of the MCA and its supplemental documents.

b. Procurement Agent—A public or private entity designated as the “Procurement Agent” in the Compact or section 609(g) grant or ancillary documents.

c. Recipient Country—The country with whom MCC has signed a Compact or which is receiving MCC-financed assistance under a section 609(g) grant.

1.3 Application

a. The cost principles and procedures contained in this policy document shall be applied to cost-reimbursement contracts funded by MCC grants and executed by a Recipient Country. The use of rules, procedures, or regulations on the costing of contracts in force in the Recipient Country is not precluded unless MCC is prohibited by U.S. statute from funding the costs. However, if the use of Recipient Country rules, procedures, and regulations is contemplated, there must be a mutual agreement between the Procurement Agent, the contractor, and MCC as to their application. Absent such an agreement among the parties, the cost principles and procedures contained in this policy document will prevail.

b. The Procurement Agent, contractors, and MCC should recognize the importance of incorporating explicit terms with respect to the treatment of costs in all contracts. The cost principles in this policy document may be used by specific incorporation in the contract, by incorporation by reference of this policy document, or by incorporation by reference of only the relevant sections. MCC may develop additional cost principles for specific grants when the contracts to be financed may have unusual cost elements. Such additional principles will be included in the grant's Procurement Agreement.

c. Failure to mention a particular item of cost in this policy document is not intended to imply that it is either allowable or unallowable. Rather, determination in each case of allowability of a cost item should be based on the principles and standards set forth in Section 2.0 of this policy document.

1.4 Audit of the Contract

a. Pursuant to MCC's "Guidelines for Financial Audits Contracted by Foreign Recipients," an audit schedule is planned and budgeted for in the grant. An auditor is selected by the Recipient Country in accordance with the grant its supplemental agreements.

b. The auditor's primary objectives are to:

- examine the contractor's cost representations, in whatever form they may be presented, and
- express an opinion as to whether such claimed costs are reasonable, allowable and allocable to the contract, in accordance with generally accepted accounting principles and not prohibited by statute or regulation, these cost principles, or by previous agreement with or decision by the Recipient Country or Procurement Agent.

Particular attention should be given, during audit, to the cost items invoiced and the certifications by the contractor that the vouchers submitted for payment meet the requirements of the contract.

1.5 Currency of Payment

The Procurement Agent and the contractor should develop a clear understanding as to which contract costs will be reimbursed in local currency and which will be reimbursed in U.S. dollars.

1.6 MCC Review and Approval

The Procurement Agent should advise the contractor in advance that MCC may require issuance of a "no objection" or approval letter prior to contract award. When submitting the contract to MCC for approval, the Procurement Agent must also include a statement giving the reason the Procurement Agent considers the contract cost to be reasonable.

2.0 Costs - Allowability, Allocability, and Reasonableness

The allowability of an item of cost, including its allocability and reasonableness, is determined as set forth below.

2.1 Allowability

a. The total allowable cost of a cost-reimbursement type contract is the sum of the allowable direct costs incurred in the performance of the contract in accordance with its terms plus the properly allocable portion of the allowable indirect costs (overhead and/or general and administrative expense), less income or credits (discounts, rebates, refunds, outside rentals, etc.). The total price of the contract is the sum of the allowable direct and indirect costs, plus fee.

b. Direct costs are allowable to the extent they meet the criteria in paragraph c and in Section 3.0, Direct Costs. Indirect costs are allowable to the extent they meet the criteria in paragraph c and in Section 4.0, Indirect Costs.

c. Costs, to be allowable, must meet all of the following criteria:

1. Be reasonable (see Section 2.3);
2. Be allocable (see Section 2.2);
3. Be accounted for in a manner that is consistent with the contractor's usual accounting practices and, unless precluded by the terms of the contract, with the contractor's manner of charging costs to its other activities;
4. Be incurred within the contract period, except as may be otherwise provided, in accordance with specific or general conditions of the contract;
5. Not be excluded as an unallowable cost under Section 7;
6. Be in accordance with the terms of the contract; and
7. Be in accordance with generally accepted accounting principles and practices (such as the International Accounting Standards or other recognized standards) appropriate to the particular circumstances.

