



GAO Technical Bulletin

Arizona Department of Administration ♦ General Accounting Office

Subject: **Revisions to OMB Circular A-87** Issued: 10/26/95
"Cost Principles for State, Local and Indian Tribal Governments" Effective: 09/01/95
Manual Section: N/A Page: 1 of 3
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TO: Technical Bulletin Administrators
All Agencies

FROM: Robert Rocha
State Comptroller

AUTHORITY

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OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments"
Revised May 17, 1995

BACKGROUND

A revised OMB Circular A-87 was published in the Federal Register on May 17, 1995, which supersedes the 1981 version. The Circular establishes cost principles and standards for Federal awards. The Circular is effective for Federal awards received on or after September 1, 1995. Generally, the State of Arizona effective date is July 1, 1996 (FY97) for cost allocation plans and indirect cost proposals. Specific applicability can be addressed by your Federal cognizant agency or GAO.

POLICY

All State agencies must follow OMB Circular A-87 as applicable. Each State agency should have received a copy of the Revised A-87 from its Federal cognizant agency. If not, contact your cognizant agency for a copy.

The U.S. Department of Health & Human Services is the Federal cognizant agency for the State. Interpretations of the revised A-87 may differ between federal agencies. Please notify GAO of any unique or differing interpretations.

The State's policy will continue to require that a copy of all final approved indirect cost plans be filed with GAO. Please send the copy to the attention of SWCAP, GAO Fund Accounting.

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MAJOR REVISIONS INCLUDE:

The major revisions include more detail and guidance in the allowability of salary and wage costs. The revision is more restrictive concerning documentation of salary and wages charged to Federal programs. Unless otherwise approved, direct payroll charges to federal grants must be supported by after-the-fact personnel activity reports. These reports must allocate time to all activities of the governmental unit. (The traditional State policy is to record time in not greater than 1/2 hour increments.) Although the list of available activities should be complete and comprehensive, the respective activities should not be excessively detailed. By listing activity at a distinct, yet high level, cost and administrative oversight can be minimized while complying with circular requirements (Attachment B, Section 11).

Of particular importance to State agencies is a change in allowability of leave payoff charges to Federal grant programs. Since the State is on a cash basis of accounting, leave payoffs cannot be recovered through a direct charge to a Federal program. They must be recovered through allocation to all activities of the governmental unit as an indirect cost. Your cognizant agency should be contacted for any specific requirements regarding salary and wage costs (Attachment B, Section 11).

Legal expenses incurred in administering Federal programs are allowable. However, legal expenses incurred in claims against the Federal government are unallowable (Attachment B, Section 14).

Specific procedures for claiming depreciation and use allowance of equipment are provided (Attachment B, Section 15).

The revision increased the fixed asset capitalization threshold to \$5,000. The State has also increased its capitalization threshold to \$5,000 effective July 1, 1995. Thus, any capital expenditures under the \$5,000 threshold can be expensed without prior approval from the Federal agency (Attachment B, Section 19).

Reserves for known or reasonably estimated self-insurance liabilities which do not become payable for more than one year shall not exceed the discounted present value of the liability. These changes may require changes in calculating and reporting insurance costs, and will be discussed with ADOA Risk Management (Attachment B, Section 25).

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Interest will be allowable under certain circumstances and subject to some restrictions. The revisions liberalize the allowability of interest expense. This includes interest on both existing and newly acquired equipment (Attachment B, Section 26).

Taxes that a governmental unit is legally required to pay are allowable. An exception is a self-assessed tax that disproportionately affects Federal programs (Attachment B, Section 39).

For all billed central services a greater level of documentation is required annually by the State Federal cognizant agency. This includes internal service funds, self-insurance funds, and fringe benefit funds with an operating budget of at least \$5 million (Attachment C, Section E).

A working capital reserve (up to 60 days cash expenses) in an internal service fund is allowable (Attachment C, Section G).

Billing rates for central service activities must be reviewed at least annually. Adjustments must be made for the difference between actual cost and revenue (Attachment C, Section G).

AREAS IMPACTED:

All State agencies which administer any Federal grant programs, directly or indirectly. Notification should include all Federal grant managers and accounting staff.

CONTACTS:

If you have any questions related to this technical bulletin, please contact your GAO liaison.