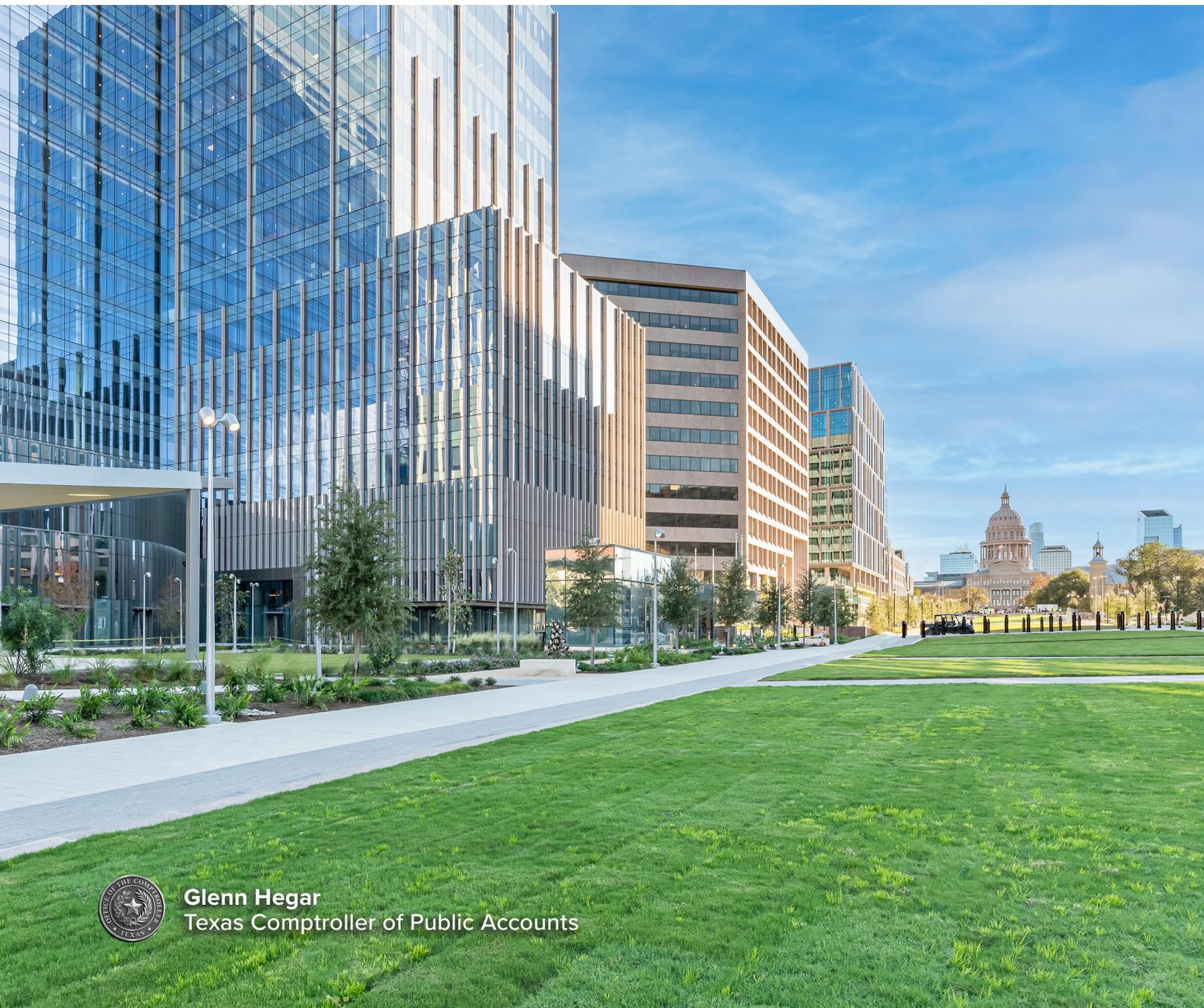




# TEXAS GRANT MANAGEMENT STANDARDS

STATEWIDE PROCUREMENT DIVISION | Version 2.0



Glenn Hegar  
Texas Comptroller of Public Accounts



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## INTRODUCTION

The Comptroller of Public Accounts Statewide Procurement Division (SPD) publishes the Texas Grant Management Standards (TxGMS), developed under the authority of Chapter 783 of the Texas Government Code, to promote the efficient use of public funds in local government and in programs requiring cooperation among local, state, and federal agencies.<sup>1</sup>

TxGMS, as required by Chapter 783 of the Texas Government Code, includes (1) uniform and concise language for any assurances that a local government is required to make to a state agency and (2) a compilation of standard financial management conditions that comprise generally applicable policies and procedures for the accounting, reporting, and management of funds that state agencies require local governments to follow in the administration of grants and contracts.<sup>2</sup> The term “assurance” refers to a statement of compliance with federal or state law that is required of a local government as a condition for the receipt of grant or contract funds.<sup>3</sup>

TxGMS applies only to transactions subject to Chapter 783 of the Texas Government Code. Accordingly, TxGMS is not an exhaustive compilation of every statute, rule, and policy that may pertain to a particular grant. Although TxGMS provides Uniform Assurances and Standard Financial Management Conditions, TxGMS does not provide step-by-step guidance to agencies for general grant management.

The term “grant program manager” as used in TxGMS refers to any state agency personnel who are involved in the administration of grant programs. Grant program managers are expected to have a practical understanding of the fundamental aspects of grant management and be familiar with the associated terminology. Certain key concepts and policies for grants and contracts, therefore, are provided only for the limited purpose of facilitating the use of TxGMS. Legal citations are included throughout TxGMS to provide assistance to the reader. Also, a list of acronyms and abbreviations, a glossary of terms, and additional resources are provided in [Appendix 1](#), [Appendix 2](#), and [Appendix 3](#), respectively.

TxGMS is not legal advice. Agencies are expected to be knowledgeable about legal requirements within their enabling statutes and any state or federal law associated with their operations. Grant program managers are advised to seek assistance from their agency legal counsel to ensure compliance with applicable state

and federal law as well as the best practices implemented by their agency.

TxGMS (version 2.0) applies to grants and contracts that begin on or after October 1, 2024. If a state agency adds funds to a grant that existed before September 1, 2025, TxGMS (version 2.0) will apply to it from that point forward, unless the state agency specifically indicates that TxGMS (version 2.0) will not apply. TxGMS may also be applied to grants and contracts by agreement between the parties.

TxGMS superseded the *State of Texas Uniform Grant Management Standards* (UGMS) issued by the former Texas Procurement and Support Services (TPASS) division of the Comptroller. SPD is the successor to TPASS. Consequently, any reference to TPASS in forms, templates, or other publications held by a state agency is now a reference to SPD. All published materials and informal guidance issued by TPASS are no longer current, and state agencies are directed to update and, as applicable, replace the outdated materials with the current SPD documents.

In January 2021, TxGMS was first published as Version 1.0. Modifications made to these standards are described in the Version History in each subsequent edition. A current version of TxGMS is maintained by SPD and is available on the Comptroller’s website.<sup>4</sup>

SPD will periodically review and update this publication. SPD may post a notification on the Comptroller’s Office website of any occurrence (for example, change in law) that affects these standards prior to the formal update to TxGMS. Inquiries regarding TxGMS should be directed to SPD via email at [txgms@cpa.texas.gov](mailto:txgms@cpa.texas.gov).

<sup>1</sup> TEX. GOVT CODE §§ 783.002, 783.004.

<sup>2</sup> TEX. GOVT CODE §§ 783.003, 783.005-006.

<sup>3</sup> TEX. GOVT CODE § 783.003.

<sup>4</sup> The Comptroller’s website is located at [comptroller.texas.gov](http://comptroller.texas.gov).

## BACKGROUND

The Uniform Grant and Contract Management Act was enacted in 1981 and codified in 1991 as Chapter 783 of the Texas Government Code. The *Uniform Grant Management Standards* (UGMS), first published by the Office of the Governor in June 1982, addressed the U.S. Office of Management and Budget (OMB) Circulars A-102 (Grants and Cooperative Agreements With State and Local Governments), A-87 (Cost Principles for State, Local and Indian Tribal Governments), and A-128 (Audits of State and Local Governments). The UGMS were periodically modified over the years for consistency with various OMB circulars and conformance with state law and practices.

The administration of the Uniform Grant and Contract Management Act transferred from the Office of the Governor to the Comptroller in 2011. In 2014, the OMB streamlined the requirements of eight circulars into one consolidated set of federal guidance titled “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards” commonly referred to as the *Uniform Guidance*. For federal grant programs governed by 2 CFR Part 200, TxGMS incorporates the *Uniform Guidance* and the implementing regulations of the Federal agencies. TXGMS (version 2.0) incorporates substantive changes to 2 CFR Part 200 that went into effect October 1, 2024.

## SCOPE

### Applicability to Certain Transactions

State agencies, unless specifically excluded by statute,<sup>5</sup> are required to use the Uniform Assurances and the Standard Financial Management Conditions, developed under Chapter 783 of the Texas Government Code, in their grants and contracts with local governments.<sup>6</sup> For purposes of Chapter 783 of the Texas Government Code, a “state agency” is a state board, commission, department, or office having statewide jurisdiction, but does not include a state college or university.<sup>7</sup> The term “local government” refers to a municipality, county, or other political subdivision of the state, but does not include a school district or other special-purpose district.<sup>8</sup>

Chapter 783 of the Texas Government Code, by its terms, does not apply to all grant programs. However, compliance with all or part of Chapter 783 of the Texas Government Code may be mandated by other state law. Chapter 2105 of the Texas Government Code, for instance, states that “Chapter 783 applies to agencies and providers for the purpose of block grant administration.”<sup>9</sup>

Care should be taken when construing a statute to determine the particular entities and types of transactions governed by Chapter 783 of the Texas Government Code because the defined terms of various statutes may not be consistent.<sup>10</sup> By way of example, the definition for “agency” found in Chapter 2105 of the Texas Government Code is not the same as the “state agency” defini-

<sup>5</sup> For example, see Section 15.008 of the Texas Water Code that provides: “The law regarding uniform grants and contract management, Chapter 783, Government Code, does not apply to a contract under Subchapter F, H, I, K, or P, or to a contract relating to an economically distressed area or nonborder colonia under Subchapter C.” Similarly, Section 231.002(c) of the Texas Family Code provides: “The agreements or contracts between the [Title IV-D agency] and other state agencies or political subdivisions of this or another state, including a consortium of multiple states, and agreements or contracts with vendors for the delivery of program services are not subject to Chapter 771 or 783, Government Code.”

<sup>6</sup> TEX. GOVT CODE § 783.007(a).

<sup>7</sup> TEX. GOVT CODE § 783.003.

<sup>8</sup> TEX. GOVT CODE § 783.003.

<sup>9</sup> TEX. GOVT CODE § 2105.008.

<sup>10</sup> For example, Section 32.045(c) of the Texas Health and Safety Code provides in pertinent part: “A grant awarded under this section is governed by Chapter 783, Government Code, and rules adopted under that chapter.” Some statutes, on the other hand, only apply the cost provisions. For instance, Section 7.067(c) of the Texas Water Code requires that “Money used for administrative costs under this subsection must be used in accordance with Chapter 783, Government Code.”

tion from Chapter 783 of the Texas Government Code.<sup>11</sup> Likewise, a “provider” for administering state block grants<sup>12</sup> comprises a larger number of entities than the local governments identified in Chapter 783 of the Texas Government Code.<sup>13</sup>

TxGMS, which includes the Uniform Assurances and the Standard Financial Management Conditions, may not apply to every state agency grant program or public sector financial assistance programs. TxGMS applies to state grants that are made to local governments (per Government Code Chapter 783). *The Comptroller does not publish guidelines for state grants to other entities, such as non-profits and individuals.* Many agencies choose to adopt TXGMS standards for other grant processes (for example, grants to non-profits), but these are administered through grant agreements, not through a statutory requirement. Consequently, unless state law—other than Chapter 783 of the Texas Government Code—specifies compliance with Chapter 783 of the Texas Government Code, TxGMS does not apply to the following types of financial assistance:

- cooperative agreements;
- non-cash contributions or donations of property (including donated surplus property);
- direct appropriations;
- food commodities;
- loans;
- loan guarantees;
- interest subsidies; or
- insurance.

<sup>11</sup> Chapter 2105 of the Texas Government Code defines “agency” as the Health and Human Services Commission, the Department of State Health Services, the Texas Department of Housing and Community Affairs, the Texas Education Agency, the Department of Aging and Disability Services, and any other commission, board, department, or state agency designated to receive block grant funds. TEX. GOVT CODE § 2105.001.

<sup>12</sup> The term “block grant” means a program resulting from the consolidation or transfer of separate federal grant programs, including federal categorical programs, so that the state determines the amounts to be allocated or the method of allocating the amounts to various agencies or programs from the combined amounts, including a program consolidated or transferred under the Omnibus Budget Reconciliation Act of 1981 (Pub. L. No. 97-35). TEX. GOVT CODE § 2105.001.

<sup>13</sup> A “provider” refers to any a public or private organization that receives block grant funds or may be eligible to receive block grant funds to provide services or benefits to the public, including a council of government, a community action agency, or a private new community developer or nonprofit community association in a community originally established as a new community development program under the former Urban Growth and New Community Development Act of 1970 (42 U.S.C. Section 4511 et seq.). TEX. GOVT CODE § 2105.001.

A determination as to whether TxGMS applies to a particular transaction involves the application of statutorily defined terms to program-specific facts. In the event of a conflict between TxGMS and applicable federal or state law, federal law generally prevails over state law and state law prevails over TxGMS. To further consistency and accountability across federal and state grant programs, some state agencies may choose to apply TxGMS by rule or contract to all entities that receive grant funds regardless of whether TxGMS is mandated by statute. Consultation with agency legal counsel, therefore, is recommended when a state agency is determining whether and to what extent the agency, grantees, subrecipients, and contractors are required to comply with TxGMS.

## Authorization of Agency-Specific Variation

A state agency subject to Chapter 783 of the Texas Government Code is required to use the Uniform Assurances and the Standard Financial Management Conditions in its grants and contracts with local governments unless a federal statute or regulation or a state statute requires or specifically authorizes a variation.<sup>14</sup> A state agency may establish a variation from the Uniform Assurances or Standard Financial Management Conditions set forth in TxGMS only by rule in accordance with Chapter 2001 of the Texas Government Code.<sup>15</sup> If a state agency desires to establish a variation to the Uniform Assurances and the Standard Financial Management Conditions, the state agency must (1) state a reason for the variation along with the proposed rule, and the reason must be based on the applicable federal statute or regulation or state statute and (2) file a notice of each proposed rule that establishes a variation from Uniform Assurances or Standard Financial Management Conditions with SPD.<sup>16</sup>

<sup>14</sup> TEX. GOVT CODE § 783.007(a).

<sup>15</sup> TEX. GOVT CODE § 783.007(b).

<sup>16</sup> TEX. GOVT CODE § 783.007(c)-(d). Submit a notice of each proposed rule to [txgms@cpa.texas.gov](mailto:txgms@cpa.texas.gov).

## **Incorporation of Federal *Uniform Guidance* and Implementing Regulations**

For federal grant programs governed by 2 CFR Part 200, TxGMS incorporates the *Uniform Guidance* and the implementing regulations of the federal agencies that are effective on TxGMS publication date. To ensure a seamless adoption of changes to federal law and regulation, TxGMS is automatically amended to include all modifications to the *Uniform Guidance* and any associated federal agency implementing regulations that occur subsequent to TxGMS publication date.

## KEY CONCEPTS – STATE AGENCY GRANTS

### Grant-Making Authority

Chapter 783 of the Texas Government Code regulates the inter-governmental coordination of grant and contract management activities between certain state agencies and local governments. Chapter 783 does not authorize any state agency or local government to accept or administer grant funds. Accordingly, the authority for a particular state agency or unit of local government to apply for, receive, administer, and make grants is found in law other than Chapter 783.

### Appropriated Funds

A state agency grant program may be financed by more than one source, such as state money, federal money, gifts, and donations. Grant funds, depending on the particular grant program, may be held within the State Treasury or outside the State Treasury. It is important to note that federal money deposited in the State Treasury does not become “state funds” in the sense that state law and only state law thereafter governs its disposition.<sup>17</sup> When the General Appropriations Act (GAA) authorizes a state agency to accept federal funds, the funds are appropriated to the receiving agency and the agency may expend the funds for the purposes for which federal grant, allocation, aid, payment, or reimbursement was made.<sup>18</sup>

### Grants and Contracts

In the administration of state and federal grant programs, the terms “grant” and “contract” are not synonymous. The decision whether to use a grant agreement or a procurement contract to formalize the transaction between the state agency and the entity receiving the program funds depends on the nature of the parties’ relationship.

