Public Health Service

GRANTS POLICY STATEMENT

U. S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Public Health Service

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U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
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PREFACE

The Public Health Service (PHS) is the principal health component of the Department of Health, Education, and Welfare. PHS, which is under the direction of the Assistant Secretary for Health, is comprised of six major agencies. The six PHS agencies are listed below with a description of their primary areas of concern:

The Alcohol, Drug Abuse, and Mental Health Administration, which is responsible for developing knowledge, manpower and services to prevent mental illness, to treat and rehabilitate the mentally ill, to prevent the abuses of drugs and alcohol, and to treat and rehabilitate drug and alcohol abusers;

The Center for Disease Control, which is responsible for the national program of prevention and control of communicable and vector-borne diseases and for the control of certain other noninfectious conditions;

The Food and Drug Administration, the Nation's first consumer protection agency, which is concerned with research and regulation in such areas as food, drugs, cosmetics and medical devices;

The Health Resources Administration, which is responsible for health planning, research, evaluation and development of health resources and needs, including manpower and health facilities, and the collection and dissemination of health data;

The Health Services Administration, which is responsible for the improvement of the delivery of health services to the American people; and

The National Institutes of Health, which seeks to improve the Nation's health by increasing knowledge related to health and disease through the conduct and support of research, research training and biomedical communications.

The basic mission of PHS, as a whole, is to protect and advance the Nation's health. One of the very important activities that PHS carries out in pursuit of this mission is that of awarding grants in support of efforts that help PHS and the recipient institutions to achieve mutually beneficial goals.

PHS administers a diverse array of grant programs concerned with the whole spectrum of health concerns reflected in the missions of its several agencies as outlined above. The six PHS agencies and the ten PHS regional offices are responsible for the award, administration and monitoring of these grant programs under a variety of legislative authorities, governing regulations, policies and procedures.

The administration of a grant requires adherence not only to the program objectives for which the award was made but also requires that those objectives be accomplished in a businesslike manner. This is particularly important at a time when the costs to the grantee institution and the Federal Government are climbing and Federal spending is being closely watched for its inflationary impact and cost effectiveness. For these reasons, grantee institutions must establish sound and effective business management systems to assure that grant funds are properly safeguarded and utilized only for the purposes for which they were awarded. Grantee institutions are expected to exercise the same degree of prudence in the expenditure of Federal funds that they use in expending their own funds.

PHS views its relationship with the grantee institution as a partnership, with the grantee providing the effort and expertise necessary to carry out approved activities and PHS providing financial assistance under established policies and guidelines. In furtherance of its role in this relationship, PHS has established Grants Management Offices in each of its headquarters and regional offices to serve as focal points for the business management aspects of grants administration. Questions concerning the interpretation of policies or the applicability of certain policies to particular programs should be directed to the designated PHS Grants Management Officer.

This booklet is intended to provide a common understanding of the grants administration framework within which PHS staff and responsible grantee institution officials must operate. Any questions relating to its preparation or subject matter should be directed to this office.

John C. Droke
Director
Office of Administrative Management

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INTRODUCTION

The award and administration of grant funds are subject to applicable laws, regulations, and policies that have been duly promulgated. This booklet presents a compilation of the salient features of such policies as of October 1, 1976. To use this booklet effectively, grantee institutions should maintain, or have access to, copies of the referenced documents, which present additional detailed guidance on the subject policy. In addition, as with any publication, the policies in this booklet are subject to amendment by policies adopted subsequent to the above date. Consequently, grantee institutions are obligated to assure themselves that they become aware of any new amendments as soon as they are issued and announced to the public. This can best be done by arranging to obtain, or to have access to, the following documents:

Code of Federal Regulations (Titles 42 and 45): Title 42 sets forth Public Health Service (PHS) program regulations; Title 45 includes administrative regulations applicable to all HEW grants. They are available in booklet form from the U.S. Government Printing Office.[1]

Federal Register: This publication is used to announce major proposed and final rulemaking issuances, including announcements of new programs and regulations, as well as policies issued by the Office of Management and Budget, the Department of Health, Education, and Welfare, and the Public Health Service. It is available from the U.S. Government Printing Office on a subscription basis. The current price is $5 per month or $45 per year.

HEW Grants Administration Manual: This HEW manual sets forth general requirements that all HEW agencies must incorporate into their policy documents. The PHS accomplishes this by issuing PHS supplementations (see below) to the HEW manual chapters. The HEW manual is available from the U.S. Government Printing Office on a subscription basis. The current price is $15.70 (plus $3.95 for oversea mailing), including new chapters as they are issued. The price is subject to change without notice.

PHS Supplementations to the HEW Grants Administration Manual: These PHS supplementations are used to implement for PHS the policies contained in the HEW manual. They are also used to establish and implement PHS grants administration policies in areas not covered by the HEW manual. PHS supplementations, therefore, constitute the basic PHS policy document applicable to its grant programs. References

[1] Write to Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

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to these issuances appear in parentheses throughout this booklet immediately following subject headings, wherever appropriate.

PHS supplementations are issued by the Division of Grants and Contracts, Office of Administrative Management, PHS.[2] They are routinely mailed as they are issued to the business offices of grantee institutions on record. See Chapters PHS: 0–1, 0–2, and 1–20 for additional information regarding the PHS policy issuance system.

Applicability

Except where PHS has been delegated responsibility to act for all HEW components in certain specific areas, such as the protection of human subjects and institutional cost sharing agreements, the policies set forth in this booklet are intended to apply only to grants made by constituent agencies and regional offices of the Public Health Service and not necessarily to those made by other components of HEW. These policies should be applied to all grants having budget periods beginning on or after October 1, 1976. Any hardships or difficulties experienced by current grantees in making changes that may be required by this document should be reported immediately to the appropriate PHS Grants Management Officer.

Order of Precedence

In the event there are conflicting or otherwise inconsistent policies applicable to PHS grants, the following order of precedence shall prevail:

1. Federal legislation
2. Federal regulations other than 45 CFR Part 74
3. Terms and conditions of the award document
4. PHS supplemental chapters to the *HEW Grants Administration Manual* issued subsequent to October 1, 1976
5. Policies issued in this booklet
6. 45 CFR Part 74

Superseded Publications

As of October 1, 1976, this booklet supersedes DHEW Publication Nos. (OS) 74–50,000 and 76–50,000, dated July 1, 1974, PHS Grants Policy Statement, and the Health Grants Manual (as used by Title V Social Security Program).

It should be noted that the following publications were previously superseded:

PHS Publication 1301; July 1, 1967; *PHS Grants for Research Projects*
PHS Publication 1302; July 1, 1967; *PHS Grants for Training Projects*
DHEW Publication (NIH) 72–8; July 1, 1972; *Grants for Research Projects*
DHEW Publication (NIH) 73–9; December 1, 1972; *Grants for Training Projects*

[2] Write to Division of Grants and Contracts, OAM, PHS, Parklawn Building, 5600 Fishers Lane, Rockville, Maryland 20852.

GLOSSARY

The following are definitions of terms most commonly used in the award and administration of PHS grants.

Budget—The financial expenditure plan approved by PHS to carry out the purposes of the grant-supported project. The budget is comprised of both the Federal share and any non-Federal share of such plan and any subsequent authorized rebudgeting of funds (see *Prior Approval* below); except that for those programs that do not involve Federal approval of the non-Federal share of costs, such as research grants, the term "budget" means the financial expenditure plan approved by PHS, including any subsequent authorized rebudgeting of funds, for the use of Federal funds only. Any expenditures charged to an approved budget consisting of Federal and non-Federal shares are deemed to be borne by the grant in the same proportion as the percentage of Federal/non-Federal participation in the overall budget.

Budget Period—The interval of time (usually 12 months) into which the grant project period is divided for budgetary and reporting purposes.

Direct Assistance—A grant under which goods or services are furnished in lieu of cash. Direct assistance generally involves the detail of Federal personnel or the provision of supplies, such as vaccines. Prerequisite to the use of direct assistance is authorization by statute or regulation and preestablishment of agreements between PHS and the grantee.

Grant—An award of financial or direct assistance to an eligible recipient under programs that provide for such assistance based on review and approval of an application, plan, or other document(s) setting forth a proposed activity or program.

Grant-Supported Activities/Project—Those activities specified or described in a grant application or other document that are approved for PHS funding whether or not such funding constitutes all or only a portion of the financial support necessary to carry out such activities.

Grantee—The institution, public or private corporation, organization, agency, or other legally accountable entity that receives a

grant and assumes legal and financial responsibility and accountability both for the awarded funds and for the performance of the grant-supported activity. In certain cases, a grantee may be an individual.

Grants Management Officer—The individual designated to serve as the PHS official responsible for the business management aspects of a particular grant project(s). The Grants Management Officer serves as the counterpart to the business officer of the grantee institution and is the focal point for matters such as interpretations of grant policies and provisions. He/she works closely with the program or project officer who is responsible for the scientific, technical, and programmatic aspects of the grant project. (See *Program/Project Officer* below.)

In-Kind Contributions—In-kind contributions represent the value of noncash contributions provided by the grantee or third parties. In-kind contributions may consist of charges for real property and nonexpendable personal property, and the value of goods and services directly benefiting and specifically identifiable to the grant-supported activity.

Local Government—A unit of government below the State level, including specifically a county, municipality, city, town, township, school district, council of governments, sponsor group representative organization, and other regional or interstate government entity, or any agency or instrumentality of a local government, exclusive of institutions of higher education and hospitals. This term also includes federally recognized Indian tribal governments.

Maintenance of Effort—A requirement contained in certain legislation, regulations, or administrative policies stating that a grantee must maintain a specified level of financial effort in a specific area in order to receive Federal grant funds, and that the Federal grant funds may be used only to supplement, not supplant, the level of grantee funds.

Prior Approval—Written permission provided by an authorized official in advance of an act that would result in either (1) the obligation or expenditure of funds or (2) the performance or modification of an activity under the grant-supported project, where such approval is required. Prior approval must be obtained from the designated Grants Management Officer for the grant involved, except that certain grantee institutions may approve some rebudgeting actions under an Institutional Prior Approval System. (See Prior Approval of Use of Grants Funds Including Rebudgeting under "General Policies.") Documentation of the approved budget on the Notice of Grant Award constitutes prior

approval for the performance of activities and the expenditure of funds for specific purposes and items described in the grant application unless otherwise restricted by the Notice of Grant Award.

Program Director/Project Director/Principal Investigator—A qualified individual designated by the grantee and, where required, approved by PHS to direct the project or program being supported by the grant. This individual is responsible to grantee institution officials for the proper management and conduct of the project or program. The grantee institution is, in turn, legally and financially responsible and accountable to PHS for performance of the grant-supported activity.

Program/Project Officer—The PHS official who is responsible for the technical, scientific, and programmatic aspects of a grant project. Such individuals are involved in many day-to-day contacts with project staff of the grantee institution and work closely with the Grants Management Officer in the administration of grants.

Project Costs—Those costs, direct and indirect, incurred to carry out an approved grant-supported project. Only project costs incurred during the budget period indicated on the Notice of Grant Award are allowable unless specific approval to include other costs is given by PHS. (See *Grant-Supported Activities/Project* above and Preaward Costs under "Costs.")

Project Period—The total time for which support of a project has been approved, including any extensions thereof.

State Government—Any of the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State, exclusive of State institutions of higher education and hospitals.

Stipend—A payment made to an individual under a fellowship or training grant in accordance with preestablished levels. Such payments are intended to provide for the individual's living expenses during the period of training.

Terms and Conditions—All legal requirements imposed on a grant by the Federal Government whether by statute, regulations, the grant award document itself, or other documents.

Types of Grants

Grants can be classified in several ways, for example, on the basis of purpose (research, training, service, etc.) or on the basis of method of award (formula or discretionary). Set forth below is a brief glossary of commonly used designations without regard

to classification systems. Therefore, these designations are not mutually exclusive. A specific grant might be described by more than one of these terms.

Biomedical Research Support—A grant to assist an eligible institution to maintain, develop, and advance its biomedical research capabilities. An eligible institution must have received a minimum level of PHS research project grant funds within a given period of time in order to qualify for such a grant.

Capitation—A grant awarded to an eligible institution to provide, maintain, or improve its educational program in areas such as nursing, allied health, and health-professional education. The amount of such an award is based on enrollment factors, including the number of full-time students and the potential for increased enrollments.

Conference—A grant awarded to support the costs of meetings clearly within the areas of PHS program interests.

Consortium—A grant made to one institution in support of a research project in which the program is being carried out through a cooperative arrangement between or among the grantee institution and one or more participating institutions.

Construction—A type of facilities assistance grant made to provide support for building, expanding, and modernizing health facilities. (See *Facilities Assistance* below.)

Consultation and Education—A grant awarded to develop and coordinate the effective provision of health services and to increase public awareness of the nature of particular health problems and of the types of services available.

Continuing Education—A grant, usually short term, made to provide support for additional or updated training to professionals, paraprofessionals, or nonprofessionals working in a given health field.

Demonstration—A grant, generally of limited duration, made to establish or demonstrate the feasibility of a theory or approach.

Discretionary or Project—A grant made in support of an individual project in accordance with legislation that permits PHS to exercise judgment in selecting the project, the grantee, and the amount of the award.

Facilities Assistance—A grant made for the acquisition, remodeling, expansion, or leasing of existing facilities, or the construction of new facilities, and for the initial equipping of such facilities.

Fellowship—An award made in behalf of an individual to support specific training that will enhance that individual's level of com-

petence in the particular health area of concern. Under certain programs, fellowship recipients may be subject to service and payback requirements.

Financial Distress—A grant awarded to an eligible institution that is in serious financial difficulty to meet operational costs required to maintain a certain level, quality, or type of health services or educational program, or that has special need for financial assistance to meet accreditation requirements.

Formula—A grant in which funds are provided to specified grantees on the basis of a specific formula, prescribed in legislation or regulations. The formula is usually based on such factors as population, per capita income, enrollment, mortality, and morbidity. In some cases, such as formula grants to States, these grants are mandatory.

Planning—A grant made to support planning, developing, designing, and establishing the means for performing research, delivering health services, or accomplishing other approved objectives.

Research—A grant made in support of investigation or experimentation aimed at the discovery and interpretation of facts, revision of accepted theories in the light of new facts, or the application of such new or revised theories.

Service—A grant made to support costs for the purpose of organizing, establishing, providing, or expanding the delivery of health services to a specified community or area.

Study and Development—A grant awarded to study and develop innovative and experimental programs leading to an established health services delivery component.

Training—A grant awarded to an organization to support costs of training students, personnel, or prospective employees in research, or in the techniques or practices pertinent to the delivery of health services in the particular area of concern. Under some programs, student trainees may be subject to service and payback requirements.

APPLICATION AND FUNDING

Nonconstruction Project Grants

All PHS discretionary project grants, except those for construction, are funded in accordance with the project period system. Under this system, projects that will continue for more than 1 year may be programmatically approved for support in their entirety, or a portion thereof, but funded in annual increments called "budget periods." The total project period comprises the original project period and any extensions thereof.

The length of a project period is determined by PHS on the basis of (1) the length of time requested by the applicant to complete the project, (2) the frequency of an in-depth review desirable for proper management of the grant project, (3) limitations on the length of the project period recommended by an appropriate review group, and (4) statutory and regulatory requirements. However, except where specifically permitted by legislation or regulation, an initial project period or competitive extension thereof may not exceed 5 years (3 years for foreign grants).

The documentation on a Notice of Grant Award of the approval of a project period that extends beyond the budget period for which funds are provided, including recommended levels of future support, expresses the PHS intention to provide continued financial support to the project; however, the recommended levels of future support within a project period are not guarantees by PHS that the project will be funded at those levels. Instead, these amounts represent estimates of future funding levels based on a projection of the information available at the time of the initial award. The actual amount of subsequent awards will be determined by reviewing the proposed project budget, reports of progress, other information submitted in the continuation application for the budget period involved, and the availability of Federal funds, and may be subject to negotiation between the grantee and PHS. Funding of a noncompeting continuation grant within a previously approved project period may be withheld for justifiable reasons. See Withholding of Support under "Changes in Project" for details.

The following information is pertinent to the application and funding processes of the project period system. Additional information may be found in the Changes in Project section.

Applications

New

New applications are those submitted for a project or program not currently receiving health agency support. If approved, they must compete for available funds in accordance with funding priorities.

Application forms and information concerning deadlines for submission of applications can be obtained by contacting the appropriate headquarters or regional office. A listing of the regional offices is provided in the appendix to this policy statement. Research grant application forms for some programs may be obtained from the requesting institution's application control office or from the Division of Research Grants, National Institutes of Health.

Continuation

Funds for subsequent budget periods within an approved project period must be requested in an annual application, which is routinely mailed to the grantee several months before the beginning date of the next budget period. If the form is not received at the proper time, it is the responsibility of the grantee institution to request this application form. In the case of research grants to institutions with designated application control offices, a listing of continuing projects is supplied to that office. The level of funding for the ensuing budget period will be determined from review of the application within the framework of the approved level of support, the progress reported, and the availability of funds, and may be subject to negotiation between the grantee and PHS.

Competing Extension

Unless restricted by the governing legislation or regulations, when a grant nears the end of the period approved for support and the grantee wishes to continue the project, a competing extension application must be submitted in accordance with the established deadline dates for the program. The competing extension application will be reviewed in the same manner as a new application and must compete for available funds. If approved, the extended period of support is treated as a continuation of the original project period.

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Supplement

If, during the current budget period, funding is required over and above that in the approved budget, and such funds are not otherwise available, a supplemental application may be submitted. If awarded, the additional amount becomes part of the current grant.