2.2 Allocability

a. A cost is allocable if it is assignable or chargeable to a particular cost element of the contract. Allocation of indirect costs (overhead and/or general and administrative expenses) should be based upon agreed rules and criteria consistent with the contract provisions that establish the basis for determination of indirect cost rates.

b. To be allocable, costs must meet one of the following criteria:

1. Be incurred for work related to the contract, or
2. Benefit both the contract and other work, distributed to them in reasonable proportion to the benefits received, or

3. Be necessary to the overall operation of the business, although a direct relationship to any particular cost element cannot be shown. (This situation might arise when there is a corporate structure over a subsidiary which is providing service, or when a firm providing service is also engaged in an unrelated activity, for example, manufacturing. In such cases, there must be at least an indirect showing of benefit to the activity.)

2.3 Reasonableness

a. The reasonableness of a cost depends upon a variety of considerations and circumstances, and determining reasonableness requires the application of sound administrative and professional judgment.

b. In determining the reasonableness of a given cost, consideration should be given to the following criteria:

1. The cost is of a type or amount generally recognized as ordinary and necessary for the conduct of the contractor's business and the performance of the contract.

2. There are restraints or requirements imposed by such factors as generally accepted sound business and labor practices, arm's length bargaining, governmental laws and regulations, and contract terms and specifications.

3. The cost incurred is one that a prudent businessman/businesswoman would incur in the circumstances, considering his/her responsibilities to the owners of the business, his/her employees, his/her customers, his/her government, and the public-at-large.

4. The presence of significant deviations from the established policies and practices of the contractor, not provided for in the contract, which may unjustifiably increase the contract costs.

2.4 Accounts and Records - Contractor's Normal Practice

The contractor must maintain accounts and records adequate to demonstrate the allowability and allocability, including the nature, amount, and derivation, of costs charged to the contract. An accounting system is acceptable if it is both adequate and suitable for the accumulation and billing of costs under government contracts and in compliance with applicable government regulations. A contractor's accounting system must be sufficient to enable an appropriate and equitable allocation of costs to cost objectives. The system should:

1. Be consistently applied,
2. Be nondiscriminatory against the government-financed contracts,
3. Be reliable,
4. Be equitable,
5. Segregate direct from indirect costs,
6. Identify and accumulate direct costs by contract, and
7. Present a logical and consistent method for accumulation of indirect costs to intermediate and final cost objectives.

The contractor should prepare its cost proposal consistent with its accounting procedures and the cost principles contained or referenced in this policy document.

2.5 Limitations and Understandings

Care must be exercised by both parties to a proposed contract to ensure that the contract reflects their agreement as to the costs which will be reimbursable. In order to minimize the chance for misunderstandings in interpretation of cost provisions, every effort should be made to negotiate agreed amounts, or limitations for specific contract costs which may not be exceeded without approval by the Procurement Agent (i.e., maximum salary levels, limitation on obligation of funds, etc.).

Regardless of the reasonableness, allowability, or allocability of costs, the total amount expended under the contract can not exceed the maximum value stated in the contract.

2.6 Subcontract Costs

Costs incurred by a contractor as reimbursement to a subcontractor are allowable to the extent specified in the subcontract and consistent with the provisions of this policy document, if such policy document is incorporated in the prime contract.

3.0 Direct Costs

3.1 General

A direct cost is any cost which can be solely and specifically identified with a particular activity under the contract. Costs incurred for the benefit of a single contract are direct costs of that contract and are to be charged directly to it. Costs solely related to other work of the contractor are direct costs of that other work.

3.2 Minor Items of Cost

Minor items of direct cost may be considered to be indirect costs for reasons of practicality. For example, such items as petty cash expenditures, taxi fares, office machine repairs, stationery, and similar items may be included as indirect costs. However, the contract should clearly identify whether such items of minor cost are to be treated as direct or indirect costs.

3.3 Examples of Direct Costs

Examples of items which may be included as direct costs (if they meet the criteria specified in 3.1 above) are contained in Section 7 of this policy document.