For purposes of TxGMS, the term “contract” refers to the legal instrument by which a recipient or subrecipient conducts procurement transactions under a state or federal grant.<sup>19</sup> Unless otherwise defined by applicable Texas law, the term “grant” refers to an expenditure of funds from the State Treasury to a person or entity that does not directly provide consideration or a benefit to the

state in exchange for the funds.<sup>20</sup> The term “grant” may also refer to a legally enforceable document tied to such an expenditure. For federal grant programs subject to the *Uniform Guidance*, a grant agreement is a legal instrument of financial assistance between a federal agency and a recipient or between a pass-through entity and a subrecipient that is used to enter into a relationship, the principal purpose of which is to transfer anything of value to carry out a public purpose authorized by a law of the United States.<sup>21</sup>

Grants may be awarded to fund a specific need or to further policy by incentivizing specific programs. Grants may be awarded through non-competitive processes, where recipients demonstrate they meet the minimum qualifications to receive available funds, or through a competitive selection process where qualified applicants are evaluated through a selection process to receive grant awards. Agencies should review all legal requirements that may apply to the selection of grantees. All grants are subject to compliance reporting, which, under the terms of the grant award closeout, may continue beyond the term of the grant.

The state agency or pass-through entity is responsible for making case-by-case determinations to determine whether the entity receiving the state funds is a sub-grantee or a contractor.<sup>22</sup> The distinguishing characteristics of the subrecipient and contractor roles are based on the substance of the relationship and not the term used by the parties to describe their relationship.<sup>23</sup> It is imperative that the role of subrecipient and contractor be correctly determined for each transaction in order to ensure compliance with the laws and rules applicable to the relationship. Illustrations of the possible relationships resulting from federal grant awards and state grant awards are provided, respectively, in [Appendix 4](#) and [Appendix 5](#).

<sup>17</sup> Tex. Att’y Gen. Op. No. S-100 (1953).

<sup>18</sup> General Appropriations Act, House Bill 1, 88th R.S. at Article IX, Section 13.01.

<sup>19</sup> See *generally* 2 CFR § 200.1.

<sup>20</sup> Miscellaneous Expenditures – Grants and Honoraria policy located in eXpendit State Purchase Policies at <https://fmx.cpa.texas.gov/fm/pubs/purchase/misc/?section=grants&page=grants>.

<sup>21</sup> See *generally* 2 CFR § 200.1.

<sup>22</sup> See *generally* the Reporting Requirements for the Annual Financial Reports of State Agencies and Universities related to State Pass-Throughs at <https://fmx.cpa.texas.gov/fmx/pubs/afrrptreg/pass-through/index.php?section=st-pass-through&page=st-pass-through>; 2 CFR § 200.331 (distinguishing subrecipient and contractor relationships). For federal grants, a Subrecipient vs. Vendor Determination Checklist is available for state agencies on the Comptroller’s website at: <https://fmx.cpa.texas.gov/fmx/pubs/afrrptreg/pdf/SubrecipientsvsVendorDetermination.pdf>.

<sup>23</sup> 2 CFR § 200.331.

## State Fiscal Management

### Overview

One of the duties of the Comptroller is keeping the state's books. The Fiscal Management Division acts as the state's chief accountant. The Fiscal Management Division's general accounting duties include the maintenance of accounts to show the purposes for which expenditures are made and the provision of proper accounting controls to protect state finances. In order for the Comptroller to issue a warrant or initiate an electronic funds transfer, the agency submitting the claim must properly audit the claim and verify the payment would serve a proper public purpose. The Fiscal Management Division conducts post-payment audits of agencies' expenditures to ensure compliance with applicable laws, rules, and policies.

Information regarding state expenditures is located on the Fiscal Management Division's website, FMX.<sup>24</sup> FMX includes citations to relevant statutes, administrative rules, judicial decisions, and attorney general opinions. Inquiries from state agencies regarding expenditure matters may be directed to the Expenditure Assistance Section within the Fiscal Management Division at [expenditure.assistance@cpa.texas.gov](mailto:expenditure.assistance@cpa.texas.gov) or 512-475-0966.

### Certain Fiscal Policies

#### Withholding and Offset

The Comptroller is generally prohibited from issuing payment to a person who has been properly reported to the Comptroller as being indebted to the state or having a tax delinquency. State agencies must verify a person's hold status for (1) payments made with local funds (funds held outside the State Treasury and (2) payment card purchases over \$500.<sup>25</sup>

Verification of warrant hold status within seven days of contract execution is not required if a contract will be paid using funds held in the Treasury.<sup>26</sup> State agencies must not proceed with purchases made with local funds or payment card purchases over \$500 until the warrant hold has been released, unless:<sup>27</sup>

- (1) the contract requires the agency's payments under the contract to be applied directly toward eliminating the person's debt or delinquency, and
- (2) the requirement described in paragraph (1) specifically applies to any debt or delinquency, regardless of when it arises.<sup>28</sup>

Payments made through the Uniform Statewide Accounting System (USAS) are automatically checked for holds. However, for written contracts paid with funds outside the State Treasury, the state agency must manually conduct the warrant hold status check.

The Comptroller is authorized to offset state payments against a person's state debt and issue a payment to the person for any remaining amount. Disbursements of state grant funds are subject to warrant hold and may be used to offset state debt.

Payments made in whole or in part with federal funds or required by federal law, on the other hand, are exempt from the state's warrant hold program.<sup>29</sup> To prevent warrant offset, the paying state agency must release the warrants within 30 days of the payment date. For federal grant programs, the state agency issuing the payment should (1) review the TINS 6204 Report (Held Warrant Report for Issuing Agency) every day to identify any warrants that are on hold and issued with federal funds and (2) promptly complete the "Warrant Release or Reinstatement Request Form" for each held warrant that includes federal funds. The Assistance Listings Number (ALN) or appropriate federal statutory reference must be provided on the warrant release form.<sup>30</sup>

#### Use of State Money or Property for Private Purposes

The Texas Constitution generally prohibits giving away state money or property or using state resources for private purposes.<sup>31</sup> An expenditure of public funds for a legitimate public purpose to obtain a clear public benefit, however, is not a prohibited grant of public funds,<sup>32</sup> as long as there are sufficient controls on the trans-

<sup>24</sup> The Comptroller's FMX website is located at <https://fmx.cpa.texas.gov/fmx/>.

<sup>25</sup> Restricted Expenditures – Persons Indebted to State policy located in eXpendit State Purchase Policies posted at [https://fmx.cpa.texas.gov/fm/pubs/purchase/restricted/?section=indebted&page=persons\\_indebted](https://fmx.cpa.texas.gov/fm/pubs/purchase/restricted/?section=indebted&page=persons_indebted).

<sup>26</sup> TEX. GOVT CODE § 2252.903(a).

<sup>27</sup> Restricted Expenditures – Persons Indebted to State policy located in eXpendit State Purchase Policies posted at <https://fmx.cpa.texas.gov/fm/pubs/purchase/restricted/index.php>.

<sup>28</sup> TEX. GOVT CODE § 2252.903(b).

<sup>29</sup> TEX. GOVT CODE § 403.055(i).

<sup>30</sup> Releasing Held Warrants – Federal Funds policy located in the TexPayment Resource Guide at [https://fmx.cpa.texas.gov/fm/pubs/payment/warr\\_hold/index.php?s=release&p=federal](https://fmx.cpa.texas.gov/fm/pubs/payment/warr_hold/index.php?s=release&p=federal).

<sup>31</sup> Tex. Const. art. III, § 51 ("Legislature shall have no power to make any grant or authorize the making of any grant of public moneys to any individual, association of individuals, municipal or other corporations whatsoever."); Tex. Const. art. III, § 52 ("Legislature shall have no power to authorize any county, city, town or other political corporation or subdivision of the State to lend its credit or to grant public money or thing of value in aid of, or to any individual, association or corporation whatsoever."); and Tex. Const. art. XVI, § 6 ("No appropriation for private or individual purposes shall be made, unless authorized by this Constitution.").

<sup>32</sup> See *Edgewood Indep. Sch. Dist. v. Meno*, 917 S.W.2d 717, 740 (Tex. 1995).

action to ensure that the public purpose is carried out.<sup>33</sup> State law also prohibits the misuse of governmental resources.<sup>34</sup> Examples of misuse of state money or property include the payment of gratuities and making purchases without statutory authority.<sup>35</sup>

### Distribution of Grant Funds

Distributions of state and federal grant funds must comply with applicable laws and rules, including applicable fiscal policies. State agencies are responsible for ensuring that expenditures are not made for unauthorized purposes. Information regarding permitted and prohibited expenditures is located on the Comptroller's [Fiscal Management Division website \(FMX\)](#).

A disbursement of grant funds occurs either as a reimbursement or an advance. Under the reimbursement method, the grantee is repaid for money actually spent on allowable expenses. In contrast, the advance method of funding provides that grant funds are disbursed in advance of the grantee incurring expenses. A state agency must distribute appropriated grant money on a reimbursement or an as-needed basis unless:

- otherwise provided by statute, or
- the agency determines another distribution method is necessary for the purposes of the grant.<sup>36</sup>

For federal grant programs, state law may not apply to a particular expenditure to the extent necessary to avoid conflict with an applicable federal law or regulation.<sup>37</sup> In the event an expenditure is not explicitly addressed by state law, rule, or fiscal policy, the state agency's expenditure must comply with Governmental Accounting Standard Board (GASB) standards.<sup>38</sup>

<sup>33</sup> Tex. Att'y Gen. Op. No. J-0484 (2002).

<sup>34</sup> TEX. PENAL CODE § 39.02(a)(2).

<sup>35</sup> Restricted Expenditures – Misuse of State Money or Property policy located in the eXpendit State Purchase Policies at [https://fmx.cpa.texas.gov/fm/pubs/purchase/restricted/index.php?section=misuse&page=property\\_misuse](https://fmx.cpa.texas.gov/fm/pubs/purchase/restricted/index.php?section=misuse&page=property_misuse).

<sup>36</sup> Miscellaneous Expenditures – Grants and Honoraria policy located in eXpendit State Purchase Policies posted at <https://fmx.cpa.texas.gov/fm/pubs/purchase/misc/?section=grants&page=grants>. See generally 2 CFR §§ 200.305(b), 200.208(b)(1) for circumstances where advance payment is the default payment method for federal grant programs.

<sup>37</sup> See TEX. GOVT CODE § 660.003(f) (“A travel expense may be paid or reimbursed according to the requirements of an applicable federal law or regulation, and this chapter does not apply to the extent necessary to avoid conflict with an applicable federal law or regulation.”).

<sup>38</sup> Texas law requires compliance with GASB Standards. TEX. GOVT CODE §§ 321.013(b), 403.013(c). Texas also follows the requirements and guidelines provided in GASB pronouncements (statements, interpretations, technical bulletins and concepts statements). See the Reporting Requirements for the Annual Financial Reports of State Agencies and Universities related to Governmental Accounting Standards Board at <https://fmx.cpa.texas.gov/fm/pubs/afrrptreq/introduction/index.php?section=gasb&page=gasb>.

### Statewide Single Audit

Each year, the State Auditor's Office conducts a Statewide Single Audit for the State of Texas. The Statewide Single Audit both supports the Annual Comprehensive Financial Report (ACFR) provided to the Governor and constitutes an organization-wide audit of the state for purposes of the *Uniform Guidance*.<sup>39</sup>

For the federal compliance portion of the Statewide Single Audit, the State Auditor's Office audits the Schedule of Expenditures of Federal Awards (SEFA) in relation to the ACFR. The SEFA captures federal funds expended by state agencies. Each state agency that makes federal expenditures during the fiscal year is required to submit its federal expenditures in the SEFA web application.<sup>40</sup> The Comptroller prepares the SEFA by using the self-reported SEFA data. In addition, grant money passed between state agencies must be reported on the State Grant Pass-Through Schedule using the State Pass-Through Reporting (SPTR) web application. State agencies receiving federal awards from non-state agencies may have additional obligations under the *Uniform Guidance*.<sup>41</sup>

### Statewide Cost Allocation Plan

Certain state agencies provide accounting, computing, payroll and other statewide support services as centralized service costs. To ensure that the costs incurred for these central governmental services are accounted for appropriately, the Office of the Governor prepares a Statewide Cost Allocation Plan (SWCAP) each year that

- (1) identifies the costs of providing statewide support services to each state agency;
- (2) allocates to each state agency an appropriate portion of the total costs of statewide support services;
- (3) identifies, to the extent possible, the amount of federally reimbursable indirect costs in each allocated portion; and
- (4) develops and prescribes a billing procedure that ensures each state agency is billed for all costs allocated to the agency for which the agency is not obligated to pay another state agency under other law.<sup>42</sup>

<sup>39</sup> TEX. GOVT CODE § 403.013(c); 2 CFR Part 200, Subpart F.

<sup>40</sup> See generally Reporting Requirements for the Annual Financial Reports of State Agencies and Universities related to Federal Pass-Throughs at <https://fmx.cpa.texas.gov/fm/pubs/afrrptreq/pass-through/index.php?section=pass-through&page=pass-through>.

<sup>41</sup> See Single Audit Report Package at <https://fmx.cpa.texas.gov/fm/finrpt/singleaudit/>.

<sup>42</sup> TEX. GOVT CODE § 2106.002.

The Comptroller bills each agency for the allocated portion of statewide costs based on the SWCAP. The SWCAP is also used to obtain reimbursement from the federal government for allowable costs incurred by central service agencies for services allocable to federal programs.<sup>43</sup>

### State Ethics Laws

A state officer<sup>44</sup> or state employee<sup>45</sup> may not have a direct or indirect interest, including financial and other interests, or engage in a business transaction or professional activity, or incur an obligation of any nature that is in substantial conflict with the proper discharge of the officer or employee's duties in the public interest.<sup>46</sup> By statute, state officers and employees must comply with certain ethical responsibilities and disclosure obligations.<sup>47</sup> The consequences for noncompliance may include a void contract,<sup>48</sup> personal liability for *ultra vires* acts, or a criminal penalty.<sup>49</sup> For specific information regarding the professional standards applicable to a particular agency or a position within an agency, state employees or officers may consult with their agency legal counsel.

<sup>43</sup> [https://fmx.cpa.texas.gov/fmx/approp/swcap/a022\\_002.php](https://fmx.cpa.texas.gov/fmx/approp/swcap/a022_002.php)

<sup>44</sup> A "state officer" is an elected officer, an appointed officer, a salaried appointed officer, an appointed officer of a major state agency, or the executive head of a state agency. TEX. GOVT CODE § 572.002(12).

<sup>45</sup> A "state employee" is an individual, other than a state officer, who is employed by a state agency, Texas appellate courts or the Texas Judicial Council, either house of the Texas legislature or a legislative agency, council, or committee, including the Legislative Budget Board, Texas Legislative Council, State Auditor's Office, and Legislative Reference Library. TEX. GOVT CODE § 572.002(11).

<sup>46</sup> TEX GOVT CODE § 572.001(a).

<sup>47</sup> *E.g.*, TEX GOVT CODE § 572.051 (Standards of Conduct); TEX. PENAL CODE § 36.02 (Bribery); TEX. PENAL CODE § 36.08 (Gift to Public Servant by Person Subject to His Jurisdiction); TEX. PENAL CODE § 39.06 (Misuse of Official Information).

<sup>48</sup> If an officer of a governmental body has a direct or indirect pecuniary interest in a grant before the body, the contract is void. Tex. Att'y Gen. Op. No. JC-0484 (2002).

<sup>49</sup> A public servant faces criminal liability if, with intent to obtain a benefit or with intent to harm or defraud another, the person intentionally or knowingly misuses anything of value belonging to the government that has come into the person's custody or possession by virtue of the person's office or employment. TEX. PENAL CODE § 39.02(a)(2).

## Transparency and Accountability

### Grant Opportunity Announcements

#### Agency Website

It is customary for a state agency to announce grant opportunities on its public website. A state agency<sup>50</sup> that awards a state grant in an amount greater than \$25,000 from funds appropriated through the General Appropriations Act must publish the purpose for which the grant was awarded on its public website.<sup>51</sup> In addition, the state agency must provide its webpage link to the Comptroller so that a master list of grant information webpages may be posted on the Comptroller's website.<sup>52</sup>

#### Grant Opportunities on the Electronic State Business Daily (ESBD) and eGrants

SPD encourages state agencies to post grant opportunities on the Electronic State Business Daily (ESBD) in the Grant Opportunities section.<sup>53</sup> Beginning fall 2024, the ESBD replaces the Texas.gov eGrants website as the centralized statewide location for grant opportunities offered by state agencies. ESBD users can search for, view details of, and find links and contact information for grant opportunities posted by state agencies. The Department of Information Resources (DIR) will suspend new postings in the eGrants portal; state agencies that have current or recent postings in eGrants should ensure all postings required for contract file documentation have been recorded pending retirement of the eGrants portal.<sup>54</sup>

<sup>50</sup> For the purpose of Section 403.0245, relating to the availability on the internet of certain information on state grants, "state agency" means:

- (1) any department, commission, board, office, or other agency in the executive or legislative branch of state government created by the constitution or a statute of this state;
- (2) the Supreme Court of Texas, the Court of Criminal Appeals of Texas, a court of appeals, the Texas Civil Judicial Council, the Office of Court Administration of the Texas Judicial System, the State Bar of Texas, or another state judicial agency created by the constitution or a statute of this state;
- (3) a university system or an institution of higher education as defined by Section 61.003, Education Code; or
- (4) another governmental organization that the comptroller determines to be a component unit of state government for purposes of financial reporting under the provisions of this section.