Program expansion: Supplemental applications for expansion of a project or program scope or research protocol are subject to the same deadlines, processing, and competition for available funds as a new application.

Administrative increases: Requests for supplemental funds to meet increased administrative costs that take effect during a current budget period, such as fringe benefits or organization-wide or other salary increases not included in the grant application, may be requested in an application or letter signed by an authorized grantee official. Such requests are usually noncompeting but are subject to PHS approval and the availability of funds. Requests for supplemental funds to meet increased administrative costs for subsequent years may be included in the application for continuation support.

Funding

The initial grant award provides funds for the conduct of the project during the first budget period and indicates the support recommended and expected to be made available annually for each of the remaining budget periods comprising the project period. A budget period is normally 12 months and is funded from a single annual appropriation. Shorter or longer budget periods may be established for compelling programmatic or administrative reasons such as to arrange more advantageous anniversary dates, to allow for project periods not evenly divisible into 12-month increments, or to accommodate a change in the grantee's business cycle.

Grant funds, including authorized carryovers, may be obligated or expended by a grantee only to the extent authorized by PHS in an approved budget shown on a Notice of Grant Award and permitted under the authorities given to the grantee for the rebudgeting of funds documented in an approved budget. (See Prior Approval of Use of Grant Funds Including Rebudgeting under "General Policies.")

Unobligated Balances (Estimated or Actual)

At the option of PHS, estimated or actual unobligated balances remaining at the end of a budget period may be treated in the following ways:

1. As an offset (deduction) from the continuation award, if there is one.
2. As a carryover for use in a subsequent budget period, as additional

funding authorized for purposes requested and justified in the continuation year application.

3. As a refund to the Government.

Construction Grants

For construction grants, usually one award is made on the basis of one application covering the entire project and may span more than 1 year. The project period concept and annual award basis are therefore not generally applicable to construction grants.

Formula Grants

Formula grant funds are awarded annually on the basis of a specific formula, for the length of time and after review of a plan or application as specified in the governing legislation or regulations. The project period concept is not applicable to these grants.

The authorizing legislation for most PHS formula grant programs under which States are the eligible recipients contains provisions that a State must, as a requisite to receiving allotted funds, have a State Plan or application that has been reviewed and approved by appropriate Federal officials. The State Plan or application must set forth the State's plans for providing the health services or facilities required by the authorizing legislation and must document the State's provisions for complying with other Federal requirements for use of the allotted funds. Such provisions usually include insuring scope and quality of services; insuring compatibility with other health activities of the State; maintaining personnel standards, including merit systems and equal employment opportunity requirements; providing procedures for informing the public of kinds and locations of services available; maintaining records and proper accounting procedures, etc.

The PHS has adopted a simplified system of administering those formula grant programs requiring approval of a State Plan or application that are administered on a decentralized basis by the PHS regional offices and, at the option of the appropriate PHS agency head, for such formula grant programs administered by headquarters offices (see Chapter PHS:5–501). Under this system, the State Plan or application documents are incorporated by reference in a certification after an onsite review of the documents, usually in the State's offices, satisfies the PHS reviewers that applicable requirements have been met. The PHS reviewers use a State Plan/Application Checklist to ascertain compliance with legislative and regulatory requirements.

The certification, a proposed budget, and any required supporting documents must be submitted to the Office of the State Gover-

nor for review and comment prior to submission to PHS. A minimum of 45 days must be allowed for this purpose. The signature of the Governor or his designee on the budget form will indicate that the State agency administering the formula grant program(s) has complied with this requirement. While a new certification is not required annually, a budget and any required supporting documents must be submitted each year as a prerequisite to the receipt of allotted funds. The requirement to afford the Governor the opportunity to review and comment also applies to formula grant programs to States not administered under the simplified system. Action will be taken on State Plans or applications that are not in compliance with Federal requirements and standards in accordance with the provisions of Chapter PHS:5–500.

In addition, the State Plan or application must be reviewed by the Statewide Health Coordinating Council (SHCC) for conformance with the provisions of the State Health Plan required by Section 1524 of the PHS Act. A period of 60 days is allowed for this review. (See Health Systems Agencies under "General Policies" for the corresponding review requirement for project grants.)

The Notice of Formula Grant Award is the official notification to the State agency designated to administer the particular formula grant program that the State Plan or application has been approved.

COSTS

The cost of a grant-supported activity is comprised of the allowable direct costs incident to its performance plus the allocable portion of the allowable indirect costs of the institution, less applicable credits.

The principles for identifying and measuring such costs, as well as for determining their allowability and allocability, are prescribed in Subpart Q, Title 45, Code of Federal Regulations, Part 74 (45 CFR 74). Subpart Q prescribes four separate sets of cost principles. Each grantee is subject to only one set, according to the classification of that grantee; however, a subgrantee or cost-type contractor under a PHS grant is subject to the cost principles according to its classification, which may not necessarily be the same as that of the grantee. When the cost-type contractor is a profit-making organization, it is subject to the cost principles found in the Federal Procurement Regulations (41 CFR Subpart 1.15.2). The four sets of cost principles and their applicability are as follows:

45 CFR 74	Applicable to—
Appendix C	State and local government agencies
Appendix D	Institutions of higher education
Appendix E	Hospitals
Appendix F	Nonprofit organizations

Generally, the cost principles permit a grantee institution to establish and use its own accounting system for determining costs as long as it is based on sound accounting concepts consistently applied to all institutional activities regardless of the source of funds used to support those activities. Also, while costs may be treated either as direct or indirect costs depending on the accounting system being used, certain types of expenses are usually considered as indirect costs (see Indirect Costs under this section). If such costs are charged directly to a grant-supported project, the grantee must assure that similar types of costs are charged as direct costs in all other work of the institution.

Additional information regarding direct costs, indirect costs, and applicable credits is presented below.

Direct Costs

A direct cost is any cost that can be identified specifically with a particular cost objective. Applicable HEW cost principles govern with respect to general rules of allowability, unallowability, or circumstances of allowability of costs charged to grant-supported projects. These general rules may be qualified by legislation, regulations, or PHS policy applicable to a particular grant-supported project or class of projects. If a grantee is uncertain whether a cost is allowable, the grantee should contact the appropriate PHS Grants Management Officer. Outlined below are examples of allowable and unallowable expenditures most frequently encountered as direct costs under one or more PHS grant programs.

Advertising.—Allowable for recruitment of staff for project, procurement of scarce items used in conduct of project, disposal of scrap or surplus materials, and bid advertising under construction grant programs.

Air Conditioning.—Usually this is a utility cost for which the grantee is responsible as a normal operating expense reimbursed through the payment of indirect cost. If the grantee proposes to charge air-conditioning equipment as a direct cost item, the equipment will be defined and treated as general-purpose equipment. (See Property Management under "General Policies.")

Alteration and Renovation.—Alteration and renovation costs that constitute new construction, relocation of exterior walls, roofs, and floors, or completion of unfinished shell space to make it suitable for human occupancy are considered to be construction; therefore, their associated costs are unallowable as charges to PHS grant-supported projects unless the program legislation specifically authorizes alteration and renovation or construction. Such expenditures, if allowable, would be subject to policies governing construction. (See Construction under this section and Construction Grants under "General Policies.")

Alteration and renovation costs that do not constitute construction, as above, are allowable, subject to the limitations set forth in Chapter PHS: 1–44 and summarized below. Such costs are allowable to adapt space or utilities within a completed structure to accomplish the objective of the grant-supported activity, provided that (1) the grantee is not an individual or a foreign institution, (2) the building has a usable life consistent with program purposes and is architecturally suitable for conversion, (3) the alteration and renovation is essential to the project supported by the grant, and (4) the space involved will actually be occupied by the project. In situations where the space is rented, in order for the

costs of the alteration and renovation to be allowable, the grantee must secure a lease for the length of the project. (See Rental or Lease of Facilities and Equipment under this section.)
Limitations on allowable costs:

1. The amount budgeted or used for alteration and renovation under a single grant during any consecutive 3-year period cannot exceed the lesser of $75,000 or 25 percent of the total funds approved for direct costs for such 3-year period, unless a waiver is obtained from PHS in accordance with the provisions of Chapter PHS:1–44.
2. The amount of grant funds rebudgeted for alteration and renovation during a budget period cannot exceed $1,000 without the prior approval of PHS.

If project funds in excess of $10,000 are used for all or part of an alteration and renovation project, the grantee must be in compliance with the equal employment opportunity provisions of Executive Order 11246, as amended, and with the applicable rules, regulations, and procedures prescribed pursuant thereto.

Animals.—Charges for the acquisition, care, and use of experimental animals are allowable. (See Laboratory Animals, Care and Treatment under "General Policies.")

Bad Debts.—Not allowable.

Bonding. —Allowable. Grantees shall observe their regular requirements and practices with respect to bonding and insurance. PHS will not impose additional bonding and insurance requirements, including fidelity bonds, except in the case of construction grants (including alteration and renovation) exceeding $100,000, loan guarantee programs, and grants to individuals.

Bonus Payments.—Allowable as part of a total compensation package provided that such payments are reasonable and are made according to a formal policy of the grantee institution that is consistently applied.

Books and Periodicals.—Allowable 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.

Child-Care Costs.—Allowable to assist patients in receiving health services and to permit consumer board members to attend board meetings. (See Consumer/Provider Participation under this section.) Such costs may also be allowable as a fringe benefit for employees working on a grant-supported project. (See Fringe Benefits under this section.)

Communications.—Costs resulting from local and long-distance telephone calls, telephone surveys, telegrams, postage, etc., necessary to the project, and not treated as indirect costs, are allowable.

Construction.—Allowable only when (1) the program legislation includes specific construction authority and (2) PHS specifically authorizes such costs. (See Construction Grants under "General Policies.")

Allowable and unallowable construction costs include, but are not limited to, the following:

1. Allowable Costs
   a. Site survey and soil investigation
   b. Site clearance (as long as reflected in bid)
   c. Sidewalks necessary for use of facility
   d. Driveways to connect with public roads
   e. Parking areas
   f. Bid advertising
   g. Architect fees
   h. Liability insurance
2. Unallowable Costs
   a. Relocation of utilities
   b. Offsite improvements
   c. Consultant fees not related to actual construction
   d. Donated equipment
   e. Equipment purchased through a conditional sales contract
   f. Bonus payments to contractors
   g. Damage judgment suits
   h. Fund-raising expenses
   i. Legal services not related to site acquisition

Consultant Services (Chapter PHS: 1–45).—The use of project funds for the payment of fees to consultants (from both within and outside the grantee organization) is allowable under the conditions indicated below. Charges to project funds may include fees, travel, and supporting costs (per diem or, where applicable, subsistence). Consultant fees are not generally paid to an employee of the Federal Government. (For exceptions, see Federal (U.S. Government) Employees under this section.)

It is expected that (1) grantee organizations will normally have their own policies with respect to use of consultants, (2) those policies will apply regardless of the source of support, and (3) they will include the following as minimum standards for documentation in support of the use of consultants:

1. There must be evidence that the services to be provided are essential and cannot be provided by persons receiving salary support under the grant.
2. There must be evidence that 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. There must be evidence that the charge is appropriate considering the qualifications of the consultant, his/her normal charges, and the nature of the services rendered.

Special conditions, in addition to those above, applying to educational institutions are:

1. If the consultant is an employee of the grantee institution, the consultation must be across departmental lines and in addition to regular duties, or it must involve a separate or remote operation, and the work performed is in addition to the consultant's regular departmental workload.
2. The determination as to compliance with the above provisions may be made at the grantee level only by the head of the institution or his/her designated representative.

Consumer/Provider Participation.—Allowable in accordance with specific program regulations or guidelines. When not specifically authorized by program regulations or guidelines, only the following costs are allowable subject to the prior approval of PHS:

1. Reasonable and actual out-of-pocket costs incurred solely as a result of attending a scheduled meeting including wages lost, transportation, meals, and babysitting fees.
2. If not reimbursed to participants as per diem, fee, or otherwise, the reasonable costs of necessary meals furnished by the grantee to consumer/provider participants during scheduled meetings.

Contingency Funds or Reserves.—Use of project funds for contingency accounts or reserves is generally not allowable. Contingencies may be allowable where they arise from presently known and existing conditions, the effects of which are foreseeable within reasonable limits of accuracy, such as accrued vacation costs.

Unless otherwise restricted by the terms and conditions of the award, grantees may use grant-related income to develop and maintain a reserve fund to offset underestimates of funding needs for approved activities and for complying with State requirements for prepaid health care services. Amounts placed in such reserves may not be used for matching. (See 42 CFR 50, Subpart A, section 50.107).

Contraceptive Costs.—Allowable when contraceptives are prescribed by a physician in connection with services provided as an integral part of the grant-supported project.

Contracts for Materials and General Support Services.—Allowable. All procurement transactions shall be conducted in a manner so as to provide open and free competition to the maximum practical extent.

Customs and Import Duties.—Allowable except on grants made to foreign institutions. Charges may include consular fees, customs surtax, value-added tax, and other related charges.

Depreciation or Use Charges.—Normally not allowable as a direct cost but may be included in the grantee's indirect cost pool. Depreciation or use charges on equipment or buildings, the cost of which was charged to a federally supported project, are unallowable.

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

Drugs.—Allowable. See 42 CFR 50, Subpart E, for the maximum allowable cost for drugs under PHS grant-supported projects for health services.

Project funds may not be used to purchase drugs classified by the Food and Drug Administration as "ineffective" or "possibly effective" except in approved clinical research projects or in cases where there is no alternative other than therapy with "possibly effective" drugs.

Dues.—Dues for membership in professional organizations or societies are allowable if it can be shown that such membership is necessary to accomplish the objectives of the project.

Entertainment.—Costs of amusements, social activities, and incidental costs related thereto, such as meals, beverages, lodging, and transportation, are not allowable.

Equipment. —Allowable. For policies governing the acquisition of equipment, see Property Management, and Prior Approval Requirements Including Rebudgeting under "General Policies."

Equipment Maintenance and Repairs. —Allowable on equipment used specifically on PHS grant-supported projects where necessary to keep the equipment in efficient operating condition.

Equipment Rental. —Allowable. For additional details governing the amount of allowable costs that may be charged for rental or lease of equipment, see Rental or Lease of Facilities and Equipment under this section.

Federal (U.S. Government) Employees.—The following rules apply to payments made from a grant to Federal employees:

1. **Consultant fees: Not allowable, except when *all* of the following conditions apply:**
   a. The employees are medical personnel of the Uniformed Services of the United States (except Commissioned Officers of the Public Health Service) providing the kind, type, and extent of medical services approved in the grant award.
   b. Adequate numbers of qualified civilian 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 (except 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.

2. **Outpatient or subject costs:** Allowable when the employee is a patient or subject undergoing study in connection with activities supported by the grant.
3. **Salaries and travel:** Allowable when the employee is:
   a. Working under a grant to a Federal institution.
   b. During nonduty hours, in leave-without-pay status, or on detail to a State or local government, provided (1) reimbursement is in accordance with terms mutually acceptable to the grantee institution and PHS, and (2) all parties concerned are assured that there is no possibility of dual compensation or a resulting conflict of interest.

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. Fringe benefits are not allowable for trainees on training grants.

Tuition or tuition remission for employees other than students or for members of the employee's family is allowable as a fringe benefit if such benefits are granted in accordance with established institutional policy consistently applied without regard to the source of funds. For policies applicable to tuition remission for students working on grant-supported projects, see Salaries and Wages under this section.

Fund Raising.—Not allowable.

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.

Hospitalization.—See Patient Care Costs under this section.

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 the project, the premium may be charged as a direct cost if consistent with institutional policy. Such premiums may include those on hazard, malpractice, and other liability insurance to cover grant-supported personnel and activities.

Grantee patients: Payment of health insurance premiums for target populations can be charged to PHS grants when specifically approved by PHS 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, Medicaid, and Title XX.
2. The recipient is below the program-defined income level at which he/she might be expected to pay for health services or purchase health insurance.

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 qualified organization approved by PHS.

Equipment: Costs for insuring equipment purchased with grant funds should normally be included in indirect costs. However, with prior approval of PHS, such costs may be allowable as direct charges if it is normal institutional policy to treat such costs as direct costs.

Costs of insurance on Government-owned equipment are not allowable either as direct or indirect costs except to the extent that PHS has specifically required or approved such costs.

Interest Costs.—Not allowable, unless specifically provided for under program legislation such as that authorizing interest subsidies and loan guarantees.

Land or Buildings.—Purchase costs are not allowable unless specifically authorized by program legislation and provided for in the grant award. However, use charges or depreciation on buildings may be included in the institution's indirect cost pool.

Leave.—Allowable for employees and may be treated as a direct or indirect cost depending on institutional policy and its consistent application. If a grantee institution treats leave (sick, vacation or other) as a direct cost as part of the costs of salaries and wages, it must be prorated in accordance with the time or effort applicable to the project. The number of days allowed for leave should be governed by established institutional policy and be reasonable in relation to accepted practice among other institutions of comparable nature. Leave is not allowable for trainees and fellows. Trainees and fellows in academic institutions are not entitled to vacations as such. They are entitled, however, to the normal student holidays observed by their training institutions. Trainees and fellows in nonacademic institutions are entitled to the holiday and vacation schedule applicable to all trainees and fellows at the institution.

Legal Costs.—The costs of legal services, where required in the administration of a grant-supported project, may be allowable if reasonable and supported by adequate documentation regarding the need for such services. Costs may include retainer fees if supported by evidence of services available or rendered. Costs of legal services incurred in connection with the prosecution of claims against the Federal Government are not allowable.

