

**REPUBLIC OF PALAU**  
**WORKFORCE INVESTMENT POLICY NO. 007-018-2000**

EFFECTIVE DATE: July 01, 2000

TO: Members of State Workforce Investment Board  
Executive Committee

FROM: Ms. Josephine Ulengchong  
WIA Office Executive Director

SUBJECT: **COST PRINCIPLES AND COST CATEGORY**

OMB Circular No. A-87 sets forth Cost Principles for State, Local, and Indian Tribal Governments

The President of Palau, as chief elected official, is the Recipient of WIA Funds. Through establishment of the State Workforce Investment Board (SWIB), the President has identified and authorized the SWIB's Executive Committee as the local subrecipient of the WIA Title I-B funds. The WIA Office has been designated by the President of Palau as the WIA Administrative Entity.

This policy sets forth cost principles for the State and WIA Office in compliance with OMB Circular A-87.

To be allowable for an award of WIA funds, costs must meet the following criteria:

1. Be necessary and reasonable for proper and efficient performance and administration of WIA federal and local supplemental funds. [A grantee is required to exercise sound business practices and to comply with its procedures for charging any cost to an ETA grant]
2. Be allocable to federal awards under the provision of OMB Circular A-87 or applicable OMB Circulars pertaining to a specific program or subrecipient.
3. Be authorized or not prohibited under State or local laws or regulations.
4. Conform to any limitations or exclusions set forth in the cost principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.

5. Be consistent with policies, regulations, and procures that apply uniformly to both Federal awards and other activities of the governmental unit.
6. Be accorded consistent treatment. A cost may be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
7. Cost is determined in accordance with generally accepted accounting principles and adequately documented.
8. Be a reasonable cost, in nature and amount, necessary, a sound business practice, market price is for comparable goods or services, and action for the cost is done prudently.
9. Is an allocable cost chargeable or assignable to cost objective.

#### Cost Category

1. Advertising and public relations costs  
*Advertising media such as magazine, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.*  
*Public relations means those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.*

Allowable advertising costs are:

- those solely for recruitment of personnel required for the performance by the governmental unit of obligations arising out of a Federal award;
- procurement of goods and services for the performance of a Federal award;
- other specific purposes necessary for the performance of a Federal award.

Allowable public relations costs are:

- costs specifically required by the Federal award;
- communicating with the public and press pertaining to specific activities or accomplishments, which result from performance of the Federal awards.
- conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communications and liaison

necessary to keep the public informed on matters of public concern, such as notices of Federal contract/grant awards, financial matters, etc.

2. Advisory councils. Costs incurred by advisory councils or committees are allowable as a direct cost where authorized or allocated.
3. Alcoholic beverages. Costs of alcoholic beverages are unallowable.
4. Audit cost and related services. The costs of audit required by, and performed in accordance with, the Single Audit Act, OMB A-133; and/or included in a cost allocation plan or indirect cost proposal, are allowable.
5. Bad debts. Bad debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs, is unallowable.
6. Bonding costs. Cost of bonding required pursuant to the terms of the award is allowable. Cost of bonding required by the governmental unit 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.
7. Communication costs. Costs incurred for telephone services, local and long distance telephone calls, telegrams, postage, messenger, electronic or computer transmittal services and the like are allowable.
8. Compensation for personal services. Compensation for personnel services for remunerated, currently paid or accrued services rendered during the performance of a Federal award, including but not limited to wages, salaries, and benefits are allowable, provided that it is reasonable and consistent with that paid for similar work in other activities of the governmental unit, or if not found, comparable to that paid for similar work in the labor market in which the government competes for the kind of employees involved.
9. Fringe benefits. Allowable in the form of costs of leave (annual, sick, holidays, court, and military. Employer contributions or expenses for social security; employee life, health,

unemployment and worker's compensation insurance; pension plan costs, and other similar benefits are allowable.

10. Contingency provisions. Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable.
11. Defense and prosecution of criminal and civil proceedings, and claims. Unallowable for costs incurred in defense of any civil or criminal fraud proceeding or similar proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2324(k); Legal expenses for prosecution of claims against the Federal Government. Allowable for legal expenses required in the administration of Federal programs.
12. Depreciation and use allowances. Allowable following required computation or depreciation methodology for different types of fixed assets.
13. Donations and contributions. Contributions or donations, including cash, property, or services, made by the governmental unit, regardless of the recipient, are unallowable. Donated services received may be categorized as in-kind contribution, depending on the type of cost activity.
14. Employee morale, health, and welfare costs. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.
15. Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.
16. Equipment and other capital expenditures. Capital expenditures means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the

asset including the cost to put in place. Acquisition cost for equipment means the net or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charge, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit's regular accounting principles.

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost that equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000.

Special purpose equipment means equipment that is used only for research, medical, scientific, or other technical activities. Example: microscopes, x-ray machines, surgical instruments, and spectrometers.

General-purpose equipment means equipment, which is not limited to research, medical, scientific, or other technical activities. Example: office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

Capital expenditures for general-purpose equipment, buildings, and land, and which materially increase their value or useful life approved are allowed provided they were approved in advance by the awarding agency.

When replacing equipment purchased in whole or in part with Federal funds, the WIA Office, may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

17. Fines and penalties. . Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the State to comply with, Federal, State, or local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

18. Fund raising and investment management costs. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.

Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable. However, such costs associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by OMB Circular A-87 are allowable.