TEX. GOVT CODE §§ 403.0245(a), 403.013(a).

<sup>51</sup> TEX. GOVT CODE § 403.0245(b). See also Fiscal Policy and Procedure No. FPP S.010 (Requirement to Publish Purpose of State Grants) at <https://fmx.cpa.texas.gov/fm/grants/>.

<sup>52</sup> The Comptroller's State Grant Listing is located at <https://comptroller.texas.gov/transparency/revenue/grants.php>.

<sup>53</sup> TEX. GOVT CODE § 2155.083.

<sup>54</sup> TEX. GOVT CODE § 2055.202.

## Grantee Selection

The Legislature intends for state agencies to exercise their legal authority in a fiscally responsible manner.<sup>55</sup> State agencies are therefore responsible for ensuring the transparency, objectivity, and integrity of the grantee selection process. Written procedures should address the evaluation of applications and the award of grants as well as any conflict of interest disclosure requirements applicable to the individuals involved in the grant award process. Adequate documentation should also be retained by the state agency to support the evaluation scores, including justifications for any deviations to the established application scoring methodology. In addition, agencies should implement internal controls sufficient to ensure that all grant evaluation and award procedures are consistently followed.

## State Agency Procurement

State agency procurements financed by grant funds must comply with applicable state purchasing law<sup>56</sup> as well as the grant agreement. SPD and DIR each operate statewide centralized purchasing programs and leverage the state's buying power to provide cost-effective products and services. State agencies must use SPD and DIR designated procurement methods unless the purchase falls within a statutory exclusion or exemption. For state agencies subject to SPD's procurement authority, state agency purchases made from grant funds must comply with SPD rules unless the purchase is made in support of research.<sup>57</sup> Procurements of goods or services that are not made under SPD's purchasing authority may be subject to Chapter 2261 of the Texas Government Code.<sup>58</sup>

ESBD posting requirements, Contract Advisory Team (CAT) reviews, Quality Assurance Team (QAT) reviews, and Legislative Budget Board (LBB) contracts database reporting may apply to

<sup>55</sup> General Provisions – Responsibilities of State Agencies, Fiscal Responsibility of Payments Policy located in eXpendit State Purchase Policies at [https://fm.xcpa.texas.gov/fm/pubs/purchase/gen/index.php?section=responsibilities&page=fiscal\\_responsibility](https://fm.xcpa.texas.gov/fm/pubs/purchase/gen/index.php?section=responsibilities&page=fiscal_responsibility). See also TEX. GOVT CODE §§ 321.013(f), 321.0133 (SAO may conduct economy and efficiency audit to determine whether state agency is managing or utilizing resources in economical and efficient manner); TEX. GOVT CODE § 321.022(a) (administrative head of state agency shall report reasonable cause to believe that money was lost, misappropriated, or misused to SAO).

<sup>56</sup> See generally Title 10, Subtitle D of the Texas Government Code for the State Purchasing and General Services Act; 2 CFR § 200.317 (state agency procurement transactions for federal grant programs must follow same policies and procedures used for procurement from non-federal funds).

<sup>57</sup> TEX. GOVT CODE § 2155.140 (“The commission’s authority does not apply to a purchase of goods or services from a gift or grant, including an industrial or federal grant or contract in support of research.”).

<sup>58</sup> TEX. GOVT CODE § 2261.001(a) (“This chapter, other than Subchapter F, applies only to each procurement of goods or services made by a state agency that is neither made by the comptroller nor made under purchasing authority delegated to the agency by or under Section 51.9335 or 73.115, Education Code, or Section 2155.131 or 2155.132.”).

agency purchases funded by grants. SPD has published the *State of Texas Procurement and Contract Management Guide*<sup>59</sup> as an aid to procurement professionals in the execution of their duties.

## Reporting Requirements

State agency grant agreements may be subject to various reporting requirements depending on the transaction value and source of funds. For example, grant agreements with a value greater than \$50,000 must be reported to the Legislative Budget Board (LBB) Contracts Database.<sup>60</sup> There are also notification requirements for certain federally funded programs.<sup>61</sup> Grant program managers are encouraged to consult with agency legal counsel to ensure compliance with applicable reporting requirements.

## Intergovernmental Coordination

The Office of State-Federal Relations acts as a liaison between Texas and the federal government. The duties of this state agency, administratively attached to the Governor's Office, include

- helping to coordinate state and federal programs dealing with the same subject;
- informing the Governor and the Legislature of federal programs that may be carried out in the state or that affect state programs;
- providing federal agencies and the United States Congress with information about state policy and state conditions on matters that concern the federal government;
- responding to requests for information from the Legislature, the United States Congress, and federal agencies; and
- coordinating with the Legislative Budget Board regarding the effects of federal funding on the state budget.<sup>62</sup>

To assist in a coordinated communication of the State's interests, an agency or political subdivision of the state must report to the Office of State-Federal Relations any contract between the agency or subdivision and a federal-level government relations consultant.<sup>63</sup>

The Governor, as the chief planning officer of the State, has established a Division of Budget and Policy.<sup>64</sup> Among other responsibilities, this division serves as the clearinghouse for all state agency

<sup>59</sup> The Texas Procurement and Contract Management Guide is published on the Comptroller's website at [Comptroller.Texas.Gov](http://Comptroller.Texas.Gov).

<sup>60</sup> General Appropriations Act, House Bill 1, 88th R.S. at Article IX, Section 7.04.

<sup>61</sup> General Appropriations Act, House Bill 1, 88th R.S. at Article IX, Section 13.02.

<sup>62</sup> TEX. GOVT CODE §§ 751.002, 751.005.

<sup>63</sup> TEX. GOVT CODE § 751.016.

<sup>64</sup> Office of the Governor, Division of Budget and Policy website is located at <https://gov.texas.gov/organization/bpp>.

applications for federal grant or loan assistance.<sup>65</sup> A state agency is required to notify the Division of Budget and Policy of each application for federal grant or loan assistance before the agency submits the application.<sup>66</sup>

The Governor may also provide planning assistance to political subdivisions. At the request of the governing body of a political subdivision or the authorized agency of a group of political subdivisions, the Governor may (1) arrange planning assistance, including surveys, community renewal plans, technical services, and other planning and (2) arrange for a study or report on a planning problem submitted to the Governor.<sup>67</sup> In addition, the Governor, or a state agency designated by the Governor, may provide technical assistance and coordinate the actions of a local government participating in a federal assistance program.<sup>68</sup> The governing body of a local government by order or resolution may request that the Governor, or the designated state agency, act on behalf of the local government in any matter relating to a request for federal financial assistance or an agreement, assurance of compliance, requirement, or enforcement action relating to the request.<sup>69</sup>

### **Federal Uniform Guidance**

The U.S. Office of Management and Budget (OMB) guidance titled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” commonly referred to as the *Uniform Guidance*, is located in Subtitle A of Title 2 of the Code of Federal Regulations.

The policy reforms in the *Uniform Guidance* include

- eliminating duplicative and conflicting guidance;
- focusing on performance over compliance for accountability;
- encouraging efficient use of information technology and shared services;
- providing for consistent and transparent treatment of costs;
- limiting allowable costs to make the best use of federal resources;
- setting standard business processes using data definitions;

- encouraging non-federal entities to have family-friendly policies;
- strengthening oversight; and
- targeting audit requirements on risk of waste, fraud, and abuse.<sup>70</sup>

Although the Uniform Guidance is intended to be the government-wide framework for federal grants management,<sup>71</sup> some federal programs may have exemptions or requirements in addition to the Uniform Guidance.<sup>72</sup> Grant program managers, therefore, must not only be familiar with the Uniform Guidance but also the associated federal agency implementing regulations set forth in Subtitle B of Title 2 of the Code of Federal Regulations, the federal program legislation and associated regulations, any federal agency issued information bulletins and policy statements regarding the program, any applicable state law and policies, and the terms and conditions of the federal award.

<sup>65</sup> TEX. GOV'T CODE § 772.009(a).

<sup>66</sup> TEX. GOV'T CODE § 772.005.

<sup>67</sup> TEX. GOV'T CODE § 772.008(a).

<sup>68</sup> TEX. GOV'T CODE §§ 742.001, 742.003(a).

<sup>69</sup> TEX. GOV'T CODE § 742.004(a).

<sup>70</sup> Uniform Guidance (Final Guidance) 78 Fed. Reg. 248, 78591-78593 (2013).

<sup>71</sup> Uniform Guidance (Final Guidance), 78 Fed. Reg. 248, 78590 (2013).

<sup>72</sup> See 2 CFR § 200.101.

## UNIFORM ASSURANCES

TxGMS, as required by Chapter 783 of the Texas Government Code, includes uniform and concise language for any assurances that a local government is required to make to a state agency.<sup>73</sup> The term “assurance” refers to a statement of compliance with federal or state law that is required of a local government as a condition for the receipt of grant or contract funds.<sup>74</sup> A list of the Uniform Assurances to be made by local governments to state agencies is provided in [Appendix 6](#).

Because the Uniform Assurances are meant to be of general applicability to units of local government, the Uniform Assurances do not include certifications based on the following: federal or state program legislation, program-specific requirements contained in the federal or state award, or [specific conditions](#) tailored to a particular subrecipient. Accordingly, state agencies may include certifications in their grant agreements and procurement contracts with local governments that are in addition to the Uniform Assurances to ensure compliance with applicable law or rule.

## STANDARD FINANCIAL MANAGEMENT CONDITIONS

### Overview

TxGMS, as required by Chapter 783 of the Texas Government Code, includes a compilation of Standard Financial Management Conditions.<sup>75</sup> The term “financial management conditions” refers to generally applicable policies and procedures for the accounting, reporting, and management of funds that state agencies require local governments to follow in the administration of grants and contracts.<sup>76</sup>

The financial management conditions vary depending on the funding source and type of transaction. Therefore, in accordance with Section 783.006(d) of the Texas Government Code,<sup>77</sup> the Standard Financial Management Conditions are categorized according to federal grant programs and state grant programs.

Failure to follow a state or federal law applicable to the disbursement of grant funds may subject the local government to statutory, common law, and contractual remedies that may include administrative action, suspension of grant payments, termination, and ineligibility for future grants.

### Federal Grant Programs

For federally funded grant programs administered by the state, a local government subrecipient must comply with the Standard Financial Management Conditions that comprise the following:

- the federal program legislation as well as any associated regulations and program-specific policy statements issued by the federal agency;
- the *Uniform Guidance* and any applicable federal agency regulations located in Subtitle B of Title 2 of the Code of Federal Regulations;
- as permitted by the *Uniform Guidance*, a state agency’s subaward may include additional specific award conditions,<sup>78</sup> ; and

<sup>73</sup> TEX. GOVT CODE § 783.005(a).

<sup>74</sup> TEX. GOVT CODE § 783.003.

<sup>75</sup> TEX. GOVT CODE § 783.006.

<sup>76</sup> TEX. GOVT CODE § 783.003.

<sup>77</sup> TEX. GOVT CODE § 783.006(d).

<sup>78</sup> 2 CFR § 200.207.

- requirements the state agency imposes on the subrecipient for the state agency to meet its responsibilities under the federal award<sup>79</sup> (for example, the applicable terms and conditions of the federal agency’s award).
- In addition, state agencies must comply with applicable state law and fiscal policy in the administration of federal grant programs (for example, Chapter 783 of the Texas Government Code).

## State Grant Programs

### Overview

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For grant programs wholly funded by the State, a local government grantee under a grant from a state agency must comply with the following Standard Financial Management Conditions:

- Grant Award to Local Government;
- Standards for Financial and Program Management;
- Grantee Subawards and Contracts;
- Property Standards;
- Performance and Financial Monitoring and Reporting;
- Records Retention and Access;
- Remedies for Noncompliance;
- Closeout;
- Post-Closeout Adjustments and Continuing Responsibilities;
- Collection of Amounts Due;
- Cost Principles; and
- Audits.

Grant program managers should not presume that the laws and policies applicable to federal grant programs apply to state-funded grant programs. To assist grant program managers in identifying similarities and differences between the administration of state and federal grant programs, the Standard Financial Management Conditions for state grant programs generally follow the organizational structure of the *Uniform Guidance*. In addition, a Selected Items of Cost Supplement Chart is provided in [Appendix 7](#).

### Grant Award to Local Government

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The local government must enter into a written grant agreement with the state agency grantor. The terms and conditions of the state agency grant agreement with the local government must address, as applicable, the following: Uniform Assurances, Standard Financial Management Conditions, program legislation, pro-

gram specific requirements, relevant public policy requirements, including General Appropriations Act provisions, and specific conditions tailored to the local government.

## Standards for Financial and Program Management

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### Statutory and Policy Requirements

The local government is responsible for complying with all requirements of the state award. The local government must manage and administer the state award in a manner to ensure that funding provided through the state award is expended and associated programs are implemented in full accordance with state law and public policy requirements.

### Performance Measurement

As required by the performance goals, indicators, and milestones in the state award, the local government must relate financial data to performance accomplishments of the state award. When applicable, the local government must also provide cost information such as unit cost data to demonstrate cost effectiveness. The local government’s performance should be measured in a way that will help the state agency to improve program outcomes, share lessons learned, and spread the adoption of promising practices. When establishing performance reporting frequency and content, the state agency should consider what information will be necessary to measure the grantee’s progress, to identify promising practices of grantees, and to build the evidence upon which the state agency makes program and performance decisions. The state agency should not require additional information that is not necessary for measuring program performance and evaluation.

### Financial Management

Each local government must expend and account for the state award in accordance with applicable laws for expending and accounting for the local government’s funds. All local government financial management systems, including records documenting compliance with applicable statutes, regulations, and the terms and conditions of the state award, must be sufficient to permit the preparation of reports required by the terms and conditions, and tracking expenditures adequate to establish that funds have been used in accordance with the applicable laws, rules, and terms and conditions of the state award.

The local government’s financial management system must provide for the following:

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<sup>79</sup> 2 CFR § 200.332(a)(3).

- (1) Identification of all state awards received and expended and the state programs under which they were received. State program and state award identification must include, as applicable, the state award identification number, year the state award was issued, and name of the state agency or pass-through entity.
- (2) Accurate, current, and complete disclosure of the financial results of each state award or program in accordance with the reporting requirements in the [Financial Reporting](#) and [Monitoring and Reporting Program Performance](#) sections. When a state agency or pass-through entity requires reporting on an accrual basis from a local government that maintains its records other than on an accrual basis, the local government must not be required to establish an accrual accounting system. This local government may develop accrual data for its reports based on an analysis of the documentation on hand.
- (3) Maintaining records that sufficiently identify the amount, source, and expenditure of state funds for state awards. These records must contain information necessary to identify state awards, authorizations, obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.
- (4) Effective control over, and accountability for, all funds, property, and assets. The local government must safeguard all assets and ensure they are used solely for authorized purposes.
- (5) Comparison of expenditures with budget amounts for each state award.
- (6) Written procedures to implement the requirements of the [Payment](#) section.
- (7) Written procedures for determining the allowability of costs in accordance with the [Cost Principles](#) section and the terms and conditions of the state award.
- (5) take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information. This also includes information the state agency designates as sensitive or the local government considers sensitive and is consistent with applicable federal, state, and local laws regarding privacy and obligations of confidentiality.

### **Bonds and Insurance**

- (1) Where the state government guarantees or insures the repayment of money borrowed by the local government, the state agency may require adequate bonding and insurance if the bonding and insurance requirements of the local government are not deemed adequate to protect the interest of the state government.
- (2) The state agency may require adequate fidelity bond coverage where the local government lacks coverage to protect the interest of the state government.
- (3) Where bonds, insurance, or both are required in the situations described in this section, the bonds and insurance must be obtained from companies licensed in Texas with an “A-” rating or better from A.M. Best Company holding certificates of authority.

### **Payment**

A state agency must distribute grant money on a reimbursement or an as-needed basis unless (1) otherwise provided by statute or (2) the agency determines another distribution method is necessary for the purposes of the grant.

If payments are made in advance, payment methods utilized by the state agency must minimize the time elapsing between the transfer of funds from the state agency and the disbursement of funds by the local government whether the payment is made by electronic funds transfer or by other means.