3.4 Treatment of Selected Direct Costs

There are many selected items of cost that are often categorized, for contractual purposes, as Other Direct Costs. These include, but are not limited to, travel, supplies and equipment, insurance, performance bonds or guaranties, vehicle rental or purchase, miscellaneous communications expenses (telephone, cable), and official papers expenses. All of the above categories of costs may be reimbursable under a contract. The initial test required, once allowability, allocability and reasonableness have been established, is to determine whether any of the items described as other direct costs in the contract are an item that is normally included in the Contractor's indirect cost pools. If it is, clarification of the method mutually agreeable for charging the cost is required. The Recipient Country must avoid paying for an item of cost directly if the item is being reimbursed indirectly. Once the item of cost is established as a direct cost item, it should be reimbursed at its actual invoiced value, unless any limitation has been negotiated into the contract.

4.0 Indirect Costs

4.1 General

Indirect costs, also referred to as overhead and/or general and administrative expense, are those that have been incurred for common or joint objectives and cannot be readily identified with a particular element of a cost proposal. After direct costs have been determined and assigned directly to contracts or other work as appropriate, indirect costs are those remaining to be allocated to benefiting work. They are gathered into one or more cost pools, after which they are allocated and reallocated, as appropriate, until they are ultimately charged to specific contracts and other work of the contractor. A cost may not be allocated to a contract as an indirect cost if that same cost has been assigned to a contract as a direct cost.

b. Because of the diverse characteristics and accounting practices of organizations, it is not possible to specify the types of cost which may be classified as indirect cost in all situations. However, typical example of indirect costs for many organizations may include depreciation or use allowances on building and equipment, the costs of operating and maintaining facilities, and general and administrative expenses, such as the salaries and expenses of executive officers, personnel administration and accounting

4.2 Bases of Distribution

Depending upon the circumstances, there may be one or more categories or "pools" of indirect expenses. In some cases, overhead is accumulated in a single pool and allocated to all work. In other cases, indirect expenses are segregated into two or more pools, such as "overhead" and "general and administrative expense," and each pool of expenses is allocated. In this latter case, different bases may be used to allocate and distribute the different pools.

The distinction usually made between departmental overhead and general and administrative expenses is that departmental overhead expenses are more closely associated with the work performed under contracts while general and administrative expenses relate to overall administration. Examples of items sometimes classified as general and administrative are executive salaries, professional expenses, legal services, etc.

The most important consideration is that indirect costs should be accumulated by logical cost groups with due attention to the reasons for incurring the costs. Another important consideration is that the base used in allocating indirect expenses must be one which results ultimately in a fair distribution to all benefiting contracts or activities of the contractor. The allocation of indirect costs is accomplished by selecting a base which most appropriately represents the principal function of the company. In the case of contracts for professional and technical services, direct labor cost (direct salaries) or total direct costs are the bases most frequently used. The base period for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to work performed in that period, normally coinciding with the contractor's fiscal year.

4.3 Indirect Costs Charged Directly

Although contractors may have established acceptable methods for classifying and accumulating costs in direct cost pools, situations are sometimes encountered which result in desirable deviations from their normal practice. This may occur with respect to contracts which require work to be performed in another country. For example, a contractor normally may classify travel and related expenses as indirect expenses within its own country. On a contract involving work in another country, the contractor may deviate from its normal procedure and include travel as a direct cost of the contract. This is permissible provided that the travel costs are incurred for the contract. Similarly, expenses for per diem and transportation of personnel and household goods are usually charged to the contract, instead of to indirect costs.

In most cases when work is performed at the contract site, expenses incurred at the location may be charged directly to the contract. Consequently, costs of such items as telephone, postage, supplies, and office materials at the site could be proper direct charges. However, since costs such as these normally are charged to overhead, care must be taken to be sure that similar expenses included in the overhead pool are eliminated before allocation and distribution of indirect expenses to the contract. For example, if the contractor normally charges directly for international travel for employees and consultants working under the contract, but charges domestic travel and international travel for executives as an indirect cost, all international travel for employees and consultants (whether incurred under the contract or other activities of the contractor) must be eliminated from the overhead pool before indirect costs are allocated and distributed to the contract. However, the costs of domestic travel and international travel by executives would legitimately remain as part of the overhead pool.

In the absence of consistent cost application, an alternative method is simply to deduct the travel costs attributable to the contract from the amount of the indirect costs. If neither of the above adjustments are made, the contract could be charged both directly and indirectly for the same items of cost. Similarly, in those cases where salaries and wages (direct costs) include a surcharge for fringe benefits (normally an indirect charge), care must be exercised to be sure that such fringe benefits costs are not duplicated in the indirect (overhead) charges. These considerations should be set forth in the contract.