19. Gains and losses on disposition of depreciable property and other capital assets and substantial relation of Federal programs. Gains and losses on the sale, retirement, or other dispositions of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amounts realized on the property and the undepreciated basis of the property.

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

-the gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under sections 12 and 16.

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

-a loss results from the failure to maintain permissible insurance, as otherwise approved in pertinent section of this policy.

-compensation for the use of the property was provided through use allowances in lieu of depreciation.

-substantial relation of Federal awards from a facility where the Federal Government participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiations of space charges for Federal awards.

-gains or losses of any nature arising from the sale or exchange of property other than the property covered in above, e.g., land or included in the fair market value used in any adjustments resulting from a relocation of Federal awards covered in this policy shall be excluded in computing Federal award costs.

20. General government expenses.

The general costs of government are unallowable. These include:

-salaries and expenses of the Office of the President.

-salaries and other expenses of the Olbiil Era Kelulau (The State National Legislature) or similar local government body.

-costs of the judiciary branch of the government;

-costs of prosecutorial activities;

-costs of other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost of a program statute or regulation.

21. Goods or services for personal use. Costs of goods and services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income the employees.

22. Idle facilities and idle capacity. The costs of idle facilities are unallowable except to the extent they are necessary to meet fluctuations in workload; or necessary to achieve more economical operations, reorganization, termination, which could not have been reasonably foreseen.

22. Insurance and indemnification. Costs of insurance required or approved and maintained, pursuant to the Federal award, are allowable.  
Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:
- types and extent and cost of coverage are in accordance with the State policy and sound business practice.
  - costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the awarding agency has specifically required or approved such costs.
23. Interest. Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided or authorized by the Federal awarding agency.
24. Lobbying. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans are an unallowable cost.
25. Maintenance, operations, and repairs. Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they: (1) keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, (2) do not add to the permanent value of property or appreciably prolong its intended life, and (3) are not otherwise included in rental or other charges for space.
26. Materials and supplies costs. Costs incurred for materials, supplies, and fabricated parts necessary to carry out the Federal award are allowable. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs.
27. Meetings and conferences. Costs of meetings and conferences, the primary purpose of which is the dissemination of technical



information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences.

28. Membership, subscriptions, and professional activity costs.

Costs of the SWIB or WIA Office's membership in business, technical, and professional organizations are allowable.

Costs of the SWIB or WIA Office's subscriptions to business, professional, and technical periodicals are allowable.

Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal-awarding agency.

Costs of membership in organizations substantially engaged in lobbying are unallowable.

29. Patent costs. Allowable: cost preparing disclosures, reports, and other documents required by the Federal award.

30. Plant and homeland security costs. Necessary and reasonable expenses incurred for routine and homeland security to protect facilities, personnel, and work products are allowable.

31. Pre-award costs. Pre-award costs incurred pursuant to the negotiation necessary to comply with the proposed delivery schedule or period of performance and only with the written approval of the awarding agency.

32. Professional service costs. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the SWIB or WIA Office, are allowable.

33. Proposal costs. Costs of preparing proposals for potential Federal awards are allowable as an indirect cost or charged directly to Federal awards with the prior approval of the Federal-awarding agency.

34. Publication and printing costs. Allowable for processes of composition, plate making, press work, binding, and the end products produced by such processes, distribution, promotion, mailing, and general handling including page charges in professional publications.

35. Rearrangement and alteration costs. Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable. Special arrangements and alterations costs incurred specifically for a Federal award are allowable with the prior approval of the Federal-awarding agency.

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

37. Rental costs of buildings and equipment. Rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

"sale and lease back" rental costs arrangements are allowable only up to the amount that would be allowable had the WIA Office continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.

"less-than-arms-lengths" leases rental costs are allowable only up to the amount that would be allowed had title to the property vested in the WIA Office.

38. Royalties and other costs for the use of patents. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the award are allowable unless:

-the Federal Government has a license or the right to free use of the patent or copyright.

-the patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid.

-the patent or copyright is considered unenforceable.

-the patent or copyright is expired.

39. Selling and marketing. Costs of selling and marketing any products or services of the WIA Office or the National Government of Palau are unallowable.
40. Taxes. Taxes that a governmental unit is legally required to pay are allowable.
41. Termination costs applicable to sponsored agreements. In the event, the Federal awarding agency terminates a federally awarded agency, the cost of items reasonably usable on the governmental unit's other work shall not be allowable unless the governmental unit submits evidence that it would retain such items at cost without sustaining a loss.
42. Training costs. The cost of training provided for employee development is allowable.
43. Travel costs. Allowable travel costs at those expenses for transportation, lodging, subsistence, and related items incurred by employee who are in travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's non-federally-sponsored activities.

Costs for lodgings and subsistence incurred by employees and officers for travel, including incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the WIA Office in its regular operations as the result of the WIA Office's written travel policy.

Airfare costs in excess of the customary standard commercial airfare (coach or equivalent ), or the lowest commercial discount airfare are unallowable except when such accommodations would:

- require circuitous routing;
- require travel during unreasonable hours;
- excessively prolong travel;

-result in additional costs that would offset the transportation savings; or

-offer accommodations not reasonably adequate for the traveler's medical needs.

The WIA Office must justify and document these conditions on a case-by-case basis in order for the use of first-class airfare to be allowable in such cases.

Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip must receive such approval. For purpose of this provision, "foreign travel" includes any travel outside Canada, Mexico, the United States, and any United States territories and possessions.