- (1) The local government may be paid in advance, provided it maintains or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the local government, and financial management systems that meet the standards for fund control and accountability as established in TxGMS. Advance payments to a local government must be limited to the minimum amounts needed and be timed with actual, immediate cash requirements of the local government in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the local government for direct program or project costs and the proportionate share of any allowable indirect costs. The local government must make timely

### **Internal Controls**

The local government must

- (1) establish, document, and maintain effective internal control over the state award that provides reasonable assurance that the local government is managing the state award in compliance with statutes, rules, and the terms and conditions of the state award;
- (2) comply with statutes, rules, and the terms and conditions of the state award;
- (3) evaluate and monitor the local government’s compliance with statutes, rules, and the terms and conditions of state awards;
- (4) take prompt action when instances of noncompliance are identified; and

- payments to contractors in accordance with the contract provisions.
- (2) Whenever possible, advance payment requests by the local government must be consolidated to cover anticipated cash needs for all state awards received by the recipient from the awarding state agency or pass-through entity.
    - (i) Advance payment mechanisms must comply with applicable state law and fiscal policy and include, but are not limited to, warrants and electronic funds transfers.
    - (ii) Unless state law provides otherwise, requests by local governments for advance payments and reimbursements may be submitted monthly or, if authorized by the state agency, on a more frequent basis.
  - (3) When the reimbursement method is used, the state agency or pass-through entity must make payment within 30 calendar days after receipt of a complete and correct request for payment. A state agency shall notify the local government of an error in a request for payment, including incomplete supporting documentation, not later than the 21st day after the date the invoice is received.
  - (4) If the local government cannot meet the criteria for advance payments and the state agency has determined that reimbursement is not feasible because the local government lacks sufficient working capital, the state agency may provide cash on a working capital advance basis if the procedure is authorized by state law. Under this procedure, the state agency must advance cash payments to the local government to cover its estimated disbursement needs for an initial period generally aligned to the local government's disbursing cycle. After that, the state agency must reimburse the local government for its actual cash disbursements. Use of the working capital advance method of payment requires that the pass-through entity provide timely advance payments to any sub-grantees in order to meet the sub-grantee's actual cash disbursements. The pass-through entity must not use the working capital advance method of payment if the reason for using this method is the unwillingness or inability of the pass-through entity to provide timely advance payments to the sub-grantee to meet the sub-grantee's actual cash disbursements.
  - (5) If available, the local government must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on state funds before requesting additional cash payments.
  - (6) Payment for allowable costs must not be withheld at any time during the period of performance unless required by the specific conditions of the award, [remedies for noncompliance](#), or in one or more of the following instances:
    - (i) The local government has failed to comply with the terms and conditions of the state award.
    - (ii) The local government is delinquent in a debt to the state.
  - (7) A payment withheld for failure to comply with the terms and conditions of the state award must be released to the local government upon subsequent compliance. When a state award is suspended, payment adjustments must be made in accordance with the requirements of the [Effects of Suspension and Termination](#) section.
  - (8) A payment must not be made to a local government for amounts that the local government withholds from contractors to ensure satisfactory completion of work. Payment must be made when the local government disburses the withheld funds to the contractors or to escrow accounts established to ensure satisfactory completion of work.
  - (9) The use of banks and other institutions as depositories of advance payments under state awards must comply with the standards prescribed by applicable law.
  - (10) The determination as to whether the local government must maintain advance payments of state awards in interest-bearing accounts must comply with the standards prescribed by applicable law.
  - (11) The determination as to whether the local government may retain interest earned on advance payment amounts and whether the retained interest is subject to any restrictions (for example, monetary cap, expenditure limitation, annual remittance) must comply with the standards prescribed by applicable law.

### Cost Sharing

Unless otherwise provided in state law, voluntary committed cost sharing is not expected under state research grants. The state agency may not use voluntary committed cost sharing as a factor during the merit review of applications or proposals for state research grants unless authorized by state statutes or state agency regulations and specified in the notice of funding opportunity. State agencies are also discouraged from using voluntary committed cost sharing as a factor during the merit review of applications for other state assistance programs. If voluntary committed cost sharing is used for this purpose for other programs, the notice of funding opportunity must specify how an applicant's proposed cost sharing will be considered.

For all state awards, the state agency or pass-through entity must accept any cost sharing funds (including cash and third-party in-kind contributions, and also including funds committed by the

local government, sub-grantee, or third parties) as part of the local government's contributions to a program when the funds

- (1) are verifiable in the local government's records;
- (2) are not included as contributions for any other state award;
- (3) are necessary and reasonable for achieving the objectives of the state award;
- (4) are allowable under the [Cost Principles](#) section;
- (5) are not paid by the state government under another state award, except where the program's state authorizing statute specifically provides that state funds made available for the program can be applied to cost sharing requirements of other state programs;
- (6) are provided for in the approved budget when required by the state agency; and
- (7) conform to other applicable provisions of TxGMS.

Unrecovered indirect costs, including indirect costs on cost sharing, may be included as part of cost sharing with the prior approval of the state agency or pass-through entity. Unrecovered indirect cost means the difference between the amount charged to the state award and the amount that could have been charged to the state award under the local government's approved negotiated indirect cost rate.

Values for local government contributions of services and property must be established in accordance with the [Cost Principles](#) section. When a state agency or pass-through entity authorizes the local government to donate buildings or land for construction projects, facilities acquisition projects, or long-term use, the value of the donated property for cost sharing must be the lesser of paragraphs (1) or (2):

- (1) The value of the remaining life of the property recorded in the local government's accounting records at the time of donation.
- (2) The current fair market value.

However, when there is sufficient justification, the state agency or pass-through may approve using the current fair market value of the donated property, even if it exceeds the value described in (1) above at the time of donation.

Volunteer services furnished by third-party professional and technical personnel, consultants, and others may be counted as cost sharing if the service is necessary for the program. Rates for third-party volunteer services must be consistent with those paid for similar work by the local government. When the required skills are not found in the local government's workforce, rates must be con-

sistent with those paid for similar work in the labor market where the local government competes for the services involved. In either case, fringe benefits that are allowable, allocable, and reasonable may be included in the valuation.

When a third-party organization furnishes the services of an employee, these services must be valued at the employee's regular rate of pay plus an amount of fringe benefits that is reasonable, necessary, allocable, and otherwise allowable, and indirect costs at the third-party organization's approved negotiated indirect cost rate, or a rate in accordance with the [Indirect Costs](#) section provided these services employ the same skills for which the employee is normally paid. Where donated services are treated as indirect costs, indirect cost rates will separate the value of the donated services so that reimbursement for the donated services will not be made.

Donated property from third parties may include items such as equipment, office supplies, laboratory supplies, or workshop and classroom supplies. The assessed value of donated property included as cost sharing must not exceed the property's fair market value at the time of the donation.

The method used for determining the value of donated equipment, buildings, and land for which title passes to the local government may differ according to the following:

- (1) If the purpose of the state award is to assist the local government in acquiring equipment, buildings, or land, the aggregate value of the donated property may be claimed as cost sharing.
- (2) If the purpose of the state award is to support activities that require the use of equipment, buildings, or land, only depreciation charges for equipment and buildings may be made.

However, the fair market value of equipment or other capital assets and fair rental charges for land may be allowed if provided in the terms and conditions of the state award.

The value of donated property must be determined in accordance with the accounting policies of the local government with the following qualifications:

- (1) The value of donated land and buildings must not exceed its fair market value at the time of donation to the local government as established by an independent appraiser (for example, certified real property appraiser) and certified by a responsible official of the local government.
- (2) The value of donated equipment must not exceed the fair market value at the time of donation.

- (3) The value of donated space must not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately owned building in the same locality.
- (4) The value of loaned equipment must not exceed its fair rental value.

The fair market value of third-party in-kind contributions must be documented and, to the extent feasible, supported by the same methods used internally by the local government.

### **Program Income**

Unless a state law provides otherwise, the local government shall comply with the terms of the state award regarding the generation and use of program income. For purposes of TxGMS, the term “program income” includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under state awards, the sale of commodities or items fabricated under a state award, license fees, and royalties on patents and copyrights, and principal and interest on loans made with state award funds. “Program income” refers to gross income directly generated by a supporting activity during the period of performance. Costs incidental to the generation of program income may be deducted from gross income to determine program income only if (1) deduction is authorized by the award and (2) the costs to be deducted are not charged to the award. Except as otherwise provided in state statutes, regulations, or the terms and conditions of the state award, program income does not include rebates, credits, discounts, and interest earned on any of them. Taxes, special assessments, levies, fines, and similar revenues a local government raised are not program income unless the revenues are specifically identified in the state award or state agency regulations as program income. Proceeds from the sale of real property, equipment, or supplies are not program income; such proceeds must be handled in accordance with the [Property Standards](#) section. Unless the agency specifies or approves another use of program income, program income is deducted from total allowable costs, reducing the overall total amount of the state award.

### **Revision of Budget and Program Plans**

The approved budget for the state award summarizes the financial aspects of the project or program as approved during the state award process. It may include either the state share and non-state share or only the state share as determined by the state agency or pass-through entity.

The local government is required to report deviations from the approved budget, project or program scope, or objective, and request prior approval from the state agency for budget and program plan revisions, in accordance with this section.

When requesting approval for budget revisions, the local government must use the same format for budget information that was used in its application, unless the state agency has approved an alternative format.

The local government must request prior written approval from the state agency or pass-through entity for one or more of the following programs and budget-related reasons:

- (1) Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval).
- (2) Change in key personnel (including employees and contractors) that are identified by name or position in the state award.
- (3) The disengagement from a project for more than three months, or a 25 percent reduction in time and effort devoted to the state award over the course of the period of performance, by the approved project director or principal investigator.
- (4) The inclusion, unless waived in writing by the state agency or pass-through entity, of costs that require prior approval in accordance with TxGMS.
- (5) The transfer of funds budgeted for participant support costs to other budget categories.
- (6) Subaward activities not proposed in the application and approved in the state award. A change of sub-grantee only requires prior approval if the state agency or pass-through entity includes the requirement in the terms and conditions of the state award. In general, a state agency or pass-through entity should not require prior approval of a change of sub-grantee unless the inclusion was a determining factor in the merit review or eligibility process. This requirement does not apply to the procurement transactions for goods and services.
- (7) Changes in the total approved cost sharing amount.
- (8) The need arises for additional state funds to complete the project.
- (9) Transferring funds between the construction and non-construction work under the state award.
- (10) A no-cost extension (meaning, an extension of time that does not require the obligation of additional state funds) of the period of performance than any one-time extension authorized by the state agency in accordance with the state

award. All requests for no-cost extensions should be submitted at least 10 calendar days before the conclusion of the period of performance. The state agency may approve multiple no-cost extensions under a state award if not prohibited by state statute or rule.

- (11) Other circumstances specified in the state award.

The state agency must not permit a transfer of funds that would cause any state appropriation to be used for purposes other than those consistent with the appropriation. The state agency may also, at its option, restrict the transfer of funds among direct cost categories (for example, personnel, travel, and supplies) or programs, functions, and activities when:

- (1) the state share of the state award exceeds the Texas Acquisition Threshold; and
- (2) the cumulative amount of a transfer exceeds or is expected to exceed 10 percent of the total budget, including cost share, as last approved by the state agency.

**Period of Performance**

A local government may charge to the state award only allowable costs incurred during the period of performance and any costs incurred before the state agency made the state award that were authorized by the state agency. See Pre-award Costs in [Appendix 7](#).

**Grantee Subawards and Contracts**

**Sub-grantee and Contractor Determination**

In the event of a subaward or procurement contract, the local government is responsible for making case-by-case determinations to determine whether the entity receiving state funds is a sub-grantee or a contractor. The state agency may require the local government to comply with additional guidance to make these determinations, provided such guidance does not conflict with this section. The table below sets forth criteria to be used to distinguish sub-grantees from contractors in state grant programs.

**STATE GRANT PROGRAM**

| Sub-grantee/Subrecipient and Contractor Determination  |   |
|--|---|
| Sub-grantee/Subrecipient   | Contractor  |
| <p>Characteristics that support the classification of the entity as a sub-grantee include, but are not limited to, when the entity:</p> <ul style="list-style-type: none"> <li>(1) determines who is eligible to receive what financial assistance;</li> <li>(2) has its performance measured in relation to whether the objectives of a grant program were met;</li> <li>(3) has responsibility for programmatic decision making;</li> <li>(4) is responsible for adherence to applicable grant program requirements specified in the state award; and</li> <li>(5) implements a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the local government.</li> </ul> | <p>Characteristics that support a procurement relationship between the local government or sub-grantee a contractor include, but are not limited to, when the contractor:</p> <ul style="list-style-type: none"> <li>(1) provides the goods and services within normal business operations;</li> <li>(2) provides similar goods or services to many different purchasers;</li> <li>(3) normally operates in a competitive environment;</li> <li>(4) provides goods or services that are ancillary to the implementation of a grant program; and</li> <li>(5) is not subject to compliance requirements of a state grant program as a result of the agreement. However, similar requirements may apply for other reasons.</li> </ul> |

## **Procurement Contracts**

### **GENERAL PROCUREMENT STANDARDS**

#### **Procurement Methods**

When procuring property and services under a state award, the local government must follow the same documented policies and procedures, including conflict of interest standards, it uses for procurements from its non-state funds as well as comply with TxGMS and applicable law. The local government shall use the procurement methods in this section unless another method is approved by the state agency.

#### **Procurement by micro-purchases**

Procurement by micro-purchase is the aggregate dollar amount of which does not exceed \$10,000. Micro-purchases may be awarded without soliciting competitive quotations if the local government considers the price to be reasonable.

#### **Procurement by simplified acquisition procedures**

Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Texas Acquisition Threshold. If simplified acquisition procedures are used, price or rate quotations must be obtained from an adequate number of qualified entities.

#### **Procurement by sealed bids (formal advertising)**

Sealed bidding is feasible only if (1) a complete, adequate, and realistic specification or purchase description is available; (2) two or more responsible bidders have been identified as willing and able to compete effectively for the business; (3) the procurement lends itself to a firm-fixed-price contract; and (4) the selection of the successful bidder can be made principally based on price. If sealed bids are used, bids must be solicited from an adequate number of known suppliers, providing them with sufficient response time prior to the date set for opening the bids. Unless specified by the state agency, the grantee or sub-grantee may exercise judgment in determining what number is adequate. For local governments, the invitation for bids must be publicly advertised. The invitation for bids must define the items or services in order for the bidder to properly respond. All bids must be opened at the time and place prescribed in the invitation for bids. A firm-fixed-price contract is awarded to the lowest responsive and responsible bidder. When specified in the solicitation, factors such as discounts, transportation cost, and life-cycle costs must be considered in determining which bid is the lowest. Payment discounts may only be used to determine the low bid when the grantee or sub-grantee determines they are a valid factor based on prior experience. The

grantee or sub-grantee must document and provide justification for all bids it rejects.

#### **Procurement by competitive proposals**

This is a procurement method used when conditions are not appropriate for using sealed bids. This procurement method may result in either a fixed-price or cost-reimbursement contract. Requests for proposals require public notice, and all evaluation factors and their relative importance must be identified. Proposals must be solicited from multiple qualified entities. To the maximum extent practicable, any proposals to the public notice must be considered. The procuring entity must have written procedures for conducting technical evaluations and for selecting contractors. A contract must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

#### **Procurement of architecture/engineering services by competitive proposals**

Competitive proposal procedures may be used for procurement of architectural/engineering (A/E) professional services using an alternate evaluation method where the price is not a selection factor. Instead of considering price, competitors' qualifications may be evaluated and the most qualified competitor selected. Contract award is subject to negotiation of fair and reasonable compensation. The method can only be used to procure architectural/engineering professional services. It cannot be used to purchase other services provided by A/E firms that are a potential source to perform the proposed work.

#### **Procurement by noncompetitive proposals**

Procurement through solicitation of a proposal from only one source may be used only when one or more of the following circumstances apply: (1) the procurement transaction can be fulfilled by a single source; (2) the public exigency or emergency for the requirement will not permit a delay resulting from providing public notice of a competitive solicitation; (3) the local government requests in writing to use a noncompetitive proposals; or (4) after solicitation of a number of sources, competition is determined inadequate.

#### **Procurement Considerations**

The purchase procedures must avoid acquisition of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase. When appropriate, an analysis should be made between leasing and purchasing property or equipment to determine the most economical approach.

### Time and Materials Contracts

A time and materials contract is a contract in which the contractor is paid the sum of (1) actual cost of materials used and (2) a fixed hourly rate for labor. In the event the local government uses a time and materials contract, each contract must set a ceiling price that the contractor exceeds at its own risk. Further, the local government awarding such a contract must assert a high degree of oversight in order to obtain reasonable assurance that the contractor is using efficient methods and effective cost controls. Because the contractor will have no incentive to control the cost of materials, a time and materials contract is appropriate only if no other contract is suitable.

### Administrative Efficiency

When appropriate for procurement or use of common or shared goods and services, the local government is encouraged to enter into intergovernmental agreements<sup>80</sup> and utilize the cooperative purchasing programs established by SPD or DIR for procurement transactions. In addition, the local government is encouraged to use federal, state, and local surplus property instead of purchasing new equipment and property when it is feasible and reduces project costs.