4.4 Overhead and/or General and Administrative Expense Rates

<u>MCC strongly prefers that a fixed amount in lieu of overhead/general and administrative rates is negotiated and included in the contract.</u> Fixed amounts in lieu of overhead rates may be negotiated with any type of organization so long as the amount does not vary in relation to costs incurred by the contractor. In establishing the fixed amount, it is necessary to ensure it is reasonable, taking into account the reasonableness of each component included in the fixed amount and the overall business of the contractor.

The alternative is to establish provisional overhead and/or general and administrative expense rates until they can be converted to final (by audit or otherwise) at completion of the contract. A provisional overhead rate is a tentative percentage factor mutually agreed upon by the Procurement Agent and the contractor, to be applied to an agreed upon base, for use in making interim payments, tied to a time period stated in the contract pending the determination of the actual rate.

Each provisional overhead rate and the allocation or distribution bases to which it is to be applied, in making such interim payments, must be incorporated in the contract and may be changed only by agreement between the parties.

If during the performance of a contract, a contractor should lose all or the majority of its work which normally shares in the distribution of its overhead expenses, the Recipient Country should not have to absorb this increased allocation of overhead expenses under its contract. To prevent this situation from occurring, a ceiling or maximum rate should be considered for use in instances where there is a reasonable possibility that such a loss of other work could occur. However, a contractor may encounter bona fide increases in its overhead costs for which it should not be penalized.

A negotiated final overhead rate is a percentage factor to be applied to an agreed-upon base, which expresses the ratio, or ratios, agreed upon by the Procurement Agent and the contractor. When a provisional rate has been used, a final rate is agreed upon at the end of the contract or after closing of the contractor's fiscal year accounts, unless the parties have agreed to a different period.

4.5 Separate Rates for Separate Locations

Whenever the contract requires that the contractor perform a significant amount of work in two or more locations, a separate rate applicable only to the effort in each location should be considered. It is extremely important that the contractor and the Procurement Agent reach a clear understanding, which should be included in the contract, regarding the methods used in determining the rate that will apply to work performed at each location. Particular attention must be given to assuring an equitable distribution of home office overhead and/or general and administrative expenses charged to branch or other locations.

4.6 Examples of Indirect Costs

Any of the categories of cost described in the discussion of selected costs in Section 7 may be treated as indirect costs under a contract, unless otherwise specified in the contract.

4.7 Evaluation of Overhead Proposal

A contractor's records and procedures for allocating indirect costs may vary from formal records and detailed procedures to very informal working papers. If a pre-award audit is conducted, the contractor's records and procedures should be examined to determine if the indirect costs proposed are reasonable and properly allocated. If the contractor has been regularly audited, the proposed rate may be reviewed to determine if it is consistent with a current rate agreement. No indirect cost rate quoted by a contractor should be accepted without evaluation.

4.8 Assistance and Information Concerning Indirect Costs

a. If a proposed contractor is based in the United States, or has done substantial cost-reimbursement contracting with the U.S. Government, assistance on indirect and other costs is available from the Cognizant Audit Agency established in accordance with OMB Circular A-133. When requesting such assistance the following minimal information should be supplied: name and address of proposed contractor; type of contract; estimated contracted amount; period of performance; and major cost elements, including salaries, the contractor's proposed overhead and/or general and administrative expense rates, related distribution bases, contractor's address, phone number, contact person, cognizant agency audit office (if known), and any other factors deemed significant by the Procurement Agent.

b. The Procurement Agent may also request MCC guidance in the audit of non-U.S.-based contractors. The "Guidelines for Financial Audits Contracted by MCA" are available on the MCC website, www.mcc.gov.

5.0 Fixed Fee

5.1 General

Cost-reimbursement contracts with commercial firms usually provide for payment of a fixed fee to the contractor. The fixed fee, once negotiated and established, does not vary with actual costs. It may be adjusted upwards or downwards when major increases or decreases in the scope of work are negotiated as contract amendments.