Library and Information Services.—Allowable as a direct cost when specifically required for the conduct of the project and identifiable as an integral part of the grant-supported activity, for example, in those programs designed to develop and support such services. General library support is not allowable as a direct cost but may be included in the grantee's indirect cost pool.

Meals. —Allowable for subjects and patients under study, or when an institution customarily provides meals to employees working beyond the normal workday, or as a part of a formal compensation arrangement. Guest meals are not allowable. See Consumer/Provider Participation under this section regarding the allowability of costs of meals for consumer/provider participants in grant-supported activities.

Motion Pictures and Television Programs.—Allowable only with approval of PHS. (See Motion Pictures and Television Programs under "General Policies.")

Moving Costs.—See Recruitment Costs, Relocation Costs, and also see Transportation under this section.

News Release Costs.—Allowable with specific approval of PHS.

Nursery Items.—Allowable for purchase of toys, games, etc., to allow patients to attend clinic sessions, or for diagnostic or therapeutic purposes in child development clinics and similar programs.

Overtime.—See Salaries and Wages under this section.

Patient Care Costs.—Costs related to routine and ancillary medical services on either an inpatient or outpatient basis are allowable provided the grantee has obtained prior approval from PHS for the need to treat patients and to incur patient care costs in the project receiving grant support. The incurrence of patient care costs in excess of the amount included in the approved budget must have prior approval. (See Prior Approval Requirements Including Rebudgeting under "General Policies.") In the case of research grants, the institution will be reimbursed in accordance with the provisions of *HEW Grants Administration Manual* Chapter 6–50. For all other grants, reimbursement will be made on the basis of "reasonable cost" as set forth in the *Principles of Reimbursement for Provider Costs* (under Title XVIII of the Social Security Act) published by the Social Security Administration, HEW, except where a different basis for reimbursement is set forth in governing programmatic regulations or guidelines.

Patient care costs do not include the otherwise allowable items of personal expense reimbursement, such as patient travel or subsistence, consulting physician fees, or any other direct payments related to all classes of patients, including inpatients, outpatients, subjects, volunteers, and donors.

Preaward Costs.—Costs incurred prior to the beginning date of the budget period of a new grant or a competing extension of an existing grant are not allowable unless authorized in writing by an official who has been formally delegated the authority to obli-

gate the Government for grant awards, and such costs are specifically identified in the grant award. However, a grantee may, at its own risk, incur obligations and expenditures prior to the beginning date of the budget period of a noncompeting continuation grant that is within an approved project period and may charge such costs to that continuation grant, provided (1) the costs concerned are considered essential to the conduct of the project, (2) the costs are otherwise allowable under the continuation grant, and (3) that when required for specific expenditures, prior approval was obtained.

Under construction grant programs, costs incurred prior to award for architects' and consultants' fees necessary to the planning and design of the project are allowable if the project is approved and funded.

Publication Costs.—Costs of publication of work in scientific and technical journals may be paid from project funds if all of the following conditions are met:

1. The paper reports work supported by the grant.
2. The merit of the paper is 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.
5. The copyright is owned and managed by a nonprofit institution.
6. Prior approval is obtained from PHS if required by the applicable cost principles.

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 with PHS approval, where required. For additional details, see the sections entitled Publication and Publicity and Grant-Related (Program) Income under "General Policies."

Recruitment Costs.—Allowable when an individual is recruited for employment by the grantee institution if payment of such costs is normally made by the grantee institution regardless of the source of funds and is made pursuant to a well-managed recruitment program. These costs may include help-wanted advertising costs and travel costs incurred by applicants with respect to preemployment interviews. Such travel costs should also be paid in accordance with established institutional policy and should be reasonable with regard to the number of trips required, mode of transportation, and susbsistence rates, among other considerations. Grant funds may not be used to pay prospective trainees or fellows for travel or other related recruiting costs.

Registration Fees (For Symposiums and Seminars).—Allowable if it can be shown that they are necessary to accomplish project or program objectives.

Relocation Costs.—Allowable when such costs are incurred incident to the permanent change of duty assignment (for an indefinite period or for a stated period of no less than 12 months) of an existing employee or upon recruitment of a new employee, provided that the move is for the benefit of the grantee institution and payment is made in accordance with established institutional policies consistently applied regardless of the source of funds. These costs may include transportation of the employee, his/her family, dependents, and household goods to the new location. Where relocation costs have been incurred in connection with the recruitment of a new employee and the employee resigns for reasons within his control within 12 months after hire, the institution must credit the grant account for these costs.

Rental or Lease of Facilities and Equipment (Chapter PHS: 6–10).—Allowable. Due to the complex nature of determining the amount of such allowable costs, however, grantees are encouraged to consult Chapter PHS: 6–10 and the designated PHS Grants Management Officer prior to entering into leases that will result in charges to project funds.

Rental costs under long-term leases are allowable only up to the amount the lessee would be allowed under applicable HEW cost principles had it purchased the property on the date the lease agreement was executed. However, if the lessee can demonstrate, based on the facts existent at the time of the decision to lease on a long-term basis, that such leasing (1) will result in less cost to the lessee over the total period that the property will be used in the lessee's operations or (2) is clearly necessary in light of the particular circumstances involved, the rental costs for the term of the lease may be charged to the project, subject to the same criteria set forth for short-term leasing in Chapter PHS:6–10. If the lessee subsequently renews the lease, it must again demonstrate that leasing will result in less cost or is clearly necessary in light of the circumstances involved in order to continue having rental costs evaluated by the criteria for short-term leasing.

Costs of renting facilities and equipment where one party to the rental agreement is able to control or substantially influence the actions of the other are allowable charges to the project only up to the amount that would be allowed as the normal costs of ownership.

When an institution transfers property to a third party through sale, lease or otherwise, and then leases the property back from that third party, the lease cost that may be charged to PHS projects generally may not exceed the equivalent of the cost of ownership.

Rental costs under leases that create a material equity in the leased property, such as certain lease-purchase agreements, are allowable only up to the amount that would be allowed under applicable HEW cost principles had the lessee purchased the property on the date the lease agreement was executed.

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 or in the institution's indirect cost rate. Salary from a grant-supported project for services rendered the project by an individual during his sabbatical period is allowable, provided that the salary is proportional to the service rendered and is paid in accordance with established institutional policies applicable to all employees regardless of the source of funds.

Salaries and Wages. —Allowable when an employee of a grantee organization renders personal services to a grant-supported activity. The cost of remuneration for such personal services for that period of time is allowable as a direct cost to the project to the extent that it is reasonable and conforms to the established, consistently applied, salary and wage policy of the grantee institution.

Payroll distribution: Amounts charged to grant-supported projects for personal services must be based on institutional payrolls, documented and approved in accordance with generally accepted institutional practices. Standards for documentation of payrolls are contained in the applicable cost principles. (See the introduction to this section.) Briefly summarized, these standards are as follows:

1. For educational institutions, hospitals, and nonprofit organizations:
   a. Monthly after-the-fact reports of the distribution of effort for individual professional staff members, or
   b. An adequate appointment and workload distribution system accompanied by monthly reviews and a reporting of any significant changes in the workload distribution of each professor or professional staff member.
   c. Time and attendance and payroll distribution records for nonprofessional employees.
2. For State and local government agencies:
   a. Time and attendance or equivalent records for all employees.
   b. Time distribution records for employees whose compensation is chargeable to more than one grant or other cost objective.

Full-time: The definition of "full-time" employment should be governed by the grantee institution's established policy regarding what constitutes such employment.

Part-time: "Part-time" employment refers to less than full-time employment as defined by the grantee institution (see above). The rate of compensation for an individual considered a part-time employee should be based on the salary he/she would have earned if he/she had been a full-time employee.

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 the additional amount. However, this salary may not exceed a formally established ceiling or the amount that reflects the individual's most recent full year's experience, whichever is smaller.

Overtime: Premiums for overtime are generally allowable; however, such payments are not allowable for faculty members at institutions of higher education. Overtime premiums paid by nonprofit institutions require PHS prior approval except under certain circumstances as specified in the governing cost principles. These instances should be documented, and, where justified, necessary approvals may be granted retroactively. The categories or classifications of employees that may receive overtime payments, for example, professional or nonprofessional, should be determined in accordance with the formal policies of the institution consistently applied regardless of the source of funds. When the salary is charged partly to project funds and partly to other institution funds, the total of the salary (both regular rate amount and the premium rate amount) must be prorated in accordance with the time spent on the grant-supported project. Where the institution has a policy of charging premium overtime to the indirect cost pool, no premium overtime can be charged directly to a PHS grant-supported project.

Salary from multiple grants: When an employee is working on two or more grant-supported projects, his/her salary will be prorated to each project based on the time or effort devoted to each project. However, where two or more grants concurrently support one identified activity or program, the grantee may charge such costs to either or any of the grants involved, provided that charges are not duplicated, unless a prior understanding has been reached with the affected PHS offices. (In regard to cost transfers, see Chapter 6–05 of the *HEW Grants Administration Manual.*)

Research (career) development: Grant funds budgeted for an individual's salary but released as the result of transfer of support of an individual to a PHS research or academic career program grant may not be used for any other purpose without prior approval from PHS.

Compensation of students: Compensation of students, fellows, or trainees for actual work or services on a grant-supported project which may also provide on-the-job training toward a degree is allowable only when all of the following conditions exist: (1) there is a bona fide employer-employee relationship, (2) the purpose of such payments is for services rendered to the project, (3) the payments are supported by acceptable accounting records that accurately reflect distribution of time or effort, and (4) the relationship is consistently characterized by the grantee as "employer-employee" and the remuneration as compensation for work performed, that is, as "wages" or "salary."

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Depending on the institution's policy, such individuals may be furnished tuition remission as part of their basic compensation in lieu of all or part of their salary.

Stipends or other payments which are intended as financial assistance to students, fellows, or trainees are allowable only from fellowships, training grants, or other types of grant-supported projects where specifically allowable under the governing legislation or programmatic regulations. (See Stipends and Allowances under "General Policies" for details regarding stipendiary support.)

College Work-Study Program: PHS grant funds may be used to pay all or part of the non-Federal or institutional share of an individual student's compensation under the Office of Education's College Work-Study Program provided that PHS approval has been received. Payment of such compensation must be for the performance of services covered by the approved project from which payment is made.

Service Charges.—Allowable as a direct cost for use of certain types of services and central facilities owned by the grantee institution, such as computer services, motor pool, animal facilities, etc., provided the charge is designed to cover only the actual costs and does not exceed rates charged for commercial or accommodation sales. Such charges must be applied to all users and must not be included in the indirect cost pool.

Student Activity and Services Costs.—Costs incurred for student activities such as student union fees or student publications and costs incurred for student services costs such as student health and infirmary services are generally unallowable charges to research grants at educational institutions. In the case of students actually engaged in work under such a research project, a proportionate share of student services costs (but not student activity costs) may be included in the indirect cost pool. Student services costs may be allowable on training grants to such institutions as a direct cost, if not included in the institution's indirect cost pool, with PHS prior approval; student activity costs on training grants at educational institutions may also be allowable with PHS prior approval.

Subgranting.—Allowable only when (1) project funds are provided to another individual or organization to carry out the purposes for which the award was made, (2) the original grantee institution retains scientific, administrative, and financial responsibility over the activity and the funds, and (3) prior approval of PHS is obtained. (See Subgranting and Contracting of Grant-Supported Effort under "General Policies.")

Subject Costs.—Allowable. See Patient Care Costs under this section.

Supplies. —Allowable for supplies directly required for the project. (See Property Management under "General Policies.")

Taxes. —Taxes that an institution is required to pay as they relate to employment, services, travel, renting, or purchasing for a project are allowable. Institutions must 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 State to the grantee.

Third-Party Costs. —Reasonable costs, including applicable indirect costs, if any, associated with services obtained from third parties are allowable to the extent that such costs are reimbursed by the grantee. These costs may include, but are not limited to, consortia arrangements and collaborative agreements. (See Indirect Costs under this section and Subgranting and Contracting of Grant-Supported Effort under "General Policies.")

Trailers and Modular Units (Chapter PHS:1–501). —The determination whether costs for the purchase of trailers or modular units are allowable charges to PHS grant-supported projects depends on whether such units are classified as real property or as nonexpendable personal property. The PHS official having delegated authority to approve the grant shall be responsible for determining such classification.

A trailer or modular unit is classified as real property when the unit is designed or planned to be installed permanently at a given location so as to seem fixed to the land as a permanent structure or appurtenance thereto. Units classified as real property may not be charged to a PHS grant-supported project unless authorizing legislation permits construction costs or purchase of real property and the specific purchase is approved by PHS.

A trailer or modular unit is classified as nonexpendable personal property when the unit and its installation are designed or planned to be used at any given location for a limited time only. Units classified as nonexpendable personal property may be charged only if program regulations authorize purchase of equipment and prior approval is obtained from PHS.

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 on the circumstances and the availability of funds in the appropriate active grant account.

Travel.—Allowable where such travel will provide direct benefit to the project being supported, including attendance at meetings by project staff.

Domestic travel is that performed within the grantee's own country. Domestic travel includes travel within and between any of the 50 States of the United States and its possessions and territories, and also includes travel between the United States and Canada.

Foreign travel is that performed outside of the grantee's own country, including travel between the United States and Mexico. Foreign travel also includes travel in a grantee's own country enroute to or returning from a foreign destination.

Except where the grantee is a State or local government, prior approval is required for domestic travel in any budget period that will cause the amount identified in the approved budget for such travel to be exceeded by $500 or 25 percent of the budgeted amount, whichever is greater, and PHS prior approval is required for each foreign trip and attendant travel expenditure. (See Prior Approval Requirements Including Rebudgeting under "General Policies" for prior approval authorities.)

The costs of transporting patients to the site where services are being provided are allowable, including costs of public transportation. Such costs should be reasonable with regard to the number of trips, cost per trip per person, destination, and mode of transportation, among other considerations. The purchase of motor vehicles for this purpose may be allowable provided the purchase is treated as an item of general-purpose equipment and prior approval is obtained from PHS.

Grantee institutions may request and PHS may authorize the use of project funds to cover travel costs associated with and necessary to an individual's training and incurred within the period of training. However, these travel costs may not include travel between the trainee's or fellow's place of residence and the training institution, except in the case of certain specialized programs that are relatively short term in duration and are expressly designed to train specific disadvantaged beneficiaries, or in the case of extreme need or hardship of an individual trainee or fellow, where a one-way travel allowance may be authorized. Fellows and trainees training at foreign sites may receive round-trip travel fare.

In all cases, travel costs are limited to the extent provided by formal institutional travel policy except that in the case of air travel, less than first-class travel on U.S. 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. PHS should be consulted about special conditions that may pertain to travel to Alaska, Hawaii, and U.S. territories.

Tuition and Related Costs.

Employees of the grantee institution: Tuition and related costs for employees other than students 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. (See Fringe Benefits under this section.) Other tuition costs, for example, in grants to institutions of higher education, remission of tuition and fees for students working on grant-supported projects, are also allowable as direct charges under the conditions stipulated in Salaries and Wages under this section.

Trainees and fellows supported under grants: When allowable, tuition and fee allowances are charged only to the extent that the same resident or nonresident tuition and fees are charged to regular non-federally supported students.

Indirect Costs

Indirect costs are the costs incurred by an organization that are not readily identifiable with a particular project or program but are nevertheless necessary to the operation of the organization and the performance of its programs. The costs of operating and maintaining facilities, depreciation, and administrative salaries are examples of the types of costs that are usually treated as indirect costs.

The Public Health Service supports the policy of full reimbursement for indirect costs applicable to its project grants, except for the following:

1. All training grants except those to State and local government agencies will be reimbursed at 8 percent of total allowable direct costs or actual indirect cost rate, whichever is less. Grants to State and local government agencies will be reimbursed at their full indirect cost rate.
2. Indirect costs on Research (Career) Development Awards, if allowable by the program, will not be reimbursed in excess of 8 percent of total allowable direct costs.
3. Indirect costs will not be paid on fellowships, foreign grants (except to American University, Beirut), construction grants, or grants to individuals.
4. Indirect costs for grants in support of conferences will not be allowed except in the most unusual circumstances and then only after negotiation (in advance of the award) between the applicant and PHS.

5. Grants on which indirect costs are limited or prohibited by law or regulation will be awarded in accordance with the legal or regulatory restrictions.
6. When the grantee waives reimbursement of full indirect costs.

Establishment of Indirect Cost Rates

In order to be reimbursed for indirect costs, a grantee institution must first establish an appropriate indirect cost rate. To do this, the grantee institution must prepare an indirect cost rate proposal and submit it to the Office of the Regional Comptroller in the HEW region in which the grantee is located. (If the grantee is under the negotiation cognizance of an agency other than HEW, instructions will be provided by the appropriate Federal agency.) The proposal must be submitted in a timely manner to assure recovery of the full amount of allowable indirect costs, and it must be developed in accordance with principles and procedures appropriate to the type of grantee institution involved. Further information concerning the establishment of indirect cost rates, including special procedures for certain local government agencies, is contained in *HEW Grants Administration Manual* Chapter 6–100. HEW has published brochures (listed below) describing the procedures involved in the computation and approval of indirect cost rates. A single copy of a brochure may be obtained from the Office of the Regional Comptroller. Multiple copies of the brochures may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

OASC–1 (Rev) *A Guide for Colleges & Universities*—Cost Principles and Procedures for Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education, and Welfare.

OASC–3 (Rev) *A Guide for Hospitals*—Cost Principles and Procedures for Establishing Indirect Cost and Patient Care Rates for Grants and Contracts with the Department of Health, Education, and Welfare.