### Award Considerations and Procurement Records

The local government must award contracts to responsible contractors that possess the ability to perform successfully under the terms and conditions of a proposed contract. The local government must consider contractor integrity, public policy compliance, proper classification of employees past performance record, and financial and technical resources when conducting a procurement transaction. The local government must maintain records sufficient to detail the history of each procurement transaction. These records must include the rationale for the procurement method, contract type selection, contractor selection or rejection, and the basis for the contract price.

### Conflict of Interest Standards

The local government or sub-grantee must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts. No employee, officer, or agent, board member with real or apparent conflict of interest may participate in the selection, award, or administration of a contract supported by the state award. A conflict of interest includes when the employee, officer, agent, or board member, any member of their immediate

family, their partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from an entity considered for a contract. An employee, officer, agent, and board member of the local government or subgrantee may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors. However, an unsolicited item of nominal value may be accepted under a written policy of the local government or sub-grantee. If the local government or sub-grantee has a parent, affiliate, or subsidiary organization that is not a state, local government, or Indian Tribe, the local government or sub-grantee must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest mean that because of relationships with a parent company, affiliate, or subsidiary organization, the local government or sub-grantee is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization. At a minimum, the local government or sub-grantee's conflict of interest standards and associated disclosure requirements must comply with applicable law, TxGMS, and the terms and conditions of the state award.

### Oversight

The local government must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts and purchase orders. The local government is responsible for the settlement of all contractual and administrative issues arising out of its procurement transactions. These issues include, but are not limited to, source evaluation, protests, disputes, and claims. These standards do not relieve the local government of any contractual responsibilities under its contracts.

## COMPETITION

All procurement transactions must be conducted in a manner that provides full and open competition and is consistent with the standards of this section and applicable state law. To ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids must be excluded from competing on those procurements. Some examples of situations that may restrict competition include, but are not limited to

- (1) placing unreasonable requirements on firms for them to qualify to do business;
- (2) requiring unnecessary experience and excessive bonding;

<sup>80</sup> An intergovernmental agreement is an agreement between governmental entities to exchange goods and services at cost, or the nearest practicable estimate thereof. An intergovernmental agreement is not a procurement contract.

## STATEWIDE PROCUREMENT DIVISION

- (3) noncompetitive pricing practices between firms or between affiliated companies;
- (4) noncompetitive contracts to consultants that are on retainer-contracts;
- (5) organizational conflicts of interest;
- (6) specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance or other relevant requirements of the procurement; and
- (7) any arbitrary action in the procurement process.

The local government must have written procedures for procurement transactions. These procedures must ensure that all solicitations

- (1) Incorporate a clear and accurate description of the technical requirements for the property, equipment or service being procured. The description may include a statement of the qualitative nature of the property, equipment, or service to be procured. When necessary, the description must provide minimum essential characteristics and standards to which the property, equipment, or service must conform. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to clearly and accurately describe the technical requirements, a “brand name or equivalent” description of features may be used to provide procurement requirements. The specific features of the named brand must be clearly stated.
- (2) Identify any additional requirements that the offerors must fulfill and all other factors that will be used in evaluating bids or proposals.

The local government must ensure that all prequalified lists of persons, firms, or products used in procurement transactions are current and include enough qualified sources to ensure maximum open competition. When establishing or amending prequalified lists, the local government must consider objective factors that evaluate price and cost to maximize competition. The local government must not preclude potential bidders from qualifying during the solicitation period.

### CONTRACT COST AND PRICE

The local government must perform a cost or price analysis for every procurement transaction, including contract modifications, in excess of the Texas Acquisition Threshold including contract modifications. The method and degree of analysis conducted depend on the facts surrounding the particular procurement transaction. For example, the local government should consider potential workforce impacts in its analysis if the procurement

transaction will displace public sector employees. However, as a starting point, the local government must make independent estimates before receiving bids or proposals.

Costs or prices based on estimated costs for contracts under the state award are allowable only to the extent that the costs incurred or cost estimates included in negotiated prices would be allowable for the local government under the [Cost Principles](#) section. The local government may reference its own cost principles as long as they comply with TxGMS cost principles. The local government must not use the “cost plus a percentage of cost” and “percentage of construction costs” methods of contracting.

### STATE AGENCY REVIEW

#### Specifications Review

The state agency or pass-through entity may review the technical specifications of proposed procurements under the state award if the state agency believes the review is needed to ensure that the item or service specified is the one being proposed for acquisition. The local government or sub-grantee must submit the technical specification of proposed procurements when requested by the federal agency or pass-through entity. This review should take place prior to the time the specifications are incorporated into a solicitation document. When the local government or sub-grantee desires to accomplish the review after a solicitation has been developed, the state agency or pass-through entity may still review the specifications. In those cases, the review should be limited to the technical aspects of the proposed purchase.

#### Pre-procurement Document Review

When requested, the local government or sub-grantee must provide procurement documents (such as requests for proposals, invitations for bids, or independent cost estimates) to the state agency for pre-procurement review. The state agency or pass-through entity may conduct a pre-procurement review when

- (1) the local government’s procurement procedures or operation fails to comply with the procurement standards set forth in TxGMS;
- (2) the procurement is expected to exceed the Texas Acquisition Threshold and is to be awarded without competition or only one bid is expected to be received in response to a solicitation;
- (3) the procurement is expected to exceed the Texas Acquisition Threshold, and specifies a “brand name” product;
- (4) the procurement is expected to exceed the Texas Acquisition Threshold and a sealed bid procurement is to be awarded to an entity other than the apparent low bidder; or

- (5) a proposed contract modification changes the scope of a contract or increases the contract amount and the resulting contract value exceeds the Texas Acquisition Threshold.

The local government is exempt from the pre-procurement review required by this section if the state agency determines that its procurement systems comply with TxGMS. The local government may request that the state agency review its procurement system to determine whether it meets these standards for its system to be certified. Generally, these reviews must occur where there is continuous high-dollar funding and third-party contracts are awarded regularly.

The local government may self-certify its procurement system. However, self-certification does not limit the state agency's or pass-through entity's right to review the system. Under a self-certification procedure, the state agency or pass-through entity may rely on written assurances from the local government that it is complying with the standards of this part. The local government must cite specific policies, procedures, regulations, or standards as complying with these requirements and have its system available for review.

## BONDING REQUIREMENTS

The state agency or pass-through entity may accept the recipient's or subrecipient's bonding policy and requirements for construction or facility improvement contracts or subcontracts exceeding the Texas Acquisition Threshold. Before doing so, the state agency must determine that the state interest is adequately protected. If such a determination has not been made, the minimum requirements must be as follows:

- (1) A bid guarantee from each bidder equivalent to 5 percent of the bid price. The bid guarantee must consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of the bid, execute any required contractual documents within the specified timeframe.
- (2) A performance bond on the contractor's part for 100 percent of the contract price. A performance bond is a bond executed in connection with a contract to secure the fulfillment of all the contractor's obligations under a contract.
- (3) A payment bond on contractor's the part for 100 percent of the contract price. A payment bond is a bond executed in connection with a contract to assure payment as required by the law of all persons supplying labor and material in the execution of the work provided for under a contract.

## CONTRACT PROVISIONS

The local government's contracts must contain applicable contract provisions from [Appendix 6](#) as well as any additional provisions necessary for compliance with law and the terms of the state award.

## Subaward Procedures

### REQUIREMENTS FOR PASS-THROUGH ENTITIES

A local government must ensure that every subaward is clearly identified as a subaward and that the subaward complies with the terms and conditions of the state award and TxGMS. The standards required by TxGMS flow down to the sub-grantees through the subawards unless the context clearly indicates otherwise.

Many of the standards in TxGMS are presented from the perspective of the grantor (state agency) and grantee (local government) relationship. To determine the respective duties and obligations in the subaward context, the local government in its role as the pass-through entity will stand in the shoes of the grantor (state agency) and the sub-grantee will comply with the requirements of the grantee (local government) unless alternate text specifies requirements for a particular category of sub-grantees (for example, nonprofit organizations, institutions of higher education). In its role as a pass-through entity, the local government will facilitate the communications between the sub-grantees and state agency that are necessary for the timely evaluation of matters requiring the approval of the state agency. Unless the award provides otherwise, any matter that would require approval of the state agency grantor if carried out by the local government grantee must still be approved by the state agency grantor, even though it is carried out by a sub-grantee.

### FIXED AMOUNT AWARDS

A fixed amount award is a type of grant agreement pursuant to which the state agency or pass-through entity provides a specific amount of funding without regard to actual costs incurred under the state award. Fixed amount awards are appropriate when the work that is to be performed can be priced with a reasonable degree of certainty. Samples of appropriate mechanisms to establish an appropriate price include the local government's past experience with similar types of work for which outcomes and its costs can be reliably predicted, or the local government can easily obtain price estimates for significant cost elements.

This type of state award reduces some of the administrative burden and record-keeping requirements for both the local gov-

ernment and state agency. Accountability is based primarily on performance and results. With prior written approval from the state agency, a pass-through entity may provide subawards based on fixed amounts up to \$500,000, provided the subawards comply with the requirements of this section and the state award. The following conditions apply to fixed amount awards:

- (1) The state award amount is negotiated using the cost principles (or other pricing information) as a guide. The state agency or pass-through entity may use fixed amount awards if the project scope is specific and if accurate cost, historical, or unit pricing data is available to establish a fixed budget based on a reasonable estimate of actual costs. Budgets for fixed amount awards are negotiated with the local government and the total amount of the state funding is determined in accordance with the local government's proposal, available pricing data, and [Cost Principles](#) section. Accountability must be based on performance and results, which can be communicated in performance reports or through routine monitoring. There is no expected routine monitoring of the actual costs incurred by the local government under the state award. Therefore, the state agency may choose not to require financial reporting. This does not absolve the local government from the record retention nor does it absolve the local government of the responsibilities of making records available for review during an audit. Payments must be based on meeting specific requirements of the state award. Some of the ways in which the state award may be paid include, but are not limited to, the following:
  - (a) In several partial payments. The amount of each payment as well as the "milestone" or event triggering the payment, should be agreed to in advance and included in the state award.
  - (b) On a unit price basis. The defined unit prices should be agreed to in advance and included in the state award.
  - (c) In one payment at the completion of the state award.
- (4) A fixed amount award must not be used in programs that require cost sharing.
- (5) A fixed amount award may generate and use program income in accordance with the terms and conditions of the state award; however, the requirements of [Program Income](#) section of TxGMS do not apply.
- (6) At the end of a fixed amount award, the local government must certify in writing to the state agency or pass-through entity that the project was completed as agreed to in the state award, or identify those activities that were not completed, and that all expenditures were incurred in accordance with [Factors Affecting Allowability of Costs](#). When the required activities were not carried out, including fixed amount awards paid on unit price basis under paragraph (1) of this section, the amount of the state award must be

reduced by the amount that reflects the activities that were not completed in accordance with the state award. When the required activities were completed in accordance with the terms and conditions of the state award, the local government is entitled to any unexpended funds.

- (7) Periodic reports may be established for fixed amount awards.
- (8) For prior approval requirements that apply to fixed amount awards, see [Revision of Budget and Program Plans](#) and [Fixed Amount Awards](#).

### PRE-AWARD RISK REVIEW OF APPLICANTS

Prior to making a subaward, the local government must review the risk posed by grant applicants.

The local government as part of its pre-award risk review may review eligibility qualifications and financial integrity information available through government repositories such as the System for Award Management (SAM.gov). Awards may not be made to entities that are subject to suspension or debarment as indicated on the Texas Debarred Vendor List or System for Award Management.

The local government must establish and maintain policies and procedures for conducting a risk assessment to evaluate the risks posed by applicants before issuing state subawards. This assessment helps identify risks that may affect the advancement toward or the achievement of a project's goals and objectives. Risk assessments assist grant program managers in determining appropriate resources and time to devote to project oversight and monitor recipient progress. This assessment may incorporate elements such as the quality of the application, award amount, risk associated with the program, cybersecurity risks, fraud risks, and impacts on local jobs and the community. If the local government determines that a subaward will be made, [specific conditions](#) that correspond to the degree of risk assessed may be applied to the subaward agreement. The risk criteria to be evaluated must be described in the announcement of the funding opportunity.

In evaluating risks posed by applicants, the local government may consider the following:

- (a) financial stability;
- (b) the applicant's record of effectively managing financial risks, assets, and resources;
- (c) quality of management systems and ability to meet the management standards;
- (d) the applicant's record of managing previous and current awards, including compliance with reporting requirements and conformance to the terms and conditions of state and federal awards, if applicable;

- (e) reports and findings from audits performed, if applicable; and
- (f) the applicant's ability to effectively implement statutory, regulatory, or other requirements imposed on the grantee and sub-grantees of state awards.

### SPECIFIC CONDITIONS

The local government may impose additional specific conditions based on an analysis of the following factors:

- (1) its risk assessment as described in the [Pre-award Risk Review of Applicants](#) section;
- (2) the sub-grantee's history of compliance with the terms and conditions of a state or federal award;
- (3) the sub-grantee's ability to meet expected performance goals as described in the subaward; or
- (4) a responsibility determination of a sub-grantee.

These specific conditions may include the following:

- (1) requiring payments as reimbursements rather than advance payments;
- (2) withholding authority to proceed to the next phase until receipt of evidence of acceptable performance;
- (3) requiring additional or more detailed financial reports;
- (4) requiring additional project monitoring;
- (5) requiring the grantee or sub-grantee to obtain technical or management assistance; or
- (6) establishing additional prior approvals.

Prior to imposing specific conditions, the local government must notify the sub-grantee as to

- (1) the nature of the specific conditions;
- (2) the reason why the specific conditions are being imposed;
- (3) the nature of the action needed to remove the specific conditions, if applicable;
- (4) the time allowed for completing the actions; and
- (5) the method for requesting the local government to reconsider imposing a specific condition.

Any specific conditions must be promptly removed once the conditions that prompted them have been corrected.

### INFORMATION CONTAINED IN A SUBAWARD

The local government shall ensure that each subaward is clearly identified to the sub-grantee as a subaward and that each subaward is formalized by written agreement. In addition to any applicable terms and conditions of the state award that flow down

through subawards to sub-grantees, the local government must include the following information in the subaward:

#### Subaward Information

The local government must include the following information in each subaward:

- (a) Sub-grantee's name (which must match registered name in SAM or DUNS);
- (b) Sub-grantee's unique entity identifier or DUNS number;
- (c) Funding opportunity number (if the local government has assigned a number to the funding opportunity);
- (d) Award date;
- (e) Period of performance (start and end date);
- (f) Amount of state funds obligated in the subaward;
- (g) Total amount of state funds obligated to the sub-grantee by the local government, including the current obligation;
- (h) Total amount of each state award committed to the sub-grantee by the local government;
- (i) Total required cost sharing, if applicable;
- (j) Project description;
- (k) Name of local government and contact information for awarding official; and
- (l) Indirect cost rate for the subaward.

#### Terms and Conditions

The local government must incorporate all the general terms and conditions (for example, administrative requirements, statutes and rules) applicable to the award.

If the subaward includes terms and conditions incorporated by reference, the subaward must include wording that expressly incorporates, by reference, the applicable information and specifies a publicly available website where the information may be accessed. The local government must provide a copy of the full text of such information promptly if a sub-grantee requests it. The local government must also maintain an archive of previous versions of the incorporated by reference terms and conditions, with effective dates, for use by the sub-grantees, auditors, or others. The archive should be located on the local government's website in the same place where current terms and conditions are available.

#### Additional Requirements

The local government must include any additional requirements necessary for the local government to meet its responsibilities under the state award. This includes information and certifications

required for submitting financial and performance reports that the local government must provide to the state agency.

- (a) **State Agency, Program, or Award-Specific Terms and Conditions.** The local government may include in each subaward any specific terms and conditions that are in addition to the general terms and conditions. Whenever practicable, these specific terms and conditions also should be available on a public website and in notices of funding opportunities in addition to being included in a subaward.
- (b) **Subaward Performance Goals.** The local government must include in the subaward an indication of the timing and scope of expected performance by the sub-grantee as related to the outcomes intended to be achieved by the program. In some instances (for example, discretionary research awards), this may be limited to the requirement to submit technical performance reports (to be evaluated in accordance with local government policy). Where appropriate, the subaward may include specific performance goals, indicators, milestones, or expected outcomes (such as outputs, or services performed or public impacts of any of these) with an expected timeline for accomplishment. Reporting requirements must be clearly articulated such that, where appropriate, performance during the execution of the subaward has a standard against which sub-grantee performance can be measured. The local government may include program-specific requirements, as applicable. These requirements should be aligned with strategic goals, strategic objectives or performance goals that are relevant to the program.

- (4) The subaward shall include the indirect cost rate for the subaward that is either a negotiated rate or a de minimis rate as defined in the [Indirect Costs](#) section.
- (5) The subaward shall include a requirement that the sub-grantee permit the local government and auditors to access the sub-grantee's records and financial statements for the local government to fulfill its monitoring requirements.
- (6) The subaward shall include appropriate terms and conditions concerning the closeout of the subaward.