5.2 Negotiation Factors

The Procurement Agent negotiates a fair and reasonable fee with the contractor to perform certain work as agreed to, considering the following criteria:

a. Nature and complexity of the work or services to be performed;

b. Degree of risk assumed by the contractor;

c. Proportion of permanent staff and their positions as profit-generating personnel in the contractor's organization as compared to recruited personnel and outside consultants acquired for performance of the contract;

d. Amount of logistic support provided by the Recipient Country;

e. Extent of subcontracting;

f. Fees charged by the contractor to its other clients for similar services;

g. Payment provisions, including any advances;

h. Effect of competition;

i. Amount of the contract, and

j. Such other elements as the Procurement Agent considers pertinent.

6.0 Cost Analysis

6.1 General

Cost analysis is an essential tool in the conduct of sound and meaningful negotiations. It provides the Procurement Agent with a means of evaluating the contractor's proposal. In negotiating cost-reimbursement contracts, the Procurement Agent must be satisfied as to the adequacy and reasonableness of the cost proposal including the realism of costs proposed. Cost analysis is a primary means of accomplishing this end. The general technique of cost analysis outlined below applies to all cost-reimbursement contracts.

6.2 Procurement Agent's Estimate

The Procurement Agent prepares a cost estimate before proposals are requested. This estimate should be systematically developed, using historical and statistical data, published indexes, prior Recipient Country experience, and any other source of information which will produce a valid and reasonable estimate, including fixed fee when appropriate. This estimate is used as a reference in evaluation of the selected contractor's cost proposal. It is critically important that information concerning the amount of the estimate be limited to those Procurement Agent and MCC officials with a need to know. Unauthorized disclosure may compromise the Procurement Agent's bargaining position or give an unfair competitive advantage to a potential offeror.

6.3 Contractor's Cost Proposal

The proposal submitted by the prospective contractor reflects its estimate of costs to be incurred in accomplishing the proposed contract task. It is the foundation upon which the negotiator must work in arriving at a final contract. The elements of the cost proposal must be clearly substantiated, fully documented and supported in conformance with the requirements of this policy document.

6.4 Analysis of Contractor's Cost Proposal

The Procurement Agent should compare the contractor's cost proposal to its own estimate of costs. A review of the individual cost elements should be made to determine the degree of correlation between each of the respective cost estimates. Areas of major difference between the two estimates of cost should become the focal point of the further cost analysis and negotiation.

7.0 SELECTED COSTS

7.1 INTRODUCTION

This Section sets forth selected items of cost which are representative of those costs typically encountered in cost-reimbursement type contracting. However, not every element of cost and every situation that might arise in a particular case is covered. Failure to treat any item of cost is not intended to imply that it is either allowable or unallowable. There are many other potentially applicable items. Some of the more common are depreciation, equipment and plant, idle facilities, maintenance and repair, patents, and training of employees. These and many other items are discussed in detail in the U.S. Government Office of Management and Budget Circular A-122. If it is necessary to review such items of indirect cost, the guidance furnished in the above-referenced document may be helpful. With respect to all items, whether or not specifically covered, determination of allowability shall be based on the principles and standards set forth in Section 2.0 of this policy document.

7.2 UNALLOWABLE COST ITEMS

Certain costs are of such a nature that they are not normally considered allowable to the direct or indirect (overhead) cost categories. These costs may exist as actual expenses of the contractor's organization and may well be legitimate and even desirable insofar as the contractor is concerned. However, because of their nature, these costs are not eligible for allocation as direct or indirect costs to a contract financed under an MCC grant.

7.3 DISCUSSION OF SPECIFIC ALLOWABLE AND UNALLOWABLE COST ITEMS

The following discussion limits the allowability of certain cost items. Unallowable costs are unallowable as either direct or indirect costs under MCC grant-financed contracts:

a. Advertising Costs

Advertising costs are generally unallowable. The only advertising costs allowable are those which are solely for (i) the recruitment of personnel when considered in conjunction with all other recruitment costs, as set forth in paragraph 7.3.v (ii) the procurement of goods and services for the contract; (iii) the disposal of surplus materials acquired in the performance of the contract, or (iv) specific requirement of the contract.

b. Bad Debts

Bad debts, including losses (whether actual or estimated), due to uncollectible customer's accounts and other claims, related collection costs, and related legal costs, arising from other business of the contractor are unallowable.

c. Bonding and Guaranty Costs

(1) Bonding and guaranty costs arise when the Recipient Country requires assurance against financial loss to itself or others by reason of the act or default of the contractor. They arise also in instances where the contractor requires similar assurance. Included are

such bonds and guaranties as bid, performance, payment, advance payment, infringement, and fidelity bonds.