OASC–5 (Rev) *A Guide for Non-profit Institutions*—Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare.

OASC–6 *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–8 *A Guide for Local Government Agencies*—Establishing Cost Allocation Plans and Indirect Cost Proposals for Grants and Contracts with the Federal Government.

Indirect costs may also be paid to subgrantees and cost-type contractors under a grant-supported project. In such cases, the grantee institution will be responsible for negotiating appropriate

indirect cost rates with subrecipients unless the subrecipient has negotiated an indirect cost rate directly with HEW, that is, if the organization is also a direct recipient of HEW support. Negotiations between the grantee and the subrecipient should be based on the cost principles applicable to the subrecipient.

Special Indirect Cost Rates

Normally, a single indirect cost rate is established and is applicable to all activities conducted by the institution. Special rates should be established if the use of a single rate would result in a grossly inequitable distribution of costs. A special rate may be required where the grant-supported activity is conducted at a location other than on the organization's premises, and indirect costs associated with the organization's facilities, such as operation and maintenance expenses, are not applicable to the activity. An "offsite" rate would treat costs associated with such a location as a separate indirect cost pool. Other special rates might be developed for special laboratories, centers, or facilities where some of the costs of overhead, normally charged to indirect costs, are charged as direct costs in the overall conduct of the project. (See Chapter HEW:6–110.)

Joint Rates

Indirect costs for services provided to a grantee institution by an affiliated but separately incorporated organization may be reimbursed either under a rate established for the grantee institution that includes these costs or under a joint rate. The former is used when the costs have been charged to and paid by the grantee institution; the latter, when the award is made jointly to the affiliated institutions and the costs for services have been claimed in an indirect cost rate proposal but are not being charged to and paid by the recipient institution. (See Chapter HEW:6–120.)

Award and Settlement of Indirect Costs

Currently effective indirect cost rates are circulated throughout HEW by means of published Negotiation Agreements. Each applicable award to a grantee institution with a currently effective rate will contain indirect costs calculated on the basis of that rate.[3] For policies and procedures governing the reimbursement of indirect costs, see Chapter HEW:6–150. For procedures applicable to the reimbursement of indirect costs on training grants (except those to State or local government agencies), see Chapter HEW: 6–160.

[3] For NIH research grants, indirect costs are awarded separately under the Indirect Cost Management System.

In the event that a grantee institution is delinquent in the submission of its indirect cost proposal and does not have a currently effective indirect cost rate, no indirect costs will be included on the Notice of Grant Award. If a rate is subsequently established, based on late submission of an indirect cost proposal, additional funds may be provided to reimburse a portion of applicable indirect costs. In those instances where a currently effective indirect cost rate is not available at the time of award because the grantee has never established a rate with HEW and is unable to establish its initial rate prior to the date of award, a provisional amount for indirect costs may be included in the award and a subsequent amendment may permit full reimbursement of applicable indirect costs.

Subsequent adjustments to indirect costs may be necessary if a provisional rate is used in the computation of such costs, or if, as a result of rebudgeting of grant funds, there is a change in the direct cost base on which the indirect costs are calculated. After establishment of the final indirect cost rate or after determination of the actual direct cost base, grantees must promptly report required adjustments in accordance with procedures set forth in Chapter HEW :6–150. Additional funding, if necessary, will be provided subject to the availability of funds.

Applicable Credits

The term "applicable credits" refers to those receipt or negative expenditure types of transactions that operate to offset or reduce expense items that are allocable to grant-supported projects as direct or indirect costs. Typical examples of such transactions are purchase discounts, rebates, or allowances; recoveries or indemnities on losses; sales of scrap or incidental supplies or services; and adjustments of overpayments or erroneous charges.

During a project period, applicable credits to charges made to PHS grants should be credited to the active grant account upon receipt. Those received after the completion or termination of a project must be returned to PHS unless otherwise instructed.

PAYMENT

In an effort to minimize the impact of withdrawals on the public debt level and related financing costs, the U.S. Treasury has issued regulations governing the flow of Federal cash to recipient organizations. Thus, grant payments are made by one of three methods: (1) letter of credit, (2) monthly cash request (also termed "advance by Treasury check"), and (3) reimbursement by Treasury check. Most PHS discretionary project grants are paid through the Departmental Federal Assistance Financing System (DFAFS), which uses the three payment mechanisms outlined below. Payments under formula grants to States and under some construction grants may be made by the other payment systems operated by the Public Health Service, namely, the Letter of Credit System or the Regional Payment System. Grantees will be advised of the payment method to be used by the designated payment office.

Letter of Credit

This method of payment was established to facilitate cash availability through utilization of Federal Reserve Banks and the grantee organization's commercial bank. Under this system, a grantee organization may withdraw cash from its own bank as it is needed to meet expenditures chargeable to grant funds based on the letter-of-credit document, which indicates a dollar amount available for a specified period of time.

Letters of credit are generally used when all of the following conditions exist:

1. Annual aggregate advance financing exceeds $250,000.
2. The grantee has established or demonstrated to HEW the willingness and ability to establish procedures that will minimize the time elapsing between the transfer of funds from the Treasury and their disbursement by the grantee.
3. The grantee's financial management system meets standards for fund control and accountability prescribed by HEW.

Monthly Cash Request

Under this method of payment, grantee institutions must request grant funds monthly, based on anticipated disbursements

during the succeeding month. U.S. Treasury regulations provide that the amount of cash in the hands of the recipient organizations should not at any time exceed 1 month's needs. This method is generally used when the grantee does not qualify for payment under the letter-of-credit method.

Reimbursement by Treasury Check

Payment is made to the grantee with a Treasury check upon request for reimbursement from the grantee. Requests for reimbursement are to be submitted monthly. This method can be used for construction grants. (See 45 CFR 74, Subpart K.)

Secondary Recipient Advances and Withdrawals

Advances made by the grantee to secondary recipients (e.g., subcontractors, delegate agencies, participants in a consortium arrangement or collaborative agreement) must conform to substantially the same standards of timing and amount that govern advances made by the Government to the grantee under the above-mentioned payment methods.

The grantee is encouraged to develop procedures for fund withdrawals by secondary recipient organizations whereby such organizations can only draw funds as they are needed for disbursement.

Assignment of Payments (Chapter PHS:1-82)

Grantees are permitted, under some circumstances, to assign to financial institutions payments due under certain grant awards.

When the grant provides for payment *after* incurrence of costs and it is a discretionary project grant or formula grant that requires the grantee to apply for funds on a project basis, assignment is permissible.

When the method of payment is by letter of credit or another advance payment mechanism, assignment is not appropriate.

Requests to assign payments should be submitted to the designated Grants Management Officer.

REFUNDS AND CREDITS

Refunds and Rebates.—When refunds or rebates result from the expenditure of grant funds, they should be treated as offsets to the particular expense item in the grant account, not as grant-related income (see below). Those received after the completion or termination of the project period should be returned to PHS unless otherwise instructed. (See Applicable Credits under "Costs.")

Grant Completion or Termination.—At the completion or termination of a grant, any unencumbered balance of cash advanced to the grantee must be returned to the Government or be reflected by an appropriate accounting adjustment in accordance with instructions from PHS.

Grant-Related (Program) Income.—Such income is subject to disposition and use at the option of PHS. (See Grant-Related (Program) Income under "General Policies.")

1. Royalties: See Grant-Related (Program) Income under "General Policies."
2. Sale of real and tangible personal property: See Property Management under "General Policies."
3. Other grant-related (program) income: Such income is subject to disposition and use at the option of PHS. Interest earned on reserve funds established with grant-related income pursuant to section 50.107(d) of 42 CFR 50, Subpart A, Health Services Funding, shall be treated as other grant-related income.

Interest Earned on Advances of Grant Funds.—Except for grants to States, as defined by section 203 of the Intergovernmental Cooperation Act of 1968, or where governing programmatic regulations indicate otherwise, the amounts must be refunded to the Government.

CHANGES IN PROJECT

Beginning Date

Necessary changes in program beginning dates should be requested prior to the issuance of an award document. Any expenses incurred prior to the official beginning date are not allowable unless authorized in writing by the official delegated responsibility to obligate Federal funds and included in the grant award. (See Preaward Costs under "Costs.")

Changes in Protocol or Scope (Chapter PHS:2–400)

The principal investigator or project director of the approved project may make minor changes in methodology, approach, or other aspects of the project to expedite achievement of the project's objectives.

Major changes in scope, direction, the type of service delivery or training, or other significant areas must be submitted to PHS for prior approval.

In the event of uncertainty, questions are to be referred to PHS for a final determination.

Temporary Absence of Project Director or Principal Investigator

Whenever absence of the project director or principal investigator is anticipated to exceed a continuous period of 3 months, the plans for conducting project activities during such absence must be sent to PHS for approval, where required by the terms and conditions of the award. This information must be provided in a letter signed by an authorized official of the grantee institution at least 30 days before departure of the project director or principal investigator, or as soon as it is known that he/she will be absent. In the case of research grants or other types of grants where the basis for approval of the grant was dependent on the qualifications of the individual project director or principal investigator, the grant may be terminated if the arrangements made by the grantee are not approved by PHS.

Withdrawal of Project Director or Principal Investigator

If the project director or principal investigator relinquishes or expects to relinquish active direction of the project, PHS must be notified immediately. In such case, if the grantee organization wishes to terminate the project, PHS will forward procedural instructions upon receipt of written notice of such intent. If the grantee institution wishes to continue the project, it is responsible for selecting a replacement and, where required by the terms and conditions of the award, obtaining PHS approval of the selection. A biographical sketch and necessary additional details as requested must be submitted to PHS, whose approval or disapproval will be based on a review of the qualifications submitted. In the case of research grants or other types of grants where the basis for approval of the grant was dependent on the qualifications of the individual project director or principal investigator, the grant may be terminated if PHS does not approve the arrangements made by the grantee.

Completion Date

The completion date is the date when all work under a grant is completed or the date in the Notice of Grant Award, or any supplement or amendment thereto, on which PHS grant support is scheduled to end.

When a grantee determines that a project may not effectively be brought to a close prior to the completion date and a competing extension has not been approved for funding, the grantee may request a noncompeting extension not to exceed 12 months. The request should be in writing, stating the reason, the expected completion date, and additional funds necessary, if any. All such requests should be made prior to the expiration of the currently active grant. Negotiation regarding extension may also be at the initiative of PHS.

Suspension (Chapter PHS:1–500)

When a grantee has materially failed to comply with the terms and conditions of a grant, PHS may, after reasonable notice to the grantee, suspend the grant. No obligations incurred by the grantee during the period of suspension shall be allowable under the suspended grant; however, PHS may at its discretion allow necessary and proper costs that the grantee could not reasonably avoid during the period of suspension, provided that such costs would otherwise be allowable. Suspensions shall remain in effect until the grantee has taken corrective action to the satisfaction of PHS, or has given assurances satisfactory to PHS that corrective action will be taken, or until PHS terminates the grant.

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Termination (Chapter PHS:1–500)

Termination for Cause

The PHS may terminate a grant in whole or in part any time before the date of completion if it has been determined that the grantee has failed in a material way to comply with the terms and conditions of the grant. PHS will promptly notify the grantee in writing, stating the reasons for the termination and the effective date. Payments to grantees or recovery of funds by the Government shall be made in accordance with the legal rights and liabilities of both parties. Termination for cause is appealable. (See Appeals Procedures under "General Policies.")

Termination on Other Grounds

Except as provided above under Termination for Cause, PHS grants may be terminated in whole or in part only as follows:

1. By PHS with the consent of the grantee, in which case the two parties shall agree on the termination conditions, including the effective date and, in the case of partial terminations, the portion to be terminated.
2. By the grantee, upon written notification to PHS setting forth the reasons for such termination, the effective date, and, in the case of partial terminations, the portions to be terminated, subject to the paragraph above entitled "Changes in Protocol or Scope."

When a grant is terminated, the grantee shall not incur new obligations for the terminated portion after the effective date of the termination and shall cancel as many outstanding obligations as possible. PHS shall allow full credit to the grantee for the Federal share of noncancellable obligations properly incurred by the grantee prior to termination.

Withholding of Support (Chapter PHS:1–85)

The PHS may withhold the award of a noncompeting continuation grant within a previously approved project period for justifiable reasons. Such reasons may include one or more of the following:

1. The grantee is delinquent in submitting required reports (Chapter PHS:1–42).
2. Adequate Federal funds are not available to support the project.
3. The grantee fails to show satisfactory progress in achieving the objectives of the project or otherwise fails to meet the terms and conditions of the award.
4. The grantee's management practices fail to provide adequate stewardship of Federal funds.
5. Any other reason that would indicate that continued funding would not be in the best interests of the Government.

The decision to withhold grant support is not appealable under either the PHS or the HEW appeals procedure.

Change of Grantee Institution

A change of grantee institution is the process whereby the legal and administrative responsibility for administering a grant-supported project or activity is transferred from one legal entity to another prior to the completion date of the grant being transferred. Such a change may be accomplished with respect to any PHS discretionary project grant (including construction grants) except foreign grants, but only when all of the following circumstances are present:

1. The grant must have been terminated (*a*) for cause, (*b*) by PHS with the consent of the grantee, or (*c*) unilaterally by the grantee; or
2. The award of a noncompeting continuation grant within a previously approved project period must have been withheld for one of the following reasons:
   a. The grantee fails to show satisfactory progress in achieving the objectives of the project or otherwise fails to meet the terms and conditions of the award.
   b. The grantee's management practices fail to provide adequate stewardship of Federal funds.
   c. Any reason where the grantee's actions form the basis for the determination that withholding support is in the best interests of the Government.
3. The need for the grant-supported project or activity that existed at the time of the original award must continue to exist at the time of the proposed award to the new grantee institution, and there must be no significant change or reduction in the scope or objectives of the project or activity.
4. The change of grantee institution must be made in a timely manner.

In addition to the above, when the principal investigator on a research project transfers from one domestic institution to another domestic institution, the project in behalf of the same principal investigator may be supported at the new institution for a period up to the remainder of the previously approved project period in an amount not to exceed that previously recommended for the remaining period. Support may continue at the new institution without competitive review provided that (1) the original grantee institution agrees in writing to relinquish the project, (2) the investigator plans no significant change in research objectives and level of expenditure from that proposed for the project as originally approved, and (3) the new institution submits a new application form for support of the project. If either (1) or (2) of the above provisions does not apply, the application will be reviewed as a new application and will compete for available funds.

All change of grantee institution actions should normally be undertaken with the written consent of the original grantee, relinquishing its rights to the project.

Under certain circumstances, equipment may be transferred from one institution to another. (See Property Management under "General Policies" for details.)

Successor in Interest and Name Change Agreements (Chapter PHS:1–504)

As a result of legislative changes or other legal action affecting the legal status of a grantee institution, such as mergers, divestiture, or other corporate change, PHS may recognize a new grantee institution as the successor in interest in the assets involved in the performance of PHS grants. A format for such agreement should be requested from PHS.

REPORTING REQUIREMENTS

Certain reports are required at varying intervals, depending on the purpose of the report and the needs of the programs. The principal ones are the following:

- Immediate Reporting
  - Inventions
- Annual Reports
  - Progress Report (Program Performance Report)
  - Report of Expenditures (Financial Status Report)
- Final Reports
  - Invention Statement and Certification
  - Progress Report (Program Performance Report)
  - Report of Expenditures (Financial Status Report)

Other specialized reports may be required by individual programs. In addition, grantees are required to submit certain reports to the appropriate payment points in accordance with their instructions. Information on the above-listed reports is set forth below.

Inventions

A complete written disclosure of each invention conceived or first actually reduced to practice in the course of or under a PHS grant shall be provided promptly by the grantee and, in any event, prior to a publication describing the invention, in the form specified by the Assistant Secretary for Health. (See Patents and Inventions under "General Policies" for exceptions to the invention reporting requirements.)

In addition to the immediate reporting, each application for competing extension or continuation support of a PHS grant to which this portion of the reporting requirement has been applied requires either a listing of all inventions made during the preceding budget period or a certification that no inventions were made during the applicable period.

A Final Invention Statement and Certification is required within 90 days following completion or termination of support of a project. All inventions that were conceived or first actually reduced to practice during the course of work under the project from

the original effective date of support through the date of completion or termination, whether or not previously reported, shall be listed on the statement. Each statement will require the signature of the project director or principal investigator and an official of the institution authorized to sign on behalf of the institution.

Progress Reports (Program Performance Reports)

Interim Reports

Interim progress reports must be submitted with all applications for competing extension or continuation support in accordance with the instructions accompanying the application forms.

Under formula grant programs which require the approval of a State Plan or application and which are subject to the simplified system of administration, the States will be required to report program performance in accordance with specific instructions promulgated by the offices administering the various formula grant programs. (See Formula Grants under "Application and Funding" and Chapter PHS:5–501.)

Terminal Reports

Three copies of a terminal progress report must be submitted to PHS within 90 days after the end of a project. The report should be prepared in accordance with instructions provided by the office from which the grant was received and should include, at a minimum, a summary statement of progress toward the achievement of the originally stated aims, a list of the results (positive or negative) considered significant, and a list of publications resulting from the project with plans, if any, for further publication. Three copies of reprints of publications not previously submitted should accompany the progress report.

Report of Expenditures (Financial Status Report)

A report of expenditures is required as documentation of the financial status of grants according to the official accounting records of the grantee institution. The report must be submitted for each budget period (usually 12 months) no later than 90 days after the close of the budget period. The report must cover any extension in time of the budget period authorized by PHS. The final report of expenditures, which must be submitted within 90 days of the completion of a grant, must have no unliquidated obligations and must indicate the exact balance of unobligated funds.