### EVALUATION OF SUB-GRANTEE'S RISK OF NONCOMPLIANCE

The local government shall evaluate each sub-grantee's fraud risk and risk of noncompliance with a subaward to determine the appropriate sub-grantee monitoring. When evaluating a sub-grantee's risk, a local government should consider the following:

- (1) The sub-grantee's prior experience with the same or similar subawards;

- (2) The results of previous audits. This includes considering whether or not the sub-grantee receives a Single Audit prepared in compliance with the Uniform Guidance, and the extent to which the same or similar subawards have been audited;
- (3) Whether the sub-grantee has new personnel or new or substantially changed systems; and
- (4) The extent and results of state agency monitoring (for example, if the sub-grantee also receives state awards directly from the state agency).

If appropriate, the local government will consider implementing [specific conditions](#) in a subaward and notify the state agency of the specific conditions.

### SUB-GRANTEE MONITORING AND MANAGEMENT

The local government must monitor the activities of a sub-grantee as necessary to ensure that the sub-grantee complies with state law and the terms and conditions of the subaward. The local government is responsible for monitoring the overall performance of a subrecipient to ensure that the goals and objectives of the subaward are achieved. In monitoring a sub-grantee, a local government must:

- (1) Review financial and performance reports.
- (2) Ensure that the sub-grantee takes corrective action on all significant developments that negatively affect the subaward. Significant developments include Single Audit findings related to the subaward, other audit findings, site visits, and written notifications from a subrecipient of adverse condition that will impact its ability to meet the milestones or the objectives of a subaward. When significant developments negatively impact the subaward, a sub-grantee must provide the local government with information on its plan for corrective action and any assistance needed to resolve the situation.
- (3) Issue a management decision for audit findings pertaining to the subaward provided to the sub-grantee from the local government as required by the [Management Decision](#) section.

Depending upon the local government's assessment of the risk posed by the sub-grantee as described in the [Evaluation of Sub-grantee's Risk of Noncompliance](#) section, the following monitoring tools may be useful for the local government to ensure proper accountability and compliance with program requirements and achievement of performance goals:

- (1) providing sub-grantees with training and technical assistance on program-related matters;

- (2) performing site visits to review the sub-grantee’s program operations; and
- (3) arranging for audit services.

The local government must verify that a sub-grantee is audited as required by TxGMS. Further, the local government must consider whether the results of a sub-grantee’s audit, site visits, or other monitoring necessitate adjustments to the local government’s records. The local government must consider taking enforcement action against noncompliant sub-grantees as described in the [Remedies for Noncompliance](#) section and permitted by the sub-award.

## Property Standards

### Insurance Coverage

The local government must, at a minimum, provide the equivalent insurance coverage for real property and equipment acquired or improved with state funds as provided to property and equipment owned by the local government. Insurance is not required for state owned property unless required by the terms and conditions of the state award.

### Real Property

Subject to the obligations and conditions set forth in state law, title to real property acquired or improved under the state award will vest upon acquisition in the local government. See the [Property Trust Relationship](#) section. Prior approval of the state agency is required, prior to the acquisition of real property by the local government using grant funds. Except as otherwise provided by state statutes or the state agency, real property must be used for the originally authorized purpose as long as it is needed for that purpose

A local government must use, manage, and dispose of real property acquired under a state award in accordance with applicable law. When real property is no longer needed for the originally authorized purpose or the state award expires or terminates, the local government must obtain written disposition instructions from the state agency.

### State-owned Property

Title to state-owned property remains vested with the state government. The local government must submit an inventory of all state-owned property in its custody to the state agency annually. The local government must request disposition instructions from

the state agency or pass-through entity upon the completion of the state award or when the property is no longer needed.

### Equipment

Title to equipment acquired under the state award will vest upon acquisition in the local government subject to the conditions of this section. This title must be a conditional title unless a state statute specifically authorizes the state agency to vest title in the local government without further responsibility to the state government and the state agency elects to do so. A conditional title means a clear title is withheld by the state agency until conditions and requirements specified in the terms and conditions of a state award have been fulfilled.

The local government or sub-grantee must use equipment for the project or program for which it was acquired and for as long as needed, whether or not the project or program continues to be supported by the state award. The local government must not encumber the equipment without prior written approval of the state agency or pass-through entity.

Prior written approval by the state agency is required if the local government desires to use the equipment (1) for activities in support of other grant programs, (2) to provide services for a fee that is less than a private company would charge for similar services, and (3) as a trade-in with the proceeds to offset the cost of replacement equipment.

Regardless of whether equipment is acquired in part or its entirety under the state award, the local government must manage equipment (including replacement equipment) utilizing procedures that meet the following requirements:

- (1) Property records must include a description of the property, a serial number or another identification number, the source of funding for the property the title holder, the acquisition date, the cost of the property, the percentage of the state agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property. The local government and sub-grantee are responsible for maintaining and updating property records when there is a change in the status of the property.
- (2) A physical inventory of the property must be conducted, and the results must be reconciled with the property records at least once every two years, and more frequently if required by statute or the award.
- (3) A control system must be in place to ensure safeguards for preventing property loss, damage, or theft. Any loss, dam-

age, or theft of equipment must be investigated. The local government or sub-grantee must notify the state agency or pass-through entity of any loss, damage, or theft of equipment that will have an impact on the program.

- (4) Regular maintenance procedures must be in place to ensure the property is in proper working condition.
- (5) If the local government is authorized or required to sell the property, proper sales procedures must be in place to ensure the highest possible return.
- (6) The state agency may specify additional requirements for Controlled Assets or other items of equipment, regardless of cost, with a high potential for loss.

A local government must use, manage, and dispose of equipment acquired under a state award by the local government in accordance with applicable law. The local government must obtain written disposition instructions from the state agency when the original or replacement equipment acquired under a state award is no longer needed for the original project, program, or other authorized purpose, or when the state award expires or terminates, unless the per unit fair market value of the equipment is less than \$10,000 or disposition instructions have been previously provided.

### **Supplies**

Title to supplies acquired under the state award will vest upon acquisition in the local government. A local government must use, manage, and dispose of supplies acquired under a state award by the local government in accordance with applicable law. The state agency may specify additional requirements for Controlled Assets or other types of supplies, regardless of cost, with a high potential for loss.

When there is a residual inventory of unused supplies exceeding \$10,000 in aggregate value at the end of the period of performance, and the supplies are not needed for any other state award, the local government may retain or sell the unused supplies. Unused supplies mean supplies that are in new condition, not having been used or opened before. The aggregate value of unused supplies consists of all supply types, not just like-item supplies. The state agency or pass-through entity is entitled to compensation in an amount calculated by multiplying the percentage of the state agency's or pass-through entity's contribution towards the cost of the original purchases by the current market value or proceeds from the sale. If the supplies are sold, the state agency or pass-through entity may permit the local government to retain, from the state share, \$1,000 of the proceeds to cover expenses associated with the selling and handling of the supplies. Unless

expressly authorized by state statute, the local government must not use supplies acquired with the state award to provide services for a fee that is less than a private company would charge for similar services, unless prior written approval from the state agency is obtained.

### **Intangible Property**

Title to intangible property acquired under a state award vests upon acquisition in the local government. The local government must use the intangible property for the originally authorized purpose and must not encumber the property without the approval of the state agency.

A local government must use, manage, and dispose of intangible property acquired under a state award by the local government in accordance with applicable law. If expressly provided in the state award, the local government may copyright any work that is subject to copyright and was developed, or for which ownership was acquired, under a state award. The state agency reserves a royalty-free, nonexclusive, and irrevocable right to reproduce, publish, or otherwise use the work for state purposes and to authorize others to do so. This includes the right to require local governments and sub-grantees to make such works available through government repositories.

When no longer needed for the originally authorized purpose or when the state award expires or terminates, the local government must obtain written disposition instructions from the state agency. Absent statutory authority and specific terms and conditions in the state award, the local government will execute all papers and to perform such other property rights as necessary to transfer the intangible property to the state agency.

### **Property Trust Relationship**

Real property, equipment, and intangible property acquired or improved with the state award must be held in trust by the local government as trustee for the beneficiaries of the project or program under which the property was acquired or improved. The state agency or pass-through entity may require the local government to record liens or other appropriate notices of record to indicate that personal or real property has been acquired or improved with a state award and that use and disposition conditions apply to the property. Absent statutory authority and specific terms and conditions in the state award, property acquired under the state award is state property.

Records pertaining to state property must be complete, accurate, and detailed.<sup>81</sup> Depending on the transaction, property purchased with state grant funds may be subject to the Statewide Property Accounting (SPA) system reporting requirements.<sup>82</sup> As general guidance, for a capital asset purchased with state grant funds to be reported by a state agency in the SPA system, the capital asset must be (1) placed into service by the state agency and (2) in the state agency’s possession. The term “capital asset” is defined to be a possession of the state that has an estimated useful life of more than one year.<sup>83</sup> Grant program managers should consult with the Comptroller’s Fiscal Management Division at [spa@cpa.texas.gov](mailto:spa@cpa.texas.gov) to determine whether property purchased using state grant funds is to be reported in the SPA system.<sup>84</sup>

## Performance and Financial Monitoring and Reporting

### Financial Reporting

The local government or sub-grantee will provide financial reports in the form and format prescribed by the state agency.

The state agency or pass-through entity must collect financial reports no less than annually. The local government may not collect financial reports more frequently than quarterly unless a specific condition has been implemented in accordance with [specific conditions](#). To the extent practicable, the local government should collect financial reports in coordination with performance reports.

The local government or sub-grantee must submit financial reports as required by the state award. Reports submitted annually by the local government or sub-grantee must be due no later than 90 calendar days after the reporting period. Reports submitted quarterly or semiannually must be due no later than 30 calendar days after the reporting period.

The final financial report submitted by the local government must be due no later than 120 calendar days after the conclusion of the period of performance. A sub-grantee must submit a final financial report to a local government no later than 90 calendar days after the conclusion of the period of performance. The state agency

<sup>81</sup> See *generally* Chapter 403, Subchapter L, of the Texas Government Code for property accounting requirements for property belonging to the State and 34 TAC § 5.200 for rule pertaining to the Statewide Property Accounting System.

<sup>82</sup> TEX. GOVT CODE § 403.272.

<sup>83</sup> 34 TAC § 5.200(a).

<sup>84</sup> See *generally* 34 TAC § 5.200(b) for certain exemptions to the SPA system reporting requirements.

or pass-through entity may extend the due date for any financial report with justification from the local government or sub-grantee.

## Monitoring and Reporting Program Performance

### Monitoring by the Local Government

The local government must be responsible for the oversight of the state award. The local government must monitor its activities under state awards to ensure they are compliant with all requirements and meeting performance expectations. Monitoring by the local government must cover each program, function, or activity.

### Submitting Performance Reports

- (1) The local government must submit performance reports as required by the state award. Intervals are no less frequently than annually nor more frequently than quarterly except if [specific conditions](#) are applied, and preferably in coordination with performance reporting. The local government must submit annual reports 90 calendar days after the reporting period unless otherwise specified in the state award and must submit quarterly or semiannual reports 30 calendar days after the reporting period unless otherwise specified in the state award. Alternatively, the state agency may require annual reports before the anniversary dates of multiple-year state awards. The local government must submit the final performance report 90 calendar days after the conclusion of the period of performance. The state agency or pass-through entity may extend the due date for any performance report with justification from the local government or sub-grantee.
- (2) The local government must submit performance reports in a form and format approved by the state agency. The performance reports should contain, for each state award, brief information on the following as well as any other information specified by the state agency in the state award:
  - (a) A comparison of accomplishments to the objectives of the state award established for the reporting period (for example, comparing costs to units of accomplishment. Where performance trend data and analysis would be informative to the state agency program, the state agency should include this as a performance reporting requirement.
  - (b) Explanations on why established goals or objectives were not met.
  - (c) Additional information including, when appropriate, analysis and explanation of cost overruns or higher-than-expected unit costs.

### Construction Performance Reports

State agencies or pass-through entities rely on on-site technical inspections and certified percentage of completion data to monitor progress under state awards for construction. Therefore, the state agency may require additional performance reports when necessary to ensure the goals and objectives of the state awards are met. The local government will provide performance information in the form, format, and frequency prescribed by the state agency.

### Significant Developments

When a significant development that could impact the state award occurs between performance reporting due dates, the local government must notify the state agency or pass-through entity. Significant developments include events that enable meeting milestones and objectives sooner or at less cost than anticipated or that produce different beneficial results than originally planned. Significant developments also include problems, delays, or adverse conditions that will impact the local government's ability to meet milestones or the objectives of the state award. When significant developments occur that negatively impact the state award, the local government must include information on its plan for corrective action and any assistance needed to resolve the situation.

### Site Visits

The state agency or pass-through entity may conduct in-person or virtual site visits as warranted.

### Waiver

The state agency may waive any performance report that is not necessary to ensure the goals and objectives of the state award are being achieved.

## Reporting on Real Property

Unless waived by the state agency, the local government will submit reports at least annually on the status of real property in which the state government retains an interest.

## Records Retention and Access

Unless otherwise directed by the state agency, the local government must maintain and retain records (for example, financial records, performance records, supporting documents) until the third anniversary of the later date of (1) the grant completion or expiration or (2) the resolution of all issues that arose from any

litigation, claim, negotiation, audit, open records request, administrative review, or other action involving the grant or documents.<sup>85</sup>

The state agency may determine that records must be maintained by the state agency.<sup>86</sup> Upon written request by the state agency, the local government will promptly and in a secure manner transfer designated records into the custody of the state agency. However, the state agency may arrange for the local government to access the records that have long-term retention value so long as they are continuously available to the state government.

The state agency, the State Auditor's Office, or any of their authorized representatives, must have the right of access to any documents, papers, financial statements, or other records of the local government pertinent to the state award, to perform audits, execute site visits, or for any other official use. This right also includes timely and reasonable access to the local government's personnel for the purpose of interview and discussion related to such documents or the state award in general. This right of access is not limited to the required retention period but lasts as long as the records are retained.

The local government shall comply with the requirements of the Texas Public Information Act, if the local government is subject to it.<sup>87</sup> If the local government receives a public information request for information related to the state award, the local government, unless the grant agreement directs otherwise, will provide notice of such request to the state agency under Section 552.305(b) of the Texas Government Code. If the local government receives a court order or a subpoena requiring the production and disclosure of records related to the state award, then the local government, if not otherwise prohibited under the terms of the order or subpoena, will provide prompt written notice to the state agency of the order or subpoena.

## Remedies for Noncompliance

### Additional Specific Conditions and Corrective Action

The state agency or pass-through entity may implement specific conditions if the local government fails to comply with statutes,

<sup>85</sup> In accordance with the Texas State Records Retention Schedule, 13 TAC § 6.10, the retention period specified in Section 441.1855 of the Texas Government Code does not apply to grant agreements.

<sup>86</sup> Cf. 13 TAC § 6.94(a)(9) (stating that each state agency must require all third-party custodians of records to provide the state agency with descriptions of their business continuity and/or disaster recovery plans as regards to the protection of the state agency's vital state records).

<sup>87</sup> Chapter 552 of the Texas Government Code.

rules, or the terms and conditions of the state award, under the following circumstances:

- (1) when a sub-grantee has a history of failure to comply with the terms and conditions of state awards;
- (2) when a sub-grantee fails to meet expected performance goals contained in state award; or
- (3) when a sub-grantee has inadequate financial capability to perform the state award.

Specific conditions may include the following:

- (1) requiring payments as reimbursements rather than advance payments;
- (2) withholding authority to proceed to the next phase until receipt of evidence of acceptable performance;
- (3) requiring additional or more detailed financial reports;
- (4) requiring additional project monitoring;
- (5) requiring the sub-grantee to obtain technical or management assistance; or
- (6) establishing additional prior approvals.

Prior to imposing specific conditions, the state agency must notify the local government as to:

- (1) the nature of the specific conditions;
- (2) the reason why the specific conditions are being imposed;
- (3) the nature of the action needed to remove specific conditions;
- (4) the time allowed for completing the actions; and
- (5) the method for requesting the state agency or pass-through entity to reconsider imposing a specific condition.

Once the circumstances that prompted the imposition of the specific conditions have been corrected, the state agency will remove the specific condition(s) upon written request of the local government.

If the state agency determines that noncompliance cannot be remedied by imposing additional conditions, the state agency may take one or more of the following actions, as appropriate in the circumstances:

- (1) Temporarily withhold payments until the local government takes corrective action;
- (2) Disallow costs for all or part of the activity associated with the noncompliance of the local government;
- (3) Suspend or terminate the state award in part or in its entirety;
- (4) Withhold further state funds (new awards or continuation funding) for the project or program; and

- (5) Pursue other legally available remedies.