(2) Costs of bonding or guaranties required pursuant to the terms of the contract are allowable, either as direct or indirect cost.

(3) Costs of bonding required by the contractor in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

d. Commissions and Contingency Fees

Commissions, percentages, brokerage, or contingency fees to persons or groups retained to solicit contracts are unallowable unless the person or group is a bona fide commercial or selling agent maintained by the Contractor for the purpose of securing business.

e. Communication Costs

Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable as direct or indirect costs.

f. Compensation

Compensation which constitutes a distribution of profits, or bonuses and incentive compensation paid in stock outside of the contractor's normal compensation policy is unallowable.

g. Contributions and donations are unallowable.

h. Entertainment Costs

Costs of amusement, diversion, social activities and incidental costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities, for the benefit of customers or clients are unallowable.

i. Fines and Penalties

Cost of fines and penalties resulting from violations of, or failure of the contractor to comply with, U.S. or Recipient Country laws and regulations are unallowable.

j. Fringe Benefits

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

(2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, worker's compensation insurance, pension plan costs, and the like, are allowable provided such benefits are granted in accordance with established written contractor policies. Such benefits, whether treated as indirect costs or as direct costs,

shall be distributed to particular contracts and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such contracts and other activities.

k. Insurance and Indemnification

(1) Insurance includes insurance which the contractor is required to carry, or which is approved, under the terms of the contract and any other insurance which the contractor maintains in connection with the general conduct of its operations. This paragraph does not apply to insurance which is costed as a fringe benefit under the contract.

(a) Costs of insurance required or approved, and maintained, pursuant to the contract are allowable.

(b) Costs of other insurance maintained by the contractor in connection with the general conduct of its operations are allowable subject to the following limitations.

(i) Types and extent of coverage shall be in accordance with sound business practice and the rates and premiums shall be reasonable under the circumstances.

(ii) Costs allowed for business interruption or other similar insurance shall be limited to exclude coverage of management fees.

(iii) Costs of insurance or of any provisions for a reserve covering the risk of loss or damage to Recipient Country property are allowable only to the extent that the contractor is liable for such loss or damage.

(iv) Provisions for a reserve under a self-insurance program are allowable to the extent that types of coverage, extent of coverage, rates, and premiums would have been allowed had insurance been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision in made shall not exceed the present value of the liability.

(c) Actual losses which could have been covered by permissible insurance (through the purchase of insurance or a self-insurance program) are unallowable unless expressly provided for in the contract except:

(i) Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice are allowable.

(ii) Minor losses not covered by insurance, such as spoilage, breakage, and disappearance of supplies, which occur in the ordinary course of operations, are allowable.

(2) Indemnification includes securing the contractor against liabilities to third persons and any other loss or damage, not compensated by insurance or otherwise. The Recipient Country is obligated to indemnify the contractor only to the extent expressly provided in the contract.

l. Interest and Other Financial Costs

Interest on borrowing (however represented), bond discounts, cost of financing and refinancing operations, legal and professional fees paid in connection with the preparation of a prospectus, costs of preparation and issuance of stock rights, and related financial charges are unallowable.

m. Lobbying Costs

(1) Costs associated with the following activities with respect to the U.S. Government or the Government of the Recipient Country and any political subdivisions thereof are unallowable:

(a) Attempts to influence the outcomes of any election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activities;
(b) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
(c) Any attempt to influence (i) the introduction of legislation, or (ii) the enactment or modification of any pending legislation through communication with any member or employee of a legislature (including efforts to influence officials to engage in similar lobbying activity), or with any government official or employee in connection with a decision to sign or veto enrolled legislation;
(d) Any attempt to influence (i) the introduction of legislation, or (ii) the enactment or modification of any pending legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign;
(e) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable activities; or
(f) Attempts to improperly influence, either directly or indirectly, an employee or officer of the US Government or Government of the Recipient Country to give consideration to or act regarding a regulatory or contract matter.