(See Chapter PHS:1–500 for accounting requirements for grants that have been terminated.)

Delinquent Reports

Grantee's failure to submit required reports may be a basis for withholding future support. (See Chapter PHS:1–42.)

Requests for Waiver

In unusual cases, the requirement for some reports may be waived or the submission date extended when officials of the grantee institution are able to demonstrate to the satisfaction of PHS that the report cannot be furnished in a timely manner for reasons legitimately beyond the control of the grantee institution.

GENERAL POLICIES

Acceptance of Grant Terms and Conditions

A grantee indicates acceptance of the terms and conditions of a grant by requesting funds from the grant payment system (see Payment section) and expending such funds for grant purposes. This policy is applicable to all PHS grant awards.

Appeals Procedures (Chapter PHS:1–520)

HEW has a policy of permitting grantees to appeal certain post-award adverse administrative decisions made by HEW officials. For PHS grantees, there are two levels of appeal: a procedure at the PHS level and a procedure at the Department level. If an appeal is pursued, the grantee must exhaust the PHS procedure before appealing to the Grant Appeals Board, Office of the Secretary.

The following decisions may be appealed:

1. Termination, in whole or in part, of a grant for failure of the grantee to conform with the grant terms and conditions.
2. A determination that an expenditure not allowable under the grant has been charged to the grant, or that the grantee has otherwise failed to discharge its obligation to account for grant funds.
3. The disapproval of a grantee's request for permission to incur an expenditure during the term of a grant.
4. A determination that a grant is void.
5. Establishment of indirect cost or patient care rates (except where the grantee has appealed to the Armed Services Board of Contract Appeals with respect to such determination under a contract with the Department).[4]

As a first step in appealing an adverse decision, the grantee must submit a request for review to the appropriate PHS official, as designated in Chapter PHS:1–520, following the procedures contained therein. Under the PHS procedure, a review committee, consisting of officials not involved in the adverse determination, will be appointed to consider the case. The committee will prepare a written decision based on its review for the signature of the committee chairman. If the decision is adverse to the grantee, the

[4] Appeals of the establishment of indirect cost or patient care rates must be made to the HEW Regional Director prior to appealing to the Grant Appeals Board at the Department level.

grantee has the option of submitting a request to the Department for a further review of the case by the Grant Appeals Board.

Additional details regarding the appeals procedures may be found as follows:

DHEW Grant Appeals Procedure: 45 CFR 16.
PHS Grant Appeals Procedure: 42 CFR 50, Subpart D.
Indirect Cost Appeals: 45 CFR 75.

Citizenship

Only U.S. citizens, noncitizen nationals, and those foreign nationals who possess a visa permitting permanent residence in the United States may be appointed as trainees on training grants and as direct fellows, except in the case of programs specifically designed for support of foreign nationals. Additionally, PHS will not intercede in behalf of non-United States citizens who may be principal investigators or project directors or otherwise participating in a project and whose stay in the United States may be limited by their visa status. For this reason, the grantee institution shall determine, and the application should indicate, that the individual's visa will allow him/her to remain in the country a sufficient length of time to be productive on the project.

Civil Rights

Various laws, regulations, and Executive Orders pertaining to civil rights are applicable to PHS grant programs and grant-supported activities. A summary of these requirements and their applicability follows:

Title VI of the Civil Rights Act of 1964 provides that no person in the United States shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance. An HEW regulation implementing this requirement is published at 45 CFR 80. Every applicant organization is required to have an Assurance of Compliance (Form HEW–441 or 441B) on file with the Office of Civil Rights, Office of the Secretary, HEW, before a grant may be made to that institution.

Section 504 of the Rehabilitation Act of 1973, as amended, provides that no otherwise qualified handicapped individual in the United States shall, solely by reason of the handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance.

Title IX of the Education Amendments of 1972 (in particular, section 901 of these amendments) provides that no person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving Federal financial assistance. An HEW regulation imple-

menting this requirement is published at 45 CFR 86. Submission of an assurance is required.

Sections 799A and 855 of the Public Health Service Act, as amended, forbid the extension of Federal support under Titles VII or VIII of that Act, which authorize health manpower and nurse training programs, to any entity that has not filed an assurance (Form HEW-590 or 590B) that it will not discriminate on the basis of sex in the admission of individuals to its training programs. An HEW regulation implementing this requirement is published at 45 CFR 83.

Section 407 of the Drug Abuse Office and Treatment Act of 1972, as amended, provides that drug abusers who are suffering from medical conditions shall not be discriminated against in admission or treatment, solely because of their drug abuse or drug dependence, by any private or public general hospital that receives support in any form from any federally funded program.

Section 321 of the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment, and Rehabilitation Act of 1970, as amended, provides that alcohol abusers and alcoholics who are suffering from medical conditions shall not be discriminated against in admission or treatment, solely because of their alcohol abuse or alcoholism, by any private or public general hospital that receives support in any form from any federally funded program.

Project funds used for alteration and renovation or construction are subject to the condition that the grantee shall comply with the requirements of Executive Order 11246, as amended, and with the applicable rules, regulations, and procedures prescribed pursuant thereto. (See Alteration and Renovation under "Costs.")

Clearinghouse Requirements of OMB Circular A-95 (Chapter PHS:1-140)

Part I of Office of Management and Budget Circular A-95 requires that an applicant seeking (1) project grant support under most PHS planning, service, and construction grant programs, that is, those having an impact on State, areawide, or local development, or (2) subgrant support from certain PHS formula grant programs where application is made to the State on a project-by-project basis notify the appropriate State and areawide clearinghouses of its intention to apply for Federal assistance. If the application is for a statewide project that does not affect areawide or local planning and programs, the notification need be sent to the State clearinghouse only.

This notification should be accomplished as early as possible since the clearinghouses are permitted up to 60 days to review both the notification of intent and any resulting final application. Such reviews must be completed prior to the submission of a final application to PHS. These requirements are generally applicable to new applications, competing extension applications, and sub-

stantive changes or amendments to approved applications under covered programs. For more detailed information regarding these requirements, see Chapter PHS:1–140. Applicants should refer to Chapter 1–140 of the *HEW Grants Administration Manual* for a listing of the applicable programs, and should request the names and addresses of the pertinent clearinghouses from the appropriate Regional Office. (See Health Systems Agencies under this section for additional review requirements.)

Closeout (Chapter PHS:1–462)

Official grant files may be closed out only after certain procedural steps have been completed. These steps include the following kinds of actions:

1. Grantee's submission within 90 days after the completion date of the grant of all required financial, performance, and other reports.
2. Fulfillment of applicable property accountability requirements.
3. Settlement for upward or downward adjustment of the Federal share of costs, as provided in the terms and conditions of the grant.
4. Upon request, prompt payment to the grantee institution for reimbursements due.
5. Prompt refund by grantee of unencumbered balances due PHS.
6. Completion of all required documentation.

These steps will be initiated by the designated PHS Grants Management Officer immediately following the date of completion of a grant and should be completed within 180 days after the grant completion date.

Grants may be closed out prior to final audit, but PHS retains the right to recover disallowed costs resulting from a final audit.

Conflict of Interest

Grantees must establish safeguards to prevent employees, consultants, or members of governing bodies from using their positions for purposes that are, or give the appearance of being, motivated by a desire for private gain for themselves or others, such as those with whom they have family, business, or other ties. Therefore, each institution receiving grant support must have written guides for staff members (administrators, faculty members, professional staff, or employees) and other associated individuals (such as consultants) indicating the conditions under which outside activities, relationships, or financial interests are proper or improper, and providing for notification of these kinds of activities, relationships, or financial interests to a responsible and objective institution official.

Prior Approval Items (Chapter PHS:4–52)

Contract modifications (change orders) must be approved by PHS before the grantee (owner) may authorize any work represented by a change order when:

1. The revision results from changes in the scope or objective of the grant-supported program, including proposed modifications that would materially alter the costs of the project, space utilization, or functional layout.
2. The revision increases the budgeted amounts of Federal funds needed to complete the project.

Contract Bidding and Award Procedures

The bidding on construction contracts under PHS construction grant awards must be conducted to achieve maximum competition among qualified bidders in order to obtain the most reasonable price for acceptable work. Therefore, construction work on PHS-assisted projects must be procured by formal advertising resulting in lump-sum, fixed-price contracts, except where alternate procedures are specifically approved by PHS.

For a large and complex construction project, PHS may authorize use of construction management services. In conjunction with the procurement of these services, PHS may also authorize use of a modification of formal advertising, which provides for prequalification and selective solicitation of bids. Under this procedure, bids are solicited from prequalified sources and a contract is awarded to the lowest responsive bidder, provided there are three or more bids. Use of this procedure in lieu of formal advertising requires adequate justification by the grantee.

In all cases, there must be public opening of bids with adequate documentation of the bid opening proceedings. The award must be made to the qualified bidder submitting the lowest acceptable responsive bid for the construction to be done.

In certain circumstances, such as when the amount of the low bid exceeds the amount of funds available, the owner may negotiate with the lowest responsive bidder, but only with the low bidder and only in terms of specific items.

Use of alternates to the base bid, which are keyed to specified and explicitly stated changes in the project scope, materials, or construction techniques, may be included in the invitation for bids if prior approval is obtained from PHS.

Alternates may be deductive or additive. Deductive alternates may be used when the amount of the low bid exceeds the amount of funds available to the owner to award a contract, and the

grantee (owner) must make adjustments to the project so as to reduce costs in order to award a contract within the funds available. Additive alternates may be used when available funds exceed the amount of the low bid, thus making it possible to incorporate necessary features that otherwise would not have been included in the project. Alternates that are selected will be included in determining the low aggregate bid.

Completion and Liquidated Damages (Chapter PHS:4–53)

Invitations for bids must stipulate a time for completion of the project, expressed either in calendar days or as a fixed date, for each prime contract to be awarded under the project.

At the option of the grantee (owner), a liquidated damage provision may be included in the construction contract for assessment of damages when the contractor has not completed construction by the date specified in the contract. Where there is an assessment of damages, such sum accrues in total to the owner.

Elimination of Architectural Barriers to the Handicapped in Construction Supported by Grant Funds (Chapter PHS:4–50)

All grants for construction of new facilities, or renovation of existing facilities, to the extent possible, must include provisions for making the facilities accessible to and usable by the physically handicapped. Minimum standards for facilities used by the handicapped are contained in *Making Buildings and Facilities Accessible to and Usable by the Physically Handicapped* (American National Standard A.117.1, 1961; reaffirmed 1971). These minimum standards must be included in the specification for any PHS-funded construction unless the grantee proposes to substitute standards that meet or exceed these standards. Consideration should also be given to the pertinent section of *Occcupancy Guide*, Department of Veteran's Benefits, Regional Offices, Veterans Administration.

The only exception to this requirement is in those programs where the governing legislation may prescribe the inclusion of special provisions for the handicapped.

Other Requirements

See Environmental Impact, Flood Insurance, and Relocation Assistance headings under this section.

Cost Sharing in Research Grants (Chapter PHS:2–140 and Chapter PHS:1–400)

Since 1966, the appropriation acts for HEW have stated that "None of the funds provided herein shall be used to pay any re-

cipient of a grant for the conduct of a research project an amount equal to as much as the entire cost of such project." Consequently, cost sharing is required by law on all HEW research grants, except those where the grantee is a Federal institution exempted by law from this requirement. (See Eligibility under this section.) (For policies and requirements governing other types of grants that require the grantee to bear a share of the project costs, see Matching and Cost Participation Requirements under this section.) Grantee institutions may share in the costs of grant-supported research through an institutional agreement negotiated for all HEW research grants and applicable research contracts or by negotiation with PHS on a project-by-project basis. Cost sharing proposals are not required for grants on which program policy prohibits or restricts full reimbursement of indirect costs. Thus, cost sharing requirements on foreign grants and grants to individuals are met through nonpayment of indirect costs.

The grantee contribution toward the project costs may be in any form and for any category of costs, direct or indirect, provided that:

1. The costs are project related and allowable under applicable HEW cost principles.
2. The contribution is from any non-Federal source, including cash or in-kind contributions provided or donated by the grantee or third parties or, under certain circumstances, funds derived from Federal sources (see Matching and Cost Participation Requirements under this section), or is made by a Veterans Administration hospital participating with the grantee in a project.
3. Each item is costed and records are maintained either as part of the formal institutional accounting system or in other institutional documents to support the contribution.
4. The grantee contribution is applied to some extent to each applicable research project and is not counted as cost sharing toward projects of another Federal agency.

Responsibility for negotiating institutional cost sharing agreements applying to all HEW research grants and contracts is assigned to the Division of Grants and Contracts, Office of Resource Management, PHS, 5600 Fishers Lane, Rockville, Maryland 20852. All requests for information and proposals regarding institutional cost sharing should be directed to that office. The responsibility for negotiating project-by-project-type agreements is assigned to the PHS office from which the grant is received.

The amount of cost sharing is not a factor in determining the merit of an application; therefore, cost sharing proposals for an individual project are not required until after the review process. At that time, the applicant will be requested to submit a cost sharing proposal that should be sent directly to the appropriate PHS

office for approval. Such proposals are not required if the grantee has an institutional cost sharing agreement.

Eligibility

Grantee (Chapter PHS:1–00)

Grants are awarded only to nonprofit organizations and institutions, governments and their agencies, and occasionally to individuals. Nonprofit institutions are defined as institutions that are corporations or associations no part of whose net earnings may lawfully inure to the benefit of any private shareholder or individual. Proof of nonprofit status must be submitted by nonprofit institutions with the application or, if previously filed with PHS, the applicant must state where and when the proof was submitted. Any of the following is acceptable evidence of nonprofit status:

1. A reference to the applicant organization's listing in the Internal Revenue Service's most recent list of tax-exempt organizations described in section 501(c)(3) of the IRS Code.
2. A copy of a currently valid Internal Revenue Service tax exemption certificate.
3. A statement from a State taxing body or State attorney general certifying that the applicant organization has a nonprofit status and that none of the net earnings accrue to any private shareholders.
4. A certified copy of the organization's certificate of incorporation that clearly establishes nonprofit status.
5. Any of the above proof for a State or parent organization and a statement signed by the parent organization that the applicant organization is a local nonprofit affiliate.

Federal Institutions

Federal institutions are eligible to receive certain types of PHS grants on the same basis as non-Federal institutions. This eligibility includes, but is not limited to, grants for research, training, and demonstration projects authorized under the PHS Act, as amended. Such grants to Federal institutions can be funded at 100 percent of the costs.

Foreign Institutions and International Organizations

Foreign institutions and international organizations are only eligible to receive research grants (including conference grants eligible for support under the provisions of Chapter PHS:1–530, "Support of Conferences"). Other types of PHS grants, such as for support of training, provision of health services, and construction of health facilities, may not be made to foreign institutions and international organizations unless the program has been spe-

cifically designed for support of programs in a foreign setting and has had prior approval from the PHS agency head. (Occasionally, however, a fellowship award is made to an American citizen or noncitizen national to study in a foreign institution. In these instances, the foreign institution may request and receive an institutional allowance to cover the costs of training. See Stipends and Allowances under this section.)

Proposed foreign research projects must compete with domestic research applications for available funds, and the proposed health research project must be able to further the mission of the grant program and advance significantly the status of the health sciences in the United States.

Trainees and Fellows

Trainees supported under a training grant and individuals directly supported under fellowships must meet the general eligibility requirements set by the particular program providing the support and any additional requirements established by the grantee institution.

Funds may not be used for the following purposes:

1. The support of any trainee or fellow who, because of age, physical or mental condition, or other relevant factor, would not in the judgment of the program director or sponsor be able to use the training or meet the institution's minimum qualifications for the training involved.
2. The continuation support of a trainee or fellow who has failed to demonstrate satisfactory progress.
3. The support of training for M.D., D.D.S., D.V.M., D.O., or similar degrees.[5]
4. Residency training, unless specifically approved by PHS.

Environmental Impact (Chapter PHS:1–503)

The National Environmental Policy Act of 1969 (NEPA) (Public Law 91–190) establishes national policy goals and procedures for protecting and enhancing the environment. The provisions of this Act govern all Federal agencies and require them to consider the probable environmental consequences of any major Federal activity, including activities of other organizations operating with the concurrence or support of a Federal agency. Thus, the Act pertains to activities supported in whole or in part through Federal contracts, grants, subsidies, loans, or other forms of funding assistance.

To administer the provisions of NEPA, HEW requires that the environmental aspects of all requests for assistance involving construction projects, and certain requests for assistance in-

[5] Section 772(a)(11), PHS Act, authorizes grants for certain types of undergraduate medical and osteopathic preceptor training in areas of severe physician shortage.

volving nonconstruction projects and formula grants, must be reviewed and evaluated by the technical staff of the HEW reviewing office prior to approval or other action on the application (see below). With regard to nonconstruction project grants and formula grants, PHS agency heads are responsible for "screening out" activities or programs that may have little environmental impact and for publicizing the results of their screening efforts. Lists of screened-out activities will be published in the *Federal Register.*

In addition, it is the Department's policy in complying with NEPA to include public comment and participation as a part of the environmental impact review process. In this regard, potential applicants for construction projects and non-screened-out activities under programs subject to HEW's Project Notification and Review System (see Clearinghouse Requirements of OMB Circular A–95 under this section) are required to include in their notification to State and areawide clearinghouses a request for comments on the potential environmental impact of the project and to transmit such comments with the completed application when submitted.

Project Grants

Construction

All applications for assistance for construction shall be accompanied by the applicant's own environmental analysis, separately bound, to facilitate review and evaluation by the technical staff of the HEW reviewing office prior to approval or other action on the application.