### **Termination**

The state award may be terminated in part or in its entirety as follows:

- (1) By the state agency if the local government fails to comply with the terms and conditions of the state award.
- (2) By the state agency with the consent of the local government, in which case the two parties must agree upon the termination conditions. These conditions include the effective date and, in the case of partial termination, the portion to be terminated.
- (3) By the local government upon sending the state agency a written notification of the reasons for such termination, the effective date, and, in the case of partial termination, the portion to be terminated. However, if the state agency determines that the remaining portion of the state award will not accomplish the purposes for which the state award was made, the state agency may terminate the state award in its entirety.
- (4) By the state agency for cause.
- (5) By the state agency for convenience.

When the state award is terminated in part or its entirety, the state agency and the local government remain responsible for compliance with the requirements set forth in the [Closeout](#) and [Post-Closeout Adjustments and Continuing Responsibilities](#) sections.

### **Notification of Termination Requirement**

The state agency must provide written notice of termination to the local government unless the state award is being terminated by the local government. If the local government initiates the termination of the state award, then the local government must provide written notice of the termination to the state agency. The written notice of termination should include the reasons for termination, the effective date, and the portion of the state award to be terminated, if applicable.

### **Opportunities to Object, Hearings, and Appeals**

The state agency must maintain written procedures for processing objections, hearings, and appeals. Upon initiating a remedy for noncompliance (for example, disallowed costs, a corrective action plan, or termination), the state agency must provide the local government with an opportunity to object and provide information challenging the action. The state agency will comply with

any requirements for hearings, appeals, or other administrative proceedings to which the local government is entitled under any statute or rule applicable to the action.

### **Effects of Suspension and Termination**

Costs to the local government resulting from obligations incurred by the local government during a suspension or after the termination of a state award are not allowable unless the state agency expressly authorizes them in the notice of suspension or termination or subsequently. However, costs during suspension or after termination are allowable if

- (1) the costs result from obligations that were properly incurred by the local government before the effective date of suspension or termination, and not in anticipation of it; and
- (2) the costs would be allowable if the state award was not suspended or expired normally at the end of the period of performance in which the termination takes effect.

### **Closeout**

The state agency will close out the state award when it determines that all applicable administrative actions and all required work of the state award have been completed by the local government. Closeout activities include the following:

- (1) The local government must submit all reports (financial, performance, and other reports required by the state agency) no later than 90 calendar days after the conclusion of the period of performance or an earlier due date if specified by the state award. A sub-grantee must submit all reports (financial, performance, and other reports required by a sub-award) to the pass-through entity no later than 90 calendar days after the conclusion of the period of performance by the subaward (or an earlier due date as agreed upon by the pass-through entity). When justified, the state agency or pass-through entity may approve extensions for the local government or sub-grantee. When the local government does not have a final indirect cost rate covering the period of performance, a final financial report must still be submitted to fulfill the requirements of this section. The local government must submit a revised final financial report when all applicable indirect cost rates have been finalized.
- (2) The local government must liquidate all obligations incurred under the state award no later than the liquidation date indicated in the state award or 90 calendar days after the conclusion of the period of performance. A sub-grantee must liquidate all financial obligations incurred under a subaward no later than 90 calendar days after the conclusion of the period of performance of the subaward (or an earlier date as agreed upon by the state agency or pass-through entity

and local government). When justified, the state agency or pass-through entity may approve extensions for the local government or sub-grantee.

- (3) Closeout activities are not complete if payment by the state agency to the local government is outstanding for allowable reimbursable costs under the state award being closed out.
- (4) The local government must promptly refund any unobligated funds that the state agency paid and that are not authorized to be retained.
- (5) Consistent with the terms and conditions of the state award, the state agency must make all necessary adjustments to the state share of costs after closeout reports are received (for example, to reflect the disallowance of any costs or the deobligation of an unliquidated balance).
- (6) The local government must account for any property acquired with state funds or received from the state government in accordance with the [Property Standards](#) and [Performance and Financial Monitoring and Reporting](#) sections.
- (7) The state agency should complete all closeout actions for state awards no later than one year after receipt and acceptance of all required final reports.

### **Post-Closeout Adjustments and Continuing Responsibilities**

The closeout of the state award does not affect any of the following:

- (1) The right of the state agency to disallow costs and recover funds based on a later audit or review. However, the state agency must make determinations to disallow costs and notify the local government within the record retention period.
- (2) The local government's obligations to return funds or right to receive any remaining and available funds as a result of refunds, corrections, final indirect cost rate adjustments (unless the state award is closed in accordance with the [Closeout](#) section), or other transactions.
- (3) [Audit Requirements](#) of TxGMS.
- (4) Property management and disposition requirements specified in the [Property Standards](#) section.
- (5) Records retention as required by the [Records Retention and Access](#) section.

After the closeout of the state award, a relationship created under the state award may be modified or ended in whole or in part. This may only be done with the consent of the state agency and the local government, provided the responsibilities of the local government referred to in this section, including those for prop-

erty management as applicable, are considered and provisions are made for continuing responsibilities of the local government, as appropriate.

## Collection of Amounts Due

Any state funds paid to the local government in excess of the amount that the local government is determined to be entitled to under the state award constitute a debt to the State of Texas. The state agency must collect all debts arising out of its state awards in accordance with Chapter 2251 of the Texas Government Code, if it applies.

## Cost Principles

### General Provisions

#### POLICY GUIDE

The application of these Cost Principles is based on the following fundamental premises:

- (1) The local government is responsible for the efficient and effective administration of the state award through sound management practices.
- (2) The local government assumes responsibility for administering state funds in a manner consistent with state statutes, regulations, and the terms and conditions of the state award.
- (3) The local government, in recognition of its unique combination of staff, facilities, and experience, is responsible for employing organization and management techniques necessary to ensure the proper and efficient administration of the state award.
- (4) The accounting practices of the local government must be consistent with these cost principles and support the accumulation of costs as required by these cost principles, including maintaining adequate documentation to support costs charged to the state award. As an example, where records do not meet the standards set forth in TxGMS to support compensation for fringe benefits, the state agency may require documentation in a format similar to the sample personnel activity report provided in [Appendix 8](#).
- (5) When reviewing, negotiating, and approving cost allocation plans or indirect cost proposals, the state agency should ensure that the local government consistently applies these cost principles. Where wide variations exist in the treatment of a given cost item by the local government, the reasonableness and equity of such treatments should be fully considered.
- (6) For local governments that educate and engage students in research, the dual role of students as both trainees and employees (including pre-and post-doctoral staff) contributing to the completion of state awards for research must be recognized in the application of these principles.
- (7) The local government may not earn or keep any profit resulting from state financial assistance, unless explicitly authorized by state law and the terms and conditions of the state award. See the [Program Income](#) section of TxGMS. When the required activities of a fixed amount award were completed in accordance with the terms and conditions of the award, the unexpended funds retained by the local government are not considered profit.

#### APPLICATION

The local government must apply these principles in determining allowable costs under state awards of grant funds. The local government must also use these principles as a guide in pricing fixed-price contracts and subcontracts when costs are used in determining the appropriate price. These cost principles do not apply to (1) fixed amount awards or (2) other awards under which the local government is not required to account to the state agency for actual costs incurred.

Some nonprofit organizations, because of their size and nature of operations, can be considered by awarding entities to be similar to for-profit organizations in terms of the applicability of cost principles. If the parties agree, such nonprofit organizations must operate under TxGMS cost principles applicable to for-profit entities.

Some of these principles apply exclusively to entities other than local governments. The purpose of including those is twofold. One, any parties may agree to apply TxGMS to a particular grant. Two, entities other than local governments may be subject to TxGMS as subrecipients of grants to which TxGMS applies.

### Basic Considerations

#### COMPOSITION OF COSTS

The total cost of a state award is the sum of the allowable direct and allocable indirect costs minus any applicable credits.

#### FACTORS AFFECTING ALLOWABILITY OF COSTS

Except where otherwise authorized by statute, costs must meet the following criteria to be allowable under state awards:

- (1) Be necessary and reasonable for the performance of the state award and be allocable thereto under these principles.

- (2) Conform to any limitations or exclusions set forth in these principles or in the state award as to types or amount of cost items.
- (3) Be consistent with policies and procedures that apply uniformly to both state-financed and other activities of the local government.
- (4) Be accorded consistent treatment. For example, a cost must not be assigned to a state award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the state award as an indirect cost.
- (5) Be determined in accordance with GASB standards.
- (6) Not be included as a cost or used to meet cost sharing requirements of any other state financed program in either the current or a prior period.
- (7) Be adequately documented. See the [Standards for Financial and Program Management](#) section.

### REASONABLE COSTS

A cost is reasonable if it does not exceed an amount that a prudent person would incur under the circumstances prevailing when the decision was made to incur the cost. In determining the reasonableness of a given cost, consideration must be given to the following:

- (1) whether the cost generally recognized as ordinary and necessary for the local government's operation or the proper and efficient performance of the state award;
- (2) the restraints or requirements imposed by such factors as sound business practices; arm's-length bargaining; federal, state, local, tribal, and other laws and regulations; and terms and conditions of the state award;
- (3) market prices for comparable costs for the geographic area;
- (4) whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the local government, its employees, its students or membership (if applicable), the public at large, and the state government; and
- (5) whether the cost represents a deviation from the government's established written policies and procedures for incurring costs.

### ALLOCABLE COSTS

#### Allocable Costs in General

A cost is allocable to a state award or other cost objective if the cost is assignable to that state award or other cost objective in accordance with the relative benefits received. This standard is met if the cost satisfies any of the following criteria:

- (1) is incurred specifically for the state award;
- (2) benefits both the state award and other work of the local government and can be distributed in proportions that may be approximated using reasonable methods; or
- (3) is necessary to the overall operation of the local government and is assignable in part to the state award in accordance with these cost principles.

#### Appropriate Allocation

All activities that benefit from the local government's indirect cost, including unallowable activities and donated services by the local government or third parties, will receive an appropriate allocation of indirect costs.

#### Restriction

A cost allocable to a particular state award may not be charged to other state awards (for example, to overcome fund deficiencies or to avoid restrictions imposed by statutes, rules, or the terms and conditions of the state awards). However, this prohibition would not preclude the local government from shifting costs that are allowable under two or more state awards in accordance with existing statutes, rules, or the terms and conditions of the state awards.

#### Direct Cost Allocation Principles

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. However, when those proportions cannot be determined because of the interrelationship of the work involved, then, notwithstanding the [Restriction](#) paragraph in this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a state award, the costs are assignable to the state award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See *also* the [Property Standards](#) and [Equipment and Other Capital Expenditures](#) sections.

### APPLICABLE CREDITS

Applicable credits refer to transactions that offset direct or indirect costs allocable to state award. Examples of such transactions are purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the local government relate to

allowable costs, they must be credited to the state award either as a cost reduction or cash refund, as appropriate.

In some instances, the amounts received from the state government to finance activities or service operations of the local government should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing requirements) must be recognized in determining the rates or amounts to be charged to the state award.

### PRIOR WRITTEN APPROVAL

The reasonableness and allocability of certain costs under state awards may be difficult to determine. To avoid subsequent disallowance or dispute based on unreasonableness or non-allocability, the local government may seek the prior written approval of the state agency before incurring the cost. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following:

- Changes in principal investigator, project leader, project partner, or scope of effort must receive the prior written approval of the state agency or pass-through entity;
- Cost sharing;
- Program income;
- Revision of budget and program plans;
- Compensation—personal services;
- Compensation—fringe benefits;
- Contingency provisions;
- Depreciation;
- Equipment and other capital expenditures;
- Exchange rates;
- Fines, penalties, damages and other settlements;
- Fixed amount subawards;
- Fund raising and investment management costs;
- Goods or services for personal use;
- Insurance and indemnification;
- Organization costs;
- Pre-award costs;
- Rearrangement and reconversion costs;
- Scholarships and student aid; and
- Travel costs.

### LIMITATION ON ALLOWABILITY OF COSTS

Statutes may limit the allowability of costs. Any costs that exceed the maximum allowed by statute may not be charged to the state award.

### SPECIAL CONSIDERATIONS

#### Overview

Other sections in this part describe special considerations and requirements applicable to certain types of non-state entities (for example, local government, IHEs, and Indian Tribes).

#### Cost Allocation Plans and Indirect Costs Proposals for States, Local Governments, and Indian Tribes

Awards to states, local governments, and Indian Tribes are often implemented at the level of department within the state, local government, or Indian Tribe. A central service cost allocation plan is established to allow such department to claim a portion of centralized basis service costs that are incurred in proportion to the award's activities. Examples of centralized service costs may include motor pools, computer centers, purchasing, accounting, etc. Because state awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan establishes this process.

Individual departments typically charge state awards for indirect costs through an indirect cost rate. A separate indirect cost rate proposal for each operating department is usually necessary to claim indirect costs under state awards. Indirect costs include

- (1) The indirect costs originating in each operating department of the state, local government, or Indian Tribe carrying out state awards; and
- (2) The costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.
- (3) For purposes of a state award, the general requirements for developing and submitting cost allocation plans (for central service costs) and indirect cost rate proposals for submission to the state agency or pass-through entity are comparable to the requirements found in Appendices IV (Indirect (F & A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations), V (State/Local Governmentwide Central Service Cost Allocation Plans), and VII (States and Local Government and Indian Tribe Indirect Cost Proposals) to the *Uniform Guidance*.

### Interagency Service

An operating department may provide services to another operating department of the same state, local government, or Indian Tribe. In these instances, the cost of services provided may include allowable direct costs of the service plus a pro-rated share of indirect costs. A standard indirect cost allowance equal to 15 percent of the direct salaries and wages for providing the service (excluding overtime, shift premiums, and fringe benefits) may be used instead of determining the actual indirect costs of the service. These services do not include centralized services that are included in central service cost allocation plans.

### Costs Incurred or Paid by a State or Local Government

Costs incurred or paid by a state or local government on behalf of and in direct benefit to its IHEs are allowable. These costs include but are not limited to fringe benefit programs, such as pension costs and Federal Insurance Contributions Act (FICA) costs. These costs are allowable costs regardless of whether they are recorded in the accounting records of the institutions, subject to the following conditions:

- (1) The costs meet the requirements of the [Basic Considerations](#) section;
- (2) The costs are properly supported by approved cost allocation plans in accordance with the applicable cost accounting principles in TxGMS; and
- (3) The costs are not otherwise borne directly or indirectly by the state government.

### COLLECTION OF UNALLOWABLE COSTS

Payments made for costs determined to be unallowable by the awarding state agency or pass-through entity must be refunded (with interest) to the state government. Unless directed by state statute or rule, repayments must be made in accordance with the instructions provided by the state agency or pass-through entity that made the allowability determination. See *also* the [Standards for Financial and Program Management](#) section.

### ADJUSTMENT OF PREVIOUSLY NEGOTIATED INDIRECT COST RATES CONTAINING UNALLOWABLE COSTS

Negotiated indirect cost rates based on a proposal later found to have included costs that

- (1) are unallowable as specified by state statutes, rules, or the terms and conditions of a state award; or
- (2) are unallowable because they are not allocable to the state award, must be adjusted, or a refund must be made,

in accordance with the requirements of this section. These adjustments or refunds are intended to correct the proposals used to establish the rates and do not constitute a reopening of the rate negotiation. The adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

For rates covering a future fiscal year of the local government, the unallowable costs must be removed from the indirect cost pools and the rates must be adjusted.

For rates covering a past period, the state share of the unallowable costs must be computed for each year involved, and a cash refund (including interest) must be made to the state government in accordance with the directions provided by the state agency. When cash refunds are made for past periods covered by provisional or fixed rates, appropriate adjustments must be made when the rates are finalized to avoid duplicate recovery of the unallowable.

For rates covering the current period, either a rate adjustment or a refund, as described in this section, must be required by the state agency. The choice of method must be at the discretion of the state agency, based on its judgment as to which method would be most practical.

The amount or proportion of unallowable costs included in each year's rate will be assumed to be the same as the amount or proportion of unallowable costs included in the base year proposal used to establish the rate.

### Classification of Costs

There is no universal rule for classifying certain costs as direct or indirect. A cost may be direct for some specific service or function but indirect the state award or other final cost objective. Therefore, each cost incurred for the same purpose in like circumstances must be treated consistently either as a direct or an indirect cost to avoid possible double-charging of state awards. Guidelines for determining direct and indirect costs charged to federal awards are provided in TxGMS.

### Direct Costs

#### General

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a state award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as direct or indirect costs.

### Application to State Awards

The association of costs with a state award determines whether costs are direct or indirect. Costs charged directly to a state award are typically incurred specifically for that state award, including supplies needed to achieve the award’s objectives and the proportion of employee compensation and fringe benefits expended in relation to that specific award. Costs that otherwise would be treated as indirect costs if they are directly related to a specific award may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities, cybersecurity, integrated data systems, asset management systems, performance management costs, or other institutional service operations.

### Administrative and Clerical Staff Salaries

Administrative and clerical staff salaries should normally be treated as indirect costs. Direct charging of these costs may be appropriate only if they meet all of the following conditions:

- (1) the administrative or clerical services are integral to a state award;
- (2) individuals involved can be specifically identified with a state award; and
- (3) the costs are not also recovered as indirect costs.