(2) However, the costs of the following activities are allowable:

(a) Providing a technical and factual presentation of information on a topic directly related to the performance of a contract through hearing testimony, statements or letters to a legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request (including a request for testimony or statements for the record at a regularly scheduled hearing) made by a legislative body or subdivision, or a member or cognizant staff member thereof; provided such information is readily obtainable and can be readily put in deliverable form; and further provided that costs under this section for transportation, lodging or meals are unallowable unless incurred for the purpose of offering testimony at a regularly scheduled legislative hearing pursuant to a written request for such presentation.
(b) Any lobbying made unallowable by paragraph (1)(c) above to influence state or local legislation in order to directly reduce contract cost, or to avoid material impairment of the contractor's authority to perform the contract.

(c) Any activity specifically authorized by a US Government statute to be undertaken with funds from the contract.

n. Losses on Other Contracts

An excess of costs over income under any other contract (including the contractor's contributed portion under cost-sharing contracts) are not allowable.

o. Meetings, Conferences

Costs of meetings and conferences held to conduct the general administration of the contractor are allowable.

p. Organization Costs

Expenditures in connection with planning or executing the organization or reorganization in the corporate structure of a business, including mergers and acquisitions, or raising capital are not allowable. Such expenditures include, but are not limited to, incorporation fees and cost of attorneys, accountants, brokers, promoters and organizers, management consultants, and counselors, whether or not employees of the contractor.

q. Personal Use of Assets Acquired with Grant Funds

Assets acquired with grant funds shall only be used in furtherance of grant objectives and shall not be used for the personal benefit of an employee, consultant, or the firms. Such assets would include, but not be limited to:

- Vehicles,
- Communications devices (cell phones, pagers)
- Computers
- Copiers and fax machines, etc.

r. Personnel Compensation

Salaries and wages should not exceed the contractor's established policy and practice, including the contractor's established pay scale for equivalent classifications of employees, which should be certified to by the contractor and supported by time sheets. Merit or promotion increases should not exceed those provided by the contractor's established policy and practice.

s. Preaward Costs

Preaward costs are those incurred prior to the effective date of the contract where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs, both direct and indirect, are allowable only to the extent that they would have been allowable if incurred after the effective date of the contract and only with the written approval of the Procurement Agent or if specifically authorized in the contract. Note, however, that the costs of any contract signed prior to the effective date of the grant are not allowable.

t. Professional Service Costs

Costs of ancillary professional and consultant services (such as lawyers, accountants, etc.) rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the contractor, are allowable.

u. Publication and Printing

Publication costs include the costs of printing (such as the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.

v. Recruiting Costs
The following recruiting costs are allowable: cost of "help wanted" advertising, operating costs of an employment office, costs of operating an educational testing program, travel expenses including food and lodging of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees. Where the contractor uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

w. Retainer Fees not supported by evidence that specific bona fide services were furnished are not allowable.

x. Taxes

The discussion of taxes below is MCC's general policy. The provisions of a specific Compact or 609(g) grant agreement may be differ from these cost principles. In such a case, the provisions of the Compact or 609(g) grant agreement will control.

(1) In general, taxes which the contractor is required to pay, and which are paid or accrued in accordance with generally accepted accounting principles, and payments made to local governments in lieu of taxes which are commensurate with the local government services received are allowable, except for (i) taxes from which exemptions are available to the contractor directly or which are available to the contractor based on an exemption afforded by the Government of the Recipient Country and, in the latter case, when the Government of the Recipient Country makes available the necessary exemption certificates, (ii) U.S. Federal and other sovereign national income taxes.

(2) Income and excess profit taxes paid by the contractor to any sovereign governmental body are not allowable.

(3) MCC will not finance other identifiable taxes, fees, levies or impositions under the laws of the Recipient Country placed against a contractor (or any of its employees). However, such taxes paid by the contractor or its employees may be reimbursed by the Government of the Recipient Country.

(4) Any refund of taxes, and any payment to the contractor of interest thereon, which were allowed as contract costs, will be credited either as a cost reduction or cash refund, as appropriate, to the Recipient Country.

y. Travel and Transportation Costs

First class air fare is unallowable when less-than-first-class service is available and can meet the needs of the contract. Travel shall be by the most direct usually travelled route. Any exception to this policy requires justification and the specific written approval of the Accountable Entity, *provided that*, if the contractor is an Accountable Entity, such approval shall be obtained from MCC.