Nonconstruction

For those programs or activities that have been screened out from routine NEPA processing, no environmental analysis is necessary, except in those unusual situations where a significant environmental consequence is anticipated. In such case, an environmental analysis shall be provided with the application.

Formula Grants

State agencies receiving formula grant funds are subject to the requirements of NEPA. Therefore, in its review of State plans or applications, PHS must be assured that the State agencies have established procedures for insuring compliance with NEPA and that the procedures are in accordance with those contained in the *HEW General Administration Manual,* Part 30.

Federal Income Tax

All recipients of PHS grant funds, whether such funds are received directly from PHS or indirectly under a subgrant, contract, or other assistance (for example, student assistance under a training grant), are responsible for and must adhere to all applicable Federal income tax regulations. Questions concerning the applicability of such regulations to grant funds should be directed to the Internal Revenue Service. Additional guidance for fellows and trainees is provided in IRS Publication 520, *Tax Information for American Scholars in the U.S. and Abroad,* which may be obtained from IRS.

Financial Evaluation of Grant Applications (Chapter PHS:6–500)

Financial evaluation of grant applications involves (1) performing a cost analysis of each project grant application approved for funding by PHS and (2) determining the adequacy of the applicant institution's accounting system to insure that Federal funds, if awarded, will be expended in a judicious manner.

A cost analysis is the process of obtaining cost breakdowns, verifying cost data, evaluating specific elements of cost, and examining data to determine the necessity, reasonableness, and appropriateness of the proposed cost. The form and extent of such an analysis will be determined by the Grants Management Officer reviewing the application.

Where a prospective grantee has had no prior governmental grants or cost-reimbursement contracts, the applicant institution's accounting system must be reviewed prior to award or within a reasonable time thereafter to assure its adequacy and acceptability. This review will also apply where known financial or management deficiencies exist. Such a review will be undertaken by or at the direction of the Grants Management Officer. The results of the review will determine the action to be taken by PHS with regard to the award.

Flood Insurance

The Flood Disaster Protection Act of 1973 (Public Law 93–234) provides that no Federal financial assistance for acquisition or construction of property may be provided in identified special flood areas in the United States unless, within 1 year after the affected community has been notified that it is flood prone, the community participates in the National Flood Insurance Program, and flood insurance is purchased. Listings of flood-prone areas that are eligible for flood insurance are published in the

Federal Register by the Department of Housing and Urban Development (HUD).

The flood insurance purchase requirement is applicable to both public and private applicants for PHS support, including formula grant programs where PHS approves or ratifies the expenditure of funds for acquisition or construction on a project basis.

Grant-Related (Program) Income

The grantee is accountable to PHS for grant-related income generated by PHS grant-supported activities. Some examples of grant-related income are proceeds from the sale of products or services produced by grant-supported activities, such as laboratory tests or computer time, payments received from patients or third parties for medical or hospital services provided under a project, fees received for personal services performed in connection with and during the period of the grant-supported activity, proceeds from the sale of assets purchased with project funds, and royalties from copyrights on publications developed under or patents on inventions conceived or first actually reduced to practice under a grant-supported project.

Records of the receipt and disposition of grant-related income must be maintained by the grantee in the same manner as required for the grant funds that gave rise to the income.

Disposition

The policies governing the disposition of the various types of grant-related income are as follows:

1. All program income earned during the period of PHS grant support except royalties and proceeds from the sale of real property or tangible personal property shall be retained by the grantee and shall be treated in accordance with one or a combination of the following options as set forth in the grant's terms and conditions:
   a. Used by the grantee for any purposes that further the objectives of the legislation under which the grant was made.
   b. Deducted from the total project costs for the purpose of determining the net costs on which the Federal share of costs will be based.

   If the terms and conditions of the grant do not specify disposition, the grantee shall select one or a combination of the above options.

2. Royalties

   Royalties received by grantees from copyrights on publications or other works developed under PHS grants or from patents on inventions conceived or first actually reduced to practice in the course of or under a PHS grant (see Patents and Inventions under this section) shall be treated as follows:
   a. Royalties received during the period of grant support as a result of copyrights or patents shall be retained by the grantee and, in ac-

cordance with the terms and conditions of the grant, be disposed of under either or a combination of the options listed in 1 above.

b. Royalties received after the completion or termination of grant support as a result of copyrights may also be retained by the grantee, unless the terms and conditions of the grant provide otherwise or a specific agreement governing such royalties has been negotiated between PHS and the grantee, except that for grantees that are State or local governments, in the absence of a specific agreement, the Federal share of royalties in excess of $200 received annually shall be returned to the Federal Government. The Federal share of the royalties will bear the same ratio as the percentage of Federal participation in the cost of the grant-supported project.

c. Royalties received after the completion or termination of grant support as a result of patents shall be governed by agreements between the Assistant Secretary for Health, HEW, and the grantee pursuant to the Department's patent regulations (45 CFR 6 and 8).

3. Sale of Property

Proceeds from the sale of real and tangible personal property acquired under a PHS grant-supported project shall be handled in accordance with the property management policies and procedures under this section.

Interest

In accordance with section 203 of the Intergovernmental Cooperation Act of 1968 (Public Law 90–577), the States and any agency or instrumentality of a State, including State institutions of higher education and State hospitals, shall not be held accountable for interest earned on advances of grant funds. All other grantees, including local governments, shall remit such interest to the Federal Government, except where governing programmatic regulations indicate otherwise.

Interest received by grantees as a result of investing program income should be retained by the grantee and treated as additional program income in accordance with paragraph 1 above.

Tuition and Related Fees

Tuition and related fees received by an institution of higher education for a regularly offered course taught by an employee performing under a grant shall not be treated as grant-related income.

Health Systems Agencies

The National Health Planning and Resources Development Act of 1974 (Public Law 93–641) added a new Title XV to the Public Health Service Act that authorized the designation of Health Systems Agencies (HSA's) to provide for effective health planning and for promotion of the necessary development of

health services, manpower, and facilities within identified health service areas. One of the functions of these agencies is to review and approve or disapprove, or review and comment on, as appropriate, specified proposed uses of Federal funds within its health service area. (See Title XV of the PHS Act and 42 CFR 122 for the applicability of this requirement and associated procedures.)

HSA's are required to coordinate their activities and should seek to enter into a written agreement with each A–95 Agency whose area of responsibility is in whole or in part in the HSA's health service area. Such agreements should provide for concurrent reviews of relevant proposed uses of PHS funds to assure complementary actions. (See Clearinghouse Requirements of OMB Circular A-95 under this section.)

Human Subjects (45 CFR 46)

Safeguarding the rights and welfare of human subjects involved in activities supported by PHS grants is the responsibility of the institution that receives or is primarily accountable to the Government for the funds awarded for the support of the activity. This policy applies to grantee institutions performing research, development, demonstration, or other activities that include as participants individuals who may be placed "at risk" because of their participation. An individual is at risk if he/she may be exposed to the possibility of physical, psychological, or social injury. These individuals must be protected in accordance with the provisions of the above-referenced regulation.

In order to provide for the adequate discharge of this institutional responsibility, no grant for an activity involving human subjects shall be made unless:

1. An assurance of compliance with HEW policy regarding the protection of human subjects has been submitted by the grantee institution and is found acceptable by HEW. (See 45 CFR 46 for the requirements for general and special assurances.)
2. A properly constituted committee of the grantee institution has reviewed and approved such activity and a certification is submitted with the grant application stating that it has been reviewed in accordance with the institution's approved assurance. This certification must be submitted annually on the basis of continuing review of the grant-supported project.

The Office for Protection from Research Risks, National Institutes of Health, Bethesda, Maryland 20014 is responsible for the implementation and enforcement of this policy for HEW. Information concerning the preparation and negotiation of assurances may be obtained from that office.

Information Collection (Chapter PHS:1–11)

The use of grant funds for the collection of information is governed by the following criteria: No grant shall be awarded with a primary objective of collecting information intended primarily for the use of the Government or third parties specifically designated by the Government. Contracts shall be used for this purpose, unless a grant is specifically required by legislation.

However, grantees may use PHS grant funds to collect information under either of the following conditions:

1. When the collection of information is not a primary objective of the grant, but is incidental to, or is an integral part of, a grant-supported activity.
2. When the collection of information is a primary objective of the grant, but such information is not intended primarily for the use of the Government or a Government-designated third party.

When information is collected under grants in accordance with either of the two conditions above, grantees shall be prohibited from representing to their respondents that the information is being collected for or in association with PHS unless PHS approval has been obtained or the Office of Management and Budget (OMB) report clearance procedures have been followed. (See Report Forms Clearance by OMB under this section.)

Laboratory Animals, Care and Treatment (Chapter PHS:1–43)

Institutions and organizations using live, warm-blooded animals in projects or activities supported by funds from PHS grants must provide written assurance to the Office for Protection from Research Risks, NIH, that they will evaluate their animal facilities on a continuing basis with regard to the care, use, and treatment of such animals.

The assurance must describe either (1) accreditation by a recognized professional laboratory animal accrediting body or (2) the establishment of a committee to evaluate the care of all live, warm-blooded animals held or used for activities supported by PHS grants. It must also commit the institution to comply with applicable portions of the Animal Welfare Act (Public Law 89–544, as amended) and to follow the guidelines prescribed in HEW Publication No. (NIH) 74–23, *Guide for the Care and Use of Laboratory Animals.*

Matching and Cost Participation Requirements (Chapter PHS:1–400)

Some PHS programs require that expenditures from grant funds be matched proportionately by expenditures from other

funds or that the grantee participate to some extent in the cost of a project. Costs used to satisfy the grantee's matching or cost participation requirement may be financed from the following:

1. Any non-Federal source, including cash or in-kind contributions provided or donated to the project by the grantee or by third parties. (For details regarding the valuation of in-kind contributions, see Chapter PHS:1–400.)
2. Grant-related (program) income, other than certain income from royalties and income from the sale of real or tangible personal property, when the grantee is authorized to expend such income to further the purposes of the legislation under which the grant was made.
3. Funds derived either directly or indirectly from Federal sources that are received as fees, payments, or reimbursements for providing a specific service, such as patient care reimbursements received under Medicare or Medicaid.
4. Any Federal grant or contract awarded under a statute that specifically authorizes that funds provided under such grant or contract may be used to satisfy matching requirements on other Federal grants.
5. Federal funds received under grants or contracts whose expenditures need not be accounted for to the Federal Government.

Unless otherwise authorized by legislation or regulation, costs used to satisfy the grantee's matching requirements may not be borne from the following:

1. Direct Federal grants, subgrants made from other Federal grants, or Federal contracts, which provide general financial support to the project as opposed to the purchasing of services mentioned above. This prohibition includes costs financed by entitlement funds under the State and Local Assistance Act of 1972 (General Revenue Sharing).
2. Costs or contributions used as matching, cost sharing, or cost participation on other grants. However, when a contribution is related to two or more grants, it may be prorated among the grants involved.

The above provisions regarding the allowability and unallowability of the sources of financing grantee participation in the costs of a project are also applicable to cost sharing in research grants. (See Cost Sharing in Research Grants under this section.)

Merit Systems, Standards for Personnel Administration, and Affirmative Action Plans for Assuring Equal Employment Opportunity (Chapter PHS:5–450)

State and local government agencies receiving funds under formula grant programs that are subject to merit system requirements must develop and maintain a merit system of personnel administration, including an affirmative action plan to assure equal employment opportunity. These requirements are set forth in the "Standards for a Merit System of Personnel Administration," March 1971, "An Equal Opportunity Program for State and Local

Government Employment," July 1970, Civil Service Commission, and Chapter PHS:5–450.

Under those programs where merit system requirements are applicable, review of a State's compliance with Federal merit system standards, including review of its affirmative action plan, will be accomplished as part of the review and approval process for the overall State Plan or application required as a condition of the grant. (See Formula Grants under "Application and Funding.") The recipient State agency shall require similar plans from local governments receiving assistance from the formula grant.

Any one of a variety of types of merit system organizations covering substantially all employees in a State or local government would meet the requirements if it adequately provides for impartial administration, and the system and its administration are in conformity with the merit system standards. In the absence of such an approved system, a State may establish a cooperative interagency merit system for the grant-aided agencies covered by the merit system standards. Technical assistance and review are provided by the Bureau of Intergovernmental Personnel Programs, Civil Service Commission.

Military Service

PHS agencies will not intercede in behalf of an individual in relation to military status.

Minority-Owned and Small Businesses (Chapter PHS:1–46)

In order to stimulate minority-owned and small business enterprises and to enable them to exercise a more effective role in the commercial life of the Nation, PHS grantees and third parties performing under grants shall make positive efforts to use such enterprises in the acquisition of services or products, including banking, construction, alteration and renovation, consultant and other services, and procurement of supplies and equipment required in the performance of the grant-supported activities.

Grantees must make an effort to become aware of those small business enterprises and minority-owned business enterprises that are competent to perform the services or provide the products needed so that such firms are included in invitations for bids or requests for proposals. Grantees should also make use of the advice and assistance available from Government organizations.

Motion Pictures and Television Programs

Grantees may use grant funds to produce motion picture films, video tapes, and live television programs in connection with ful-

filling the objectives of a grant-supported project. In all such cases, however, prior approval of PHS is required. Particular care must be exercised to assure that a motion picture or television program to be produced with grant funds is essential to the successful performance of the project and that it carries an acknowledgment of grant support. Such acknowledgment should be expressed in the following language or its equivalent:

> The production of this motion picture (television program) was supported by Grant No. ..... from (*name of awarding agency*). However, its contents are solely the responsibility of (*name of grantee organization*) and are in no way the responsibility of (*name of awarding agency*).

Multijurisdictional Areas—Coordination of Planning (Chapter PHS:1-143)

Part IV of Office of Management and Budget Circular A-95 establishes requirements for and minimum procedures to achieve coordination of federally assisted planning and development in multijurisdictional areas. A multijurisdictional area is any geographic area comprising, encompassing, or extending into more than one unit of general local government.

Under the provisions of Part IV of OMB Circular A-95, States are encouraged to establish sub-State districts or regions to serve as a common and consistent geographic basis for planning and development activities. When a PHS formula grant program requires that the State be divided into geographic areas for purposes of planning, assigning service responsibilities to local agencies, dispersion of needed facilities or other resources, or for assignment of funding priorities or when a PHS discretionary grant program requires that the grantee assume responsibility for a formally designated geographic area, such areas must conform to the State's common planning districts, where established, unless there is a clear justification for nonconformance. Whether or not the State has established such districts, the Governor(s) of the State(s) in which the designated area(s) would be located must be given the opportunity to review and comment. For formula grant programs this is accomplished through the Governor's review of the State Plan or application; for discretionary project grants the review will be accomplished during review of the application by the State A-95 clearinghouse (see Formula Grants and also Clearinghouse Requirements of OMB Circular A-95 under "Application and Funding.") Where planning and development districts or regions have not been established, major units of general local government and the appropriate Federal Regional Council must also be consulted.

For grant programs supporting areawide planning activities, if the grantee is other than an areawide planning agency designated under Part I of OMB Circular A–95, the grantee shall coordinate its activities and seek to enter into a memorandum of agreement with that agency (see Clearinghouse Requirements of OMB Circular A–95 and also Health Systems Agencies under this section). The agreement must identify activities requiring coordination, delineate organizational and procedural arrangements for coordinating such activities, arrange for sharing of resources, and contain base data, statistics and projections which have been agreed upon as the basis for planning in the area.

Notification to Unsuccessful Applicants (Chapter PHS:1–64)

A written notice will be sent to each unsuccessful applicant within 30 days after the decision has been made to disapprove, defer, or otherwise not to fund the application during the normal funding cycle. This policy is applicable to all PHS discretionary project grant programs, both construction and nonconstruction.

Objective Review of Grant Applications

All discretionary grant awards subject to competitive review will be based on a system of objective review involving persons outside the immediate organization in which the grant award authority is vested.

The review system, which is established by each PHS Agency Head for centralized programs and each PHS Regional Health Administrator for decentralized programs, must set forth guidelines and criteria against which applications will be reviewed in order to obtain uniformity and comparability among reviewers.

The reviewers must perform a thorough and consistent examination of all applications and provide advice to awarding officials based on independent evaluation of scientific or technical merit. The reviewers must be persons knowledgeable in the field of endeavor for which support is requested, they must be free of any direct relationship with the institution submitting the application, and their actions must be free of any conflict of interest or appearance thereof.

Objective review of grant applications is intended to be advisory and not to replace the authority of the awarding official to decide whether a grant shall be awarded. Such decisions are based not only on the recommendations resulting from the objective review process but also on stated programmatic priorities and the availability of funds.

Policy

In accordance with HEW patent regulations, all inventions made in the course of or under any PHS grant shall be promptly and fully reported to the Assistant Secretary for Health, HEW, except that recipients of fellowships, traineeships, or scholarships, whether funded through a PHS grant or awarded directly, shall not be made subject to these requirements where the purpose of the award is primarily to support the individual's education rather than to support research and the individual is not a Government employee. (See 45 CFR 6 and 8). Instructions for the proper method of reporting should be requested from the Patent Branch, Office of General Counsel, HEW.

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

1. "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, that is or may be patentable under the Patent Laws of the United States.
2. "Made" when used in relation to any invention or discovery means the invention was conceived or first actually reduced to practice during the course of the grant.

Determination

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 that may issue, shall be made either:

1. By the Assistant Secretary for Health whose decision shall be considered as final or
2. Where the institution has a separate formal institutional agreement with the Department, by the grantee institution in accordance with that agreement.

Patent applications shall not be filed on inventions under item 1 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 PHS 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 (*name of awarding agency*).

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 HEW regulations. These instruments and papers will enable the Government to apply for and prosecute any patent application, in any country, to cover each invention where the Government has the right to file such application. (See also Inventions under "Reporting Requirements.")

Supplementary Patent Agreements

The fact that two or more institutions or organizations share in the grant-supported activity does not alter the grantee's responsibilities concerning patents and inventions. The grantee institution shall obtain appropriate patent agreements to fulfill the requirements from all persons who perform any part of the work under the grant and may be reasonably expected to make inventions.

The grantee shall insert a clause into any contract or agreement made under the grant that makes this patent and inventions policy applicable to each cooperating institution 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.

Income

Royalties received by grantees from patents on inventions conceived or first actually reduced to practice in the course of or under any PHS grant shall be treated as grant-related (program) income. (See Grant-Related (Program) Income under this section regarding the disposition of such royalties.)

Inventions Resulting from Grants Made in Support of Research by Federal Employees

Inventions resulting from grants supporting the activities of Federal employees shall be reported simultaneously to the Assistant Secretary for Health pursuant to the terms of the grant and to the employing agency under the terms of Executive Order 10096, as amended.

Prior Approval of Use of Grant Funds Including Rebudgeting (Chapter PHS:1–510)

For most discretionary project grants, PHS documents an approved budget on the Notice of Grant Award. Such documentation constitutes prior approval for the performance of activities and the expenditure of funds for specific purposes and items de-

scribed in the grant application. In addition, the grantee institution is permitted to rebudget between budget categories *within the total direct cost budget of the project* to meet unanticipated requirements, provided (1) the expenditures are necessary to the successful continuation or completion of the project, (2) the purposes for which the expenditures are made are allowable under regulations and policies governing the grant program and the applicable cost principles contained in Subpart Q of 45 CFR 74, and (3) prior approval is obtained in accordance with the guidelines set forth below.

Policy

PHS policy regarding budget revisions for all grantees is the same as that stated in Subpart L of 45 CFR 74, *except* that (1) in accordance with the option provided in paragraph 74.102(d), PHS has elected to waive paragraphs 74.102(b)(3) and (b)(4), and (2) certain modifications and additions to the provisions of Subpart L have been authorized for PHS. Thus, for all nonconstruction discretionary project grants[6] prior approval must be obtained from the appropriate approving authority (see below) for budget revisions whenever such revisions:

1. Result from changes in the scope or objective of the grant-supported activities, including subgranting or contracting out any of the principal activities of the grant.
2. Indicate a need for additional Federal funding, excluding those situations where the need for additional funding results from an increase in the amount of indirect costs that may be claimed because of an otherwise allowable rebudgeting action that increases the direct cost base against which indirect costs are calculated.[7]
3. Involve the transfer of amounts budgeted for indirect costs to absorb increases in direct costs.
4. Involve any purposes disapproved or restricted as a condition of the award.
5. Involve the transfer of funds between construction and nonconstruction work supported by the same PHS grant.
6. Involve the expenditure of funds for any items or purposes requiring prior approval in accordance with the applicable cost principles or other duly promulgated policies of PHS. (See Chapter PHS:1–510.)
7. Involve the transfer of funds allotted for trainee costs (stipends, tuition, and fees) to other categories of expense. Rebudgeting within the category of trainee costs is allowable without prior approval. (See duly promulgated policies of PHS. (See Chapter PHS:1–510.)

[6] For policies applicable to construction grants, see Construction Grants under "General Policies."

[7] Amounts for additional indirect costs shall be provided in accordance with the provisions of *HEW Grants Administration Manual*, Chapter 6-150, "Reimbursement of Indirect Costs."

Prior Approval Authorities

Private Nonprofit Institutions

Private nonprofit grantee institutions, *other than colleges, universities, hospitals, research institutes, and research foundations,* must obtain prior approval from PHS for all proposed rebudgeting actions for which prior approval is required.

State and Local Government Agencies

Grantee institutions that are State or local government agencies are required to establish and use an Institutional Prior Approval System (see below) for obtaining prior approval of the following types of rebudgeting actions:

1. Each individual item of special-purpose equipment having an acquisition cost of $1,000 or more.
2. Patient care costs in excess of the amount in the approved budget, provided the need for patient care in the project was specifically approved by PHS.

State and local government agencies must obtain prior approval from PHS for all other proposed rebudgeting actions that require such approval.

Colleges, Universities, Hospitals, Research Institutes, and Research Foundations

Grantee institutions that are colleges or universities, hospitals, research institutes, or research foundations are required to establish and use an Institutional Prior Approval System (see below) for obtaining prior approval of the following types of rebudgeting actions:

1. Each individual item of special-purpose equipment having an acquisition cost of $1,000 or more.
2. Cumulative expenditures for equipment in any budget period that will cause the amount awarded in the approved budget for equipment to be exceeded by $1,000 or 25 percent of the budgeted amount, whichever is greater.
3. Cumulative expenditures for domestic travel in any budget period that will cause the amount awarded in the approved budget for such travel to be exceeded by $500 or 25 percent of the budgeted amount, whichever is greater.
4. Patient care costs in excess of the amount in the approved budget, provided the need for patient care in the project was specifically approved by PHS.

Colleges, universities, hospitals, and research institutes and foundations must obtain prior approval from PHS for all other rebudgeting actions that require such approval.

Institutional Prior Approval System

Where an institutional prior approval system is required, it must operate in accordance with the following standards:

1. The institution must designate an appropriate grantee institution official, who does not have direct responsibility for the conduct of grant-supported activities, to review and approve rebudgeting requests for those items that require institutional prior approval.
2. The rebudgeting request must be reviewed by the designated official for program propriety in relation to the objectives of the specific project supported by the grant to which the charges will be made.
3. The rebudgeting request must be reviewed by the designated official to determine that the change is permissible within the policies and procedures of both the grantee institution and PHS.
4. The rebudgeting action must neither impair the institution's ability to complete the project or activity as approved nor require additional Federal funding, excluding those situations where the need for additional funding results from an increase in the amount of indirect costs that may be claimed because of an otherwise allowable rebudgeting action that increases the direct cost base against which indirect costs are calculated.
5. The funds must not be used for any purpose disallowed as a condition of the award.
6. The rebudgeting request and approval action must be fully documented in the grantee institution's files and retained in accordance with the provisions of PHS policy. (See Records Retention and Audit under this section.)
7. Grantee institutions may be more, but not less, restrictive concerning rebudgeting on the specified items. In addition, they may establish prior approval requirements within their own institution for cost categories other than those specified herein. Approval for rebudgeting in these other categories may be at any level set by the grantee institution.

Methods of Requesting Approvals from PHS

All rebudgeting requests that require prior approval of PHS must be submitted, in writing, to the Grants Management Officer designated on the Notice of Grant Award. All requests must bear the signature of a responsible official of the business office of the grantee institution as well as the originator of the request, if different.

The Grants Management Officer shall be responsible for reviewing the request with program officials, as necessary, and for preparing a prompt reply to the grantee institution.

Whenever grantees contemplate rebudgeting and are uncertain about the allowability of items of cost, particularly when such items are not mentioned in the regulations, cost principles, or other HEW or PHS policy documents, they are strongly encouraged to seek advance consultation with the designated Grants Management Officer.

Failure to obtain prior approval, when required, from either the grantee institution or PHS, as appropriate, may result in the disallowance of costs. Additionally, even if the required prior approval is obtained under an institutional prior approval system, where it is determined, through audit or otherwise, that the costs do not meet the required tests of allowability, allocability, necessity, reasonableness, etc., the costs may be disallowed.

Property Management

A summary of the PHS policies and procedures governing the acquisition, utilization, and disposition of property acquired under a PHS grant-supported project is set forth below. Generally, grantees may use their own property management policies and procedures provided they observe the following minimum requirements.

Definitions

Real property—Land, land improvements, structures, and appurtenances thereto, excluding movable machinery and equipment.

Personal property—Property of any kind except real property. It may be tangible, having physical existence, or intangible such as patents, inventions, and copyrights.

1. Tangible
   a. *Expendable personal property* (generally, "supplies"): All tangible personal property other than nonexpendable property.
   b. *Nonexpendable personal property* (generally, "equipment"): An article of tangible personal property that is complete in itself, is of a durable nature, has an expected useful life of more than 1 year, and has an acquisition cost of $300 or more per unit, except that recipients subject to Cost Accounting Standards Board (CASB) regulations may use the CASB standard of $500 per unit and useful life of 2 years. Any definition of nonexpendable personal property used by the grantee must include all tangible personal property as defined by the preceding sentence.
      (1) *General-purpose equipment*: All items of equipment of types that are generally usable for other than research, medical, or specialized scientific or technical activities, whether or not special modifications are needed to make them suitable for use on a project. General-purpose equipment includes such items as office equipment and furnishings, heating and cooling units, passenger and cargo vehicles, computing and automatic data processing devices, cameras, etc.
      (2) *Special-purpose equipment*: All items of equipment that are generally usable only for research, medical, scientific or technical activities. It includes such items as microscopes, X-ray machines, surgical instruments, etc.
2. Intangible property is such property as patents, inventions, and copyrights. (See Index for Patents, Inventions, and Copyrights.)

Property acquired under a grant-supported project—Property purchased from either the Federal share or non-Federal share of project costs is con-

sidered to be property acquired under a grant-supported project, provided the non-Federal share is subject to Federal approval and is documented as part of the approved budget. Property purchased under authorized rebudgeting actions subsequent to award is subject to all policies applicable to "property acquired under a grant-supported project." (See Budget and also see Grant-Supported Activities/Project under "Glossary.")

Acquisition

PHS and grantee institution policies and procedures with respect to acquisition of property under a grant-supported project must provide for (1) consideration of the function of the property in facilitating the successful completion of the project and (2) insuring that grant funds are properly used and accounted for.

Real property may only be acquired where authorized by program legislation and specifically provided for in the grant award.

Grantees are required to be prudent in the acquisition of property under a grant-supported project. It is the grantee's responsibility to conduct a prior review of each proposed property acquisition to assure that the property is needed and that the need cannot be met with property already in the possession of the institution. The grantee's procurement practices must assure that all property is purchased at reasonable prices. Competitive procurement procedures must be followed to the maximum possible extent. Positive efforts should be made to allow small businesses and minority-owned businesses to compete for procurement contracts under grant-supported projects.

A grantee institution may be reimbursed for an item of tangible personal property already owned by the institution only when it is held in a central storeroom for issuance and sale to any using activity, and the cost charged to the purchaser is properly adjusted to reflect depreciation.

Acquisition cost includes the cost of the unit plus the cost of necessary accessories. Ancillary charges such as duty, taxes, transportation, protective intransit insurance, and installation shall be included in or excluded from such cost in accordance with the grantee's regular accounting practices.

Prior Approval Requirements (Nonconstruction Discretionary Project Grants)

1. **General-purpose equipment:** Purchase of an individual item of such equipment having an acquisition cost of $300 or more per unit.
2. **Special-purpose equipment:** Purchase of an individual item of such equipment having an acquisition cost of $1,000 or more per unit.
3. **Cumulative expenditures:** Expenditures for equipment in any budget period that will cause the amount awarded in the approved budget to

be exceeded by $1,000 or 25 percent of the budgeted amount, whichever is greater.[8]

For prior approval authorities, see Prior Approval Requirements Including Rebudgeting under this section.

Title

Title to real and tangible personal property (expendable and nonexpendable) acquired under a PHS grant-supported project shall vest in the grantee upon acquisition, subject to the accountability requirements and the PHS right to transfer title as outlined below.

PHS Right to Transfer Title

Real Property—See the section headed Use and Disposition of Property below regarding transfer of title to the Federal Government.

Nonexpendable Personal Property—PHS shall have the right to require the grantee to transfer title to such property acquired under a grant-supported project to the Federal Government or directly to a third party named by the Government under the following conditions, *all of which* must be met in order for the right to be exercised:

1. The property had a unit acquisition cost of $1,000 or more.
2. The PHS right to transfer title to property acquired under the grant-supported project was not waived at the time of award as part of the terms and conditions of the award.
3. Either:
   a. The grantee no longer has need for the property on the project for which it was acquired, or
   b. The grant-supported project is being transferred to another grantee institution in accordance with the section headed Change of Grantee Institution under "Changes in Project."
4. Action to exercise this right may be taken at any time, but must be taken no later than 120 days following the completion or termination of PHS grant support or the date of an appeal decision, if applicable, whichever is later. Action to exercise this right includes notifying the grantee of the possibility of transfer, and does not necessarily mean that the actual transfer will be accomplished before the expiration of the 120-day period specified.
5. The grantee must be reimbursed an amount obtained by applying the percentage of grantee participation in the project costs incurred in carrying out grant-supported activities under the approved budget for the budget period in which the property was acquired to the current fair market value of the property, plus shipping or storage costs.

[8] The cumulative expenditure limitation does not apply to State and local government agencies.

Exempt Property

Under authority of Public Law 85–934, nonprofit institutions of higher education and nonprofit organizations whose primary purpose is the conduct of scientific research are exempted from further obligation to the Government for nonexpendable personal property acquired under a grant-supported research project, except that PHS has the right to transfer title as provided above. This exemption does not apply to other types of institutions nor to other types of grants, for example, training grants, regardless of the type of institution.

Nonexempt Property:
Real Property

Use—Unless otherwise provided by law, real property acquired under a PHS grant-supported project shall be subject to the following requirements, in addition to any other requirement that is imposed by the Notice of Grant Award or other formal notification document:

1. The grantee shall use real property for the purpose authorized by the the original grant as long as needed.
2. Prior approval must be obtained from PHS before the grantee can use real property for activities other than those of the original grant. Use of such property shall be limited to activities of other federally sponsored programs or non-Federal programs with purposes consistent with the legislation under which the original grant was made.

Disposition—When real property is no longer needed as required under the two conditions above, the grantee shall request disposition instructions from PHS. Disposition shall be made as follows:

1. The grantee may be permitted to take title to the Government's interest and compensate the Government in an amount determined by applying the percentage of Federal participation in the total cost of the approved grant-supported project for which the property was acquired to the current fair market value of the property.
2. The grantee may be directed to sell the property and compensate the Government for its fair share of the net proceeds, using the same formula as under 1 above, after deducting any actual and reasonable selling and handling expenses.
3. The grantee may be directed to transfer title to the property to the Federal Government, provided that in such cases the grantee must be compensated in an amount computed by applying the percentage of grantee participation in the total cost of the approved grant-supported project for which the property was acquired to the current fair market value of the property.

Nonexpendable Personal Property

Except when PHS has exercised the right to transfer title as provided earlier in this section, nonexpendable personal property acquired under a grant-supported project shall be treated as follows:

Use—The grantee shall retain such property in the grant project as long as there is a need for such property to accomplish the project, whether or not the project continues to be supported by PHS grant funds.

When there is no longer a need for such property to accomplish the purposes of the original project, the grantee shall use the property in connection with other federally sponsored activities in the following order of priority:

1. Other PHS-supported activities needing the property.
2. Activities supported by other Federal agencies needing the property.

When the grantee no longer has need for such property in any of its federally assisted activities, the property may be used for the grantee's own official activities in accordance with the following standards:

1. If the property had an acquisition cost of less than $1,000 per unit, the grantee may use the property without reimbursing the Federal Government.
2. All other nonexpendable personal property may be retained by the grantee for its own use provided a fair compensation is made to the Government. The compensation shall be computed by applying the percentage of Federal participation in the project costs incurred in carrying out grant-supported activities under the approved budget for the budget period in which the property was acquired to the current fair market value of the property.

During the time that nonexempt, nonexpendable personal property is held for use on the project for which it was acquired, the grantee shall make it available for use on other activities if such other use will not interfere with the work on the project for which the property was originally acquired. First preference for such other use shall be given to other activities sponsored by the PHS agency that financed the property; second preference shall be given to those sponsored by other Federal agencies.

Disposition—If the grantee has no further need for nonexpendable personal property, disposition shall be made as follows:

1. If the property had an acquisition cost of less than $1,000 per unit, it may be sold and the proceeds retained by the institution.
2. If the property had an acquisition cost of $1,000 or more per unit, the grantee shall request disposition instructions from PHS.
   a. If the grantee is instructed to ship the property elsewhere, the grantee shall be reimbursed by the Government in an amount computed

by applying the percentage of the grantee's participation in the project costs incurred in carrying out the grant-supported activities under the approved budget for the budget period in which the property was acquired to the current fair market value of the property, plus any shipping or interim storage costs incurred.

b. If the grantee is instructed to sell the property, the grantee shall reimburse the Government an amount computed by applying the percentage of Federal participation in the project costs incurred in carrying out the grant-supported activities under the approved budget for the budget period in which the property was acquired to the sales proceeds. The grantee may deduct and retain from the Federal share $100 or 10 percent of the proceeds, whichever is greater, for selling and handling expenses.

c. If disposition instructions are not issued within 120 days of receipt of the grantee's request, the grantee shall sell the property and reimburse the Government as in b above.

Expendable Personal Property

Use—Expendable personal property may consist of consumable materials and supplies and other items of property that have a useful life longer than the period of need on the project for which they were required. When no longer needed for the original project, the property may be used for any federally supported activity.

Disposition—When the total aggregate fair market value of expendable personal property exceeds $1,000 and it is no longer needed on federally supported activities, the grantee may retain or sell the property as long as the Government is compensated for its share in the acquisition cost. The amount of compensation shall be computed by applying the percentage of Federal participation in the project costs incurred in carrying out grant-supported activities under the approved budget for the budget period in which the property was acquired to the current fair market value of the property or proceeds from the sale of the property.

When the total value is $1,000 or less, the grantee may, at its option, either retain or sell the property without compensation to PHS.

Property Management–Procedural Requirements

The grantee shall maintain accurate property records as well as effective inventory, control, and maintenance procedures for nonexpendable personal property.

Property records shall include a description of the property; manufacturer's serial number or other identification number; the grant-supported project under which the property was acquired;

acquisition date and cost; percentage of Federal participation in the project costs at the end of the budget year in which the property was acquired; location, use, and condition of the property, and the date the information was reported; unit acquisition cost; ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where the grantee compensates the Federal Government for its share.

A physical inventory of nonexpendable personal property shall be taken and the results reconciled with the property records at least once every 2 years to verify the existence, current utilization, and continued need for the property.

A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated and fully documented.

Where the grantee is authorized or required to sell the property, proper sales procedures shall be established for unneeded property that provide for competition to the extent practicable and result in the highest possible return.

The grantee's property records for nonexpendable personal property acquired under a PHS grant-supported project must be retained for 3 years after the final disposition of the property or appropriate reimbursement to the Government.

Publication and Publicity

Reporting Project Accomplishments

Project directors and principal investigators are encouraged to make the results and accomplishments of their activities available to the public. Prior PHS approval is not required for publishing the results of an activity under a grant. Responsibility for the direction of the activity should not be ascribed to PHS. However, an acknowledgment of support must be made through use of the following or comparable footnote:

> This project was supported by Grant No. ....., awarded by the (*awarding agency*).

In the event that the grantee organization wishes to join with PHS in a simultaneous news release announcing the results of a project, the action should be coordinated with the PHS office administering the grant.

Three reprints of publications resulting from work performed under a PHS grant-supported project must be submitted to PHS.

Copyright

Except as otherwise provided in the conditions of the award, the author is free to arrange for copyright without approval when publications or similar materials are developed from work under a PHS grant-supported project. Any such copyrighted materials shall be subject to a royalty-free, nonexclusive, and irrevocable license to the Government to reproduce them, translate them, publish them, use and dispose of them, and to authorize others to do so for Government purposes. In addition, communications in primary scientific journals publishing initial reports of original research supported in whole or in part by PHS grant funds may be copyrighted by the journal with the understanding that individuals are authorized to make, or have made by any means available to them, without regard to the copyright of the journal, and, without royalty, a single copy of any such article for their own use.

Release of Information (Chapter PHS:2–501 and 45 CFR 5 and 5b)

The Freedom of Information Act

The Freedom of Information Act, as amended, and associated public information regulations of HEW require the release of certain information regarding grants requested by any member of the public. The intended use of information pertaining to PHS grants or awards will not be a criterion for release.

Guidance is provided below with examples of specific grant documents that are covered by this policy.

1. For research or research training grants, application information is available only after the initial award has been made. Approved, disapproved, and pending continuation, competing extension, and supplemental applications incident to an approved initial application are available except as provided below.
2. For projects other than research or research training, application information is available before and after an award is made. This includes State Plan materials.
3. Notices of Grant Award or information contained thereon including project title, grantee institution, principal investigator or program director, and amount of award are available. A general description of the approved project is also available upon request.
4. Interim and terminal progress reports.
5. Reports of expenditures.
6. Final reports of any audit, survey, review, or evaluation of grantee performance that have been transmitted to the grantee.

Requests for access to records or documents containing the following types of information may be denied in whole or in part by designated departmental officials:

1. Financial information of the grantee, including the salaries of project personnel.
2. Information of a confidential nature, personal, medical, or otherwise that, if disclosed, would constitute a clearly unwarranted invasion of personal privacy.
3. Opinions in interagency or intraagency memoranda or letters expressed by Government officers, employees, or consultants, including transcripts or summaries of discussions of applications by advisory bodies.
4. Information that, if released, would adversely affect patent or other valuable commercial rights of the grantee.

With respect to a document that contains both discloseable and nondiscloseable information, the nondiscloseable information will be deleted, and the balance of the record will be disclosed, even though the balance of the record might not be readily intelligible.

The Privacy Act

The Privacy Act of 1974 (Public Law 93–579) provides certain safeguards for individuals against invasions of personal privacy. These safeguards include (1) the right of individuals to determine what information about them is maintained in Federal agencies' files and to know how that information is used, and (2) the right of individuals to have access to such records and to correct, amend, or request deletion of information in their records that is inaccurate, irrelevant, or outdated.

The Act also imposes requirements on Federal agencies with respect to the manner in which they collect, use, disseminate, and maintain records containing information pertaining to specific individuals. For example, information obtained for one purpose cannot be used for other purposes without the concerned individual's consent.

Records maintained by PHS with respect to grant applications, grant awards, and the administration of grants are subject to the provisions of the Privacy Act and the implementing regulation issued by HEW (45 CFR 5b) if they constitute a "system of records" as defined therein. Records maintained by grantees are not subject to the Privacy Act.

The consideration of a request for information concerning an individual made by a third party will balance the right to know of the requester (under the Freedom of Information Act—see item 2 immediately above regarding disclosure of personal information) and the right to privacy of the individual to whom the record pertains (under the Privacy Act).

Records Retention and Audit (Chapter PHS:1–100)

Retention

Financial records, supporting documents, statistical records, and all other records pertinent to a grant or to a subgrant (or

negotiated contract or subcontract exceeding $10,000 under a grant or subgrant) shall be retained for a period of 3 years, with the following qualifications:

1. The records shall be retained beyond the 3-year period if an audit is in process or if any audit findings, litigations, or claims involving the records have not been resolved.
2. Records for nonexpendable personal property acquired under a PHS grant-supported project shall be retained for 3 years after its final disposition or appropriate reimbursement to the Government.
3. When grant records are transferred to or maintained by PHS, the 3-year retention requirement is not applicable to the grantee.
4. The retention period for each year's records starts from the date of submission of the annual or final Report of Expenditures (Financial Status Report or equivalent).

Grantees are authorized, if they so desire, to substitute microfilm copies in lieu of original records.

The PHS shall request transfer of certain records to its custody from grantees when it determines that the records possess long-term retention value. However, in order to avoid duplicate record-keeping, PHS may make arrangements with grantees to retain any records that are continuously needed for joint use.

Audit

Government-Initiated

Authorized Government representatives shall have access to any books, documents, papers, and records of a grantee or subgrantee (or contractor or subcontractor under a grant or subgrant if the contract was negotiated and exceeds $10,000) that are determined to be pertinent to a specific PHS grant for purposes of audit, examination, and making excerpts or transcripts. An audit is made to:

1. Verify financial transactions and to determine whether grant funds were used in accordance with applicable laws, regulations, and procedures.
2. Provide the Government and the management of the grantee institution with objective appraisals of financial, accounting system, and administrative controls.
3. Determine reliability of financial records and reports.

Should a grantee institution fail to respond to an audit report containing questioned costs within 30 days after receiving written notification, the action of the cognizant agency may become conclusive. A final decision by a PHS agency to disallow such costs is appealable. (See Appeals Procedures under this section.) Refunds owed to the Government as a result of audit disallowances will be made in accordance with instructions issued by PHS.

Grantee-Initiated

The grantee or any of its duly authorized representatives shall have access to any books, documents, papers, and records of the subgrantee (or contractor or subcontractor to which the record retention requirement applies) that are pertinent to the specific PHS grant for the purpose of making audit, examination, and excerpts or transcripts.

Audits or internal audits are to be initiated by the grantee or subgrantee to ascertain the effectiveness of their respective financial management systems and internal procedures. Where internal audits are conducted, they must be made by individuals sufficiently independent of those who authorize the expenditure of Federal funds to produce unbiased judgments. Each grant or subgrant need not be examined. Generally, the audit should be conducted on an organization-wide basis for the purpose of determining the fiscal integrity of grant or subgrant financial transactions and reports, and the compliance with the terms and conditions of the grants and subgrants. Such audits should be scheduled with reasonable frequency, usually annually, but not less than once every 2 years, considering the nature, size, and complexity of the activity. Copies of resulting audit reports shall be made available to PHS, upon request. Costs of such grantee-initiated audits are allowable as direct or indirect costs, as appropriate.

Relocation Assistance and Real Property Acquisition Requirements for PHS-Assisted Projects (Chapter PHS:4–57)

For those PHS financially assisted projects conducted by a State agency (including those supported by the State agency with formula grant funds) that involve the acquisition of real property or cause the displacement of persons, businesses, or farm operations, certain assurances are required by the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Public Law 91–646).

The State agency, which includes any department, agency, or instrumentality of a State(s), a political subdivision of a State, and State or local institutions of higher education or hospitals, must assure that (1) fair and reasonable relocation payments and advisory services will be provided to or for displaced persons and that within a reasonable period of time prior to displacement, safe, decent, and sanitary replacement dwellings will be available to such persons, and (2) the State agency will be guided by the land acquisition policies of the Act and that property owners will be paid or reimbursed for necessary expenses as specified therein.

These assurances must be contained in or accompany all applications that are subject to this policy. For formula grant programs using the simplified system of review, these assurances will be included in the State Plan/Application Checklist. (See Formula Grants under "Application and Funding.")

Report Forms Clearance by OMB (Chapter PHS:1–11)

Whenever PHS sponsors the use by a grantee of a report form or plan to collect identical kinds of information or data from 10 or more persons, PHS must obtain prior clearance from OMB, in accordance with OMB Circular A–40, revised, and its own agency forms clearance procedures.

A report form or plan used by a recipient of a PHS grant is considered to be sponsored by PHS when one or more of the following circumstances exist:

1. PHS authorizes the grantee to represent to respondents that the information is being collected for, or in association with, PHS.
2. The recipient of the grant uses the report form or plan to collect information that PHS has requested for the planning, operation, or evaluation of its program.
3. The terms and conditions of the grant provide for PHS approval of the survey design, questionnaire content, or data collection procedure.
4. The terms and conditions of the grant provide for either submission to PHS of the data for individual respondents or the preparation and submission of special tabulations requested by PHS.

See Information Collection under this section for additional details regarding the use of grant funds to collect information.

Safety Precautions

The Government is not legally responsible with respect to accidents, illnesses, or claims arising out of any work undertaken with the assistance of a PHS grant. The grantee institution is expected to take necessary steps to insure or protect itself and its personnel and to comply with the applicable standards, including those issued pursuant to the National Occupational Safety and Health Act of 1970 (20 CFR 1910) and the Atomic Energy Act of 1954 (42 CFR 2021). (See also Human Subjects under this section.)

Salary Information in Applications (Chapter PHS:1–470)

Applicant organizations shall have the option to omit specific salary rates or salary amounts for individuals from copies of grant applications that are made available to outside reviewers. When an applicant exercises this option, the following conditions shall apply:

1. Specific salary rates must be included in or attached to one copy of the application, which will be restricted to use by Government employees.
2. All other copies should show undetailed salary summary totals, but must include the following information:
   a. The name of each individual expected to work on the project (if known at the time the application is submitted).
   b. Position or job title.
   c. Percentage of time devoted to work on the project.
   d. Whether or not salary support is requested from the grant.

Sterilization (42 CFR 50, Subpart D)

The Department has established certain limitations on the performance of nontherapeutic sterilizations by PHS-supported programs or projects, which are otherwise authorized to perform such sterilizations. These regulations establish safeguards for minors and for people declared mentally incompetent. They insure informed consent, and the solicitation of consent cannot be based on the withholding of benefits.

Stipends and Allowances (Chapter PHS:3–140)

Stipends are payments made to individual fellows or trainees under PHS fellowships or training grants only in accordance with preestablished levels. Such payments are intended to provide for the individual's living expenses during the period of training. The following stipend levels and allowances are applicable to all PHS predoctoral and postdoctoral training other than short-term and prebaccalaureate training, unless otherwise provided by legislation, regulation, or, where deviations have been authorized by PHS, the terms and conditions of the award.

1. Stipend levels

   Stipend levels for full-time PHS fellowships and traineeships are based on a support year of 12 months and are as follows:

   a. Postdoctoral

Years of Relevant Experience at Entry:	Year of Award		
	1st year	2d year	3d year
0	$10,000	$10,400	$10,800
1	10,800	11,200	11,600
2	11,500	11,900	12,300
3	12,200	12,600	13,000
4	12,800	13,200	13,600
5 or more	13,200	13,600	14,000

   Determination of the years of relevant experience will be made in accordance with established program guidelines.

   b. Predoctoral

   $3,900, regardless of the year of award.

   The provision of funds by an institution in addition to the stipends paid by PHS is allowable. Such supplementation may be provided

without obligation by the fellow or trainee or may be conditioned on his/her performance of certain services such as teaching or serving as a laboratory assistant. Under no circumstances, however, should the service requirements detract from or prolong the training, nor should supplementation be used for the recruitment of trainees. In accordance with their own formally established policies governing supplementation, institutions can determine whether and what amount of supplementation will be required and the sources of support. No Federal funds may be used for supplementation unless specifically authorized under the terms of the program from which such suppemental funds are received.

2. Dependency Allowances

   None to be authorized from PHS grant funds.

3. Fellowship Institutional Allowances

   For both predoctoral and postdoctoral individual fellowship awards, non-Federal grantee institutions may request an allowance of $3,000 for each year of support for each full-time student, in lieu of all other institutional costs, to help defray such expenses as tuition and fees, research supplies, equipment, faculty salary, appropriate medical insurance, travel to domestic scientific meetings, and other related items.
   Federal institutions may request a $1,000 allowance.

4. Concurrent Awards

   Section 504 of Public Law 90–574 permits students to receive payment of funds awarded through traineeships, fellowships, and other support programs in addition to the educational assistance received under the Veterans Readjustment Benefits Act ("G.I. Bill").

5. Trainee Appointments

   Under PHS training programs providing predoctoral and postdoctoral support, a new appointment is the first appointment for a trainee. A reappointment is a subsequent appointment for the same trainee under the same project. An appointment or a reappointment may not exceed 12 months without prior approval by PHS. The amount of the stipend and tuition for each full period of appointment must be obligated from funds available at the time the individual begins his/her training unless other instructions are furnished by PHS.

Student Unrest Provisions (Chapter PHS:1–41)

No part of the funds appropriated for PHS shall be used to provide a loan, guarantee of a loan, a grant, the salary of, or any remuneration whatever to any individual applying for admission, attending, employed by, teaching at, or doing research at an institution of higher education who has engaged in conduct on or after August 1, 1969, which involves the use (or the assistance to others in the use of) force or the threat of force or the seizure of property under the control of an institution of higher education, to require or prevent the availability of a certain curriculum, or to prevent the faculty, administrative officials, or students in such

institution from engaging in their duties or pursuing their studies at such institution.

Subgranting and Contracting of Grant-Supported Effort (Chapter PHS:1–430)

None of the principal activities of the grant-supported effort shall be subgranted or contracted out to another organization without specific prior approval by PHS. Where the intention to award subgrants or contracts is made known at the time of application, this approval may be considered granted if these activities are funded as proposed. Subsequent to award, the grantee must request PHS approval as detailed in Prior Approval of Use of Grant Funds Including Rebudgeting under this section.

All such arrangements must be formalized in a contract or other written agreement between the parties involved. The contract or agreement must, at a minimum, state the activities to be performed, the time schedule, the grant policies and requirements that are applicable to the subgrantee, contractor, or other secondary recipient ("flowthrough" requirements), other policies and procedures to be followed, the dollar limitation of the agreement, and the cost principles to be used in determining what costs, both direct and indirect, are to be allowed. The contract or other written agreement must not affect the grantee's overall responsibility for the direction of the project and accountability to the Government.

This section applies to principal activities of a grant but does not apply to contracts within a grant for the routine purchase of supplies, materials, equipment, or general support services.

Third-Party Reimbursement and Other Sources of Health Services Funding (42 CFR 50, Subpart A)

Those project grants supported under programs for the delivery of health services specified in the Health Services Funding Regulations (42 CFR 50, Subpart A) are expected to develop, to the extent possible, independence from PHS grant support. Therefore, these projects will be encouraged and assisted in the development and use of alternate funding sources to supplement or supplant PHS support where possible. These funding sources include third-party payors, other available Federal, State, local, and private funds, and beneficiaries who are able to pay. The Health Services Funding regulations require as a condition of award that each project subject to these regulations establish a plan to (1) institute sound financial management procedures so that it can recover to the maximum extent feasible third-party revenues to which it

is entitled as a result of services provided, (2) garner all other available Federal, State, local, and private funds, and (3) charge beneficiaries according to their ability to pay for services provided without creating a barrier to those services.

Where third-party payors, including Government agencies, are authorized or under legal obligation to pay all or a portion of charges for health care services, all such sources must be billed for covered services and every effort must be made to obtain payment. The grantee must have an operative procedure for identifying all persons served who are eligible for third party reimbursement.

Where a significant percentage of the cost of care and services provided by the project is to be reimbursed by a third party, there should be a written agreement with such third party.

These regulations should be consulted for applicability and additional details concerning project requirements and evaluation criteria.

Waiver of Single State Agency Requirement

Upon request of the Governor or other appropriate executive or legislative authority of the State responsible for determining or revising the organizational structure of State government, the Secretary of HEW may waive the requirement of authorizing legislation that a single State agency or multimember board or commission must administer or supervise any grant program (sec. 204 of the Intergovernmental Cooperation Act of 1968). The request must adequately show that such provision prevents the establishment of the most effective and efficient organizational arrangements within the State government. The Secretary or his designee may approve other State administrative structures or arrangements provided the objectives of the Federal statutes authorizing the grant program will not be endangered by the use of such other State structures or arrangements.

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APPENDIX

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