### Minor Items

A direct cost of a minor amount may be treated as an indirect cost, for reasons of practicality, provided that it is treated consistently for all state and non-state purposes.

### Treatment of Unallowable Costs in Determining Indirect Cost Rates

The costs of certain activities are not allowable as charges to state awards. Even though these costs are, they must be treated as direct costs for purposes of determining indirect cost rates and be allocated their equitable share of the local government’s indirect costs if they represent activities that

- (1) include the salaries of personnel;
- (2) occupy space; and
- (3) benefit from the local government’s indirect costs.

### Treatment of Certain Costs for Nonprofit Organizations

For nonprofit organizations, the costs of activities performed by the nonprofit organization primarily as a service to members, clients, or the general public when significant and necessary to the nonprofit organization’s mission must be treated as direct costs

whether or not allowable and be allocated an equitable share of indirect costs. Some examples of these types of activities include

- (1) maintenance of membership rolls, subscriptions, publications, and related functions. See [Memberships, Subscriptions, and Professional Activity Costs](#).
- (2) providing services and information to members, the government, or the public. See [Memberships, Subscriptions, and Professional Activity Costs](#) and [Lobbying](#).
- (3) promotion, lobbying, and other forms of public relations. See [Advertising and Public Relations](#) and [Lobbying](#).
- (4) conferences except those held to conduct the general administration of the nonprofit organization. See also [Conferences](#).
- (5) maintenance, protection, and investment of special funds not used in the nonprofit organization. See also [Fundraising and Investment Management Costs](#).
- (6) administration of benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid. See also [Compensation Fringe Benefits](#).

## Indirect Costs

### General

Indirect costs are those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

### Facilities and Administration Classification

For major IHEs and major nonprofit organizations, indirect costs must be classified within two broad categories: “Facilities” and “Administration.” “Facilities” is defined as depreciation on buildings, equipment and capital improvements, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. “Administration” is defined as general administration and general expenses such as the director’s office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable). For nonprofit organizations, library expenses are included in the “Administration” category; for institutions of higher education, they are included in the “Facilities” category. Major IHEs are defined as those required to use the Standard Format for Submission as noted in Appendix III to 2 CFR Part 200. Major nonprofit organizations are those that receive more than \$10 million in direct Federal funding.

### Diversity of Nonprofit Organizations

It is not always possible to specify the types of costs that may be classified as indirect costs for nonprofit organizations due to the diversity of their accounting practices. The association of a cost with a state award is the determining factor in distinguishing direct from indirect costs. However, typical examples of indirect cost for many nonprofit organizations may include depreciation on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.

### Negotiated Indirect Cost Rate

- (1) A grantee may elect to negotiate an indirect cost rate with the state agency by submitting an Indirect Cost Rate Proposal accompanied by the appropriate [required certification](#).
- (2) If the grantee desires to leverage its approved federally negotiated indirect cost rate, the grantee may submit to the state agency a copy of the federal cognizant agency approved indirect cost proposal.
- (3) The state agency will review the proposal to ensure the rate complies with state law and the documentation upon which the plan was negotiated is not inaccurate, materially incomplete, or out of date. The state agency may consult with the federal cognizant agency for indirect costs. The state agency should make publicly available the policies, procedures and general decision-making criteria that its programs will follow to seek and justify deviations from negotiated rates.
- (4) A state agency may use a rate different from the negotiated rate approved by the federal cognizant agency when required by statute or rule, or when approved by a state agency based on a written explanation justifying the deviation from the federal negotiated rate.
- (5) The results of the negotiation will be formalized in a written agreement between the state agency and the local government.
- (6) One-time extension of indirect rates. A grantee with a current negotiated indirect cost rate with a state agency may apply for an extension of that agreement for up to four years. The indirect cost rate extension request will be subject to the review and approval of the state agency. If this extension is granted, the grantee may not request a rate review until the extension period ends. The grantee must re-apply to negotiate a new rate when the extension ends. After a new rate has been negotiated, the grantee may again apply for a one-time extension of the new rate in accordance with this paragraph.
- (7) Types of Negotiated Rates:
  - *Predetermined rate* means an indirect cost rate, applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment.
  - *Fixed rate* means an indirect cost rate that has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
  - *Final rate* means an indirect cost rate applicable to a specified past period that is based on the actual costs of the period. A final rate is not subject to adjustment.
  - *Provisional rate or billing rate* means a temporary indirect cost rate applicable to a specified period that is used for funding, interim reimbursement, and reporting indirect costs on state awards pending the establishment of a final rate for the period.

### 15 percent de minimis Indirect Cost Rate

- (1) A de minimis rate of 15 percent of Modified Total Direct Costs (MTDC) is available to grantees under the following circumstances:
  - (a) A grantee that has never received a state or federal negotiated indirect cost rate may elect to charge the de minimis rate.
  - (b) If approved by the state agency, a grantee may charge the de minimis rate if the grantee provides evidence of an out-of-date state or federal approved negotiated indirect cost rate of 15 percent or less.
  - (c) Unless approved by the state agency, entities that experience a break in the state relationship (for example, expiration or termination of all awards with the state agency) are not eligible to receive the de minimis rate for a new award.
  - (d) Unless approved by the state agency, a governmental department or agency unit that receives more than \$35 million in direct federal funding per the grantee's fiscal year is not eligible for the de minimis rate.
- (2) MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$50,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$50,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the state agency.

- (3) The availability of the de minimis rate is generally limited to a grantee that has never received a negotiated indirect cost rate. It is expected that entities that have experience developing and negotiating rates have adequate resources to develop a new indirect cost rate.
- (4) As described in [Factors Affecting Allowability of Costs](#) section, when applying the de minimis rate, costs must be consistently charged as either direct or indirect costs, and may not be double charged or inconsistently charged as both. The de minimis rate does not require documentation to justify its use and may be used indefinitely. Once elected, the local government must use the de minimis rate for all state awards until such time as a grantee chooses to negotiate for a rate, which the grantee may apply to do at any time.

#### **Voluntary Waiver or Under-Charge of Indirect Cost Rate**

A grantee may voluntarily under-charge or waive the indirect cost rate to allow for a greater share of the state program funds to be used for the direct program costs.

#### **Refunds**

Refunds must be made under every applicable award if proposals are later found to have included costs that (a) are unallowable (i) as specified by law or regulation, (ii) as identified in [Considerations for Selected Items of Cost](#), or (iii) by the terms and conditions of the state award, or (b) are unallowable because they are clearly not allocable to the state award. These adjustments or refunds must be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

### **Required Certifications**

Required certifications include:

- (1) Financial reports must include a certification, signed by an official who is authorized to legally bind the local government, which reads as follows: “By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the state award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise.”
- (2) Certification of cost allocation plan or indirect cost rate proposal. Each cost allocation plan or indirect cost rate proposal must comply with the following:
  - (a) A proposal to establish a cost allocation plan or an indirect cost rate, submitted to the state agency or maintained on file by the local government, must be certified

by the local government using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth below. The certificate must be signed on behalf of the local government by an individual at a level no lower than the executive director or chief financial officer of the local government that submits the proposal.

#### **CERTIFICATE OF COST ALLOCATION PLAN**

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal [identify date] to establish cost allocations or billings for [identify period covered by plan] are allowable in accordance with the requirements of TxGMS and the state award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to state awards based on a beneficial or causal relationship between the expenses incurred and the state awards to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs

I declare that the foregoing is true and correct.

Governmental Unit:

Signature:

Name of Official:

Title:

Date of Execution:

#### **CERTIFICATE OF INDIRECT COSTS**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the state award(s) to which they apply and the provisions of TxGMS. Unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost proposal.
- (2) All costs included in this proposal are properly allocable to state awards based on a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the state government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit:

Signature:

Name of Official:

Title:

Date of Execution:

- (a) The state government may either disallow all indirect costs or unilaterally establish an indirect cost rate when the local government fails to submit a certified proposal for establishing a rate. This rate should be based upon audited historical data or other data furnished to the state agency and for which it can be demonstrated that all unallowable costs have been excluded. The rate established must ensure that potentially unallowable costs are not reimbursed. Alternatively, the recipient may use the de minimis indirect cost rate.
- (3) Nonprofit organizations must certify that they did not meet the definition of a major nonprofit organization as defined in the [Indirect Costs](#) section, if applicable.

### General Provisions for Selected Items of Cost

#### CONSIDERATIONS FOR SELECTED ITEMS OF COST

This section provides principles to be applied in establishing the allowability of certain items involved in determining cost in addition to other requirements set forth in the [Basic Considerations](#) section that include the following:

- Composition of Costs
- Factors Affecting Allowability of Costs
- Reasonable Costs
- Allocable Costs
- Applicable Credits
- Prior Written Approval
- Limitation on Allowance of Costs
- Special Considerations
- Collection of Unallowable Costs
- Adjustment of Previously Negotiated Indirect Cost Rates Containing Unallowable Costs

These principles apply whether or not a particular item of cost is properly treated as direct cost or indirect cost. The sections listed in Appendix 7 are not intended to be a comprehensive list of potential items of cost encountered under state awards. Failure to mention a particular item of cost is not intended to imply that it is

either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost and based on the principles described in the [Basic Considerations](#) section.

#### SELECTED ITEMS OF COST

The selected items of cost are listed in [Appendix 7](#), with a supplement of additional requirements applicable to certain state grant program cost items that are prescribed by the Comptroller under the authority of Chapter 783 of the Texas Government Code. In case of a discrepancy between a specific state law and state policy, the state law governs.

### Audits

#### Audit Requirements

##### AUDIT REQUIRED

###### General

A local government that expends more than \$1 million during its fiscal year in state awards must have either a Financial Audit or Program-specific Audit conducted for that year in accordance with the provisions of this section. As noted in [Relation to Other Audit Requirements](#), the state agency may also require an independent audit to be conducted based factors other than monetary threshold. All audits must be conducted in accordance with GAGAS.

A local government that is exempt from state audit requirements must keep its records available for review or audit by appropriate officials of the state agency, pass-through entity, and the State Auditor's Office.

###### Frequency of Audit

Required audits will be performed on an annual basis. If the auditee is required by statute to undergo its audits less frequently than annually, then the auditee shall perform its audit biennially.

###### Federal Single Audit

Instead of a Financial Audit or Program-specific Audit, a state agency, at its discretion, may accept the single audit of the local government prepared in compliance with the *Uniform Guidance* if the state agency determines that the state single audit sufficiently addresses internal controls and other grant requirements as they relate to the particular state award.

###### Agreed-upon Procedures Audit

Instead of a Financial Audit or Program-specific Audit, a state agency may accept an agreed-upon procedures audit if it determines that the audit sufficiently reviews financial processes and controls of the local government and adopts an administrative rule containing requirements for the audit.

**MAJOR PROGRAM DETERMINATION**

**General**

To determine audit requirements, an auditor must determine if the state grant is a major program. Auditors must determine which

state programs are major programs using a risk-based approach that must consider

- current and prior audit experience;
- oversight by a state agency or other pass-through entities; and
- the inherent risk of the state program.

The auditor will identify and label the major programs as either Type A or Type B depending on state award expended and other identified program risks.

**TABLE 1: MAJOR PROGRAM DETERMINATION**

| Total State Awards Expended   | Type A Threshold                                 |
|---|--|
| Equal to or exceed \$1 million but less than or equal to \$34 million | \$1 million                                      |
| Exceed \$34 million but less than or equal to \$100 million           | Total state awards expended multiplied by 0.03   |
| Exceed \$100 million but less than or equal to \$1 billion            | \$3 million                                      |
| Exceed \$1 billion but less than or equal to \$10 billion             | Total state awards expended multiplied by 0.003  |
| Exceed \$10 billion but less than or equal \$20 billion               | \$30 million                                     |
| Exceed \$20 billion   | Total state awards expended multiplied by 0.0015 |

**Type A programs**

Type A programs are identified as those major programs with state awards expended during the audit period exceeding the levels outlined in Table 1. Those state programs not labeled as Type A based on Table 1 must be labeled Type B programs.

**Low risk**

Auditors must identify Type A programs that are low risk. To be considered low risk, a program must have

- been audited as a major program in at least one of two most recent audit periods; and
- not have had internal control deficiencies (identified as material weaknesses), a modified opinion on the program, or known or likely questioned costs that exceed 5 percent of the total state awards expended for the program.

A state agency may require that a Type A program not be considered low risk for a specific recipient.

**Type B programs**

Auditors must identify Type B programs that are high risk. Auditors are not required to identify more high-risk Type B programs than at least one-fourth the number of Type A programs identified as low risk.

**Minimum Audit Requirements for Major Programs**

An auditor must audit all the following as major programs:

- All Type A programs not identified as low risk.
- All Type B programs identified as high risk.
- Additional programs as necessary to comply with the percentage of coverage.

**Percentage of Coverage**

When a local government’s Type A major programs are designated as low risk, an auditor only needs to audit those Type B major programs that are identified as high risk as well as other state programs with state awards expended that, in the aggregate, all major programs encompass at least 20 percent (0.20) of total state

funds expended. Otherwise, an auditor must audit all the major programs identified as high risk, as well as other state programs with state awards expended that, in the aggregate, all major programs encompass at least 40 percent (0.40) of the total state awards expended.

### FINANCIAL AUDIT

The Financial Audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered state awards during the audit period. In these instances, the audit must include the [Financial Statements](#) and [Schedule of Expenditures of State Awards](#) for each such department, agency, and other organizational unit, which must be considered to be a non-state entity. The financial statements and schedule of expenditures of state awards must be for the same audit period.

### PROGRAM-SPECIFIC AUDIT

#### General

An auditee may elect to have a program-specific audit conducted in accordance with this section if the following conditions are met:

- (1) The auditee expends state awards under only one state program, excluding research and development (R&D); and
- (2) The state program's statutes or rules, or terms and conditions of the state award, do not require a financial statement audit of the auditee.

An auditee may elect to have a program-specific audit for research and development conducted, but only if all of the following conditions are met:

- (1) The auditee expends state awards under only from the same state agency, or the same state agency and the same pass-through entity; and
- (2) The state agency, or pass-through entity approves a program-specific audit in advance.

#### Program-specific Audit Guide Available

In some cases, a program-specific audit guide will be available to provide specific guidance to the auditor concerning internal controls, compliance requirements, suggested audit procedures, and audit reporting requirements. The auditor will contact the state agency to determine whether such a guide is available. When a current program-specific audit guide is available, the auditor must follow Generally Accepted Government Auditing Standards (GAGAS) and the guide when performing a program-specific audit.

#### Program-specific Audit Guide Not Available

When a current program-specific audit guide is not available, the auditee and auditor must comply with the following standards:

- (1) Financial Statements: The auditee must prepare the financial statements for the state program that includes, at a minimum, the following: (1) a description of the significant accounting policies used, (2) a summary schedule of prior audit findings, and (3) a corrective action plan.
- (2) Auditor's Responsibilities: The auditor must:
  - (a) Perform an audit of the financial statements for the state program in accordance with GAGAS.
  - (b) Obtain an understanding of internal controls and perform tests of internal controls over the state program. The auditor must report a significant deficiency or material weakness, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.
  - (c) Determine whether the auditee has complied with state and federal laws, rules, and the terms and conditions of state awards that could have a direct and material effect on the state program. The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.
  - (d) Follow up on prior audit findings and perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee. When the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding, the auditor must report this condition as a current-year audit finding.
  - (e) Report any audit findings consistent with the requirements of the [Audit Findings](#) section.
- (3) Audit Reporting: The auditor's reports may be in the form of either combined or separate reports. It may be organized differently from the manner presented in this section. The auditor's reports must state that the audit was conducted in accordance with this section and include the following:
  - (a) an opinion (or disclaimer of opinion) on whether the financial statements of the state program is presented fairly in all material respects in accordance with the stated accounting policies;
  - (b) a report on internal control related to the state program, which must describe the scope of internal control testing and the results of the tests;
  - (c) a report on compliance that includes an opinion (or disclaimer of opinion) as to whether the auditee complied with laws, rules, and the terms and conditions of state

awards that could have a direct and material effect on the state program; and

(d) a schedule of findings and questioned costs for the state program that includes a summary of the auditor's results relative to the state program and findings and questioned costs consistent with the following:

1. A summary of the auditor's results, which must include:

- (i) The type of report the auditor issued (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on whether the audited financial statements were prepared in accordance with GAAP;
- (ii) A statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
- (iii) A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee;
- (iv) A statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit;
- (v) The type of report the auditor issued (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on compliance for major programs;
- (vi) A statement as to whether the audit disclosed any audit findings that the auditor is required to report under the [Audit Findings](#) section; and
- (vii) An identification of each individual program.

2. Findings and questioned costs for state awards that must include audit findings and be reported in the following manner:

- (i) Audit findings (for example, internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue must be presented as a single audit finding. Where practical, audit findings should be organized by state agency.
- (ii) Audit findings that relate to both the financial statements and state awards must be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form and reference a detailed reporting in the other section.

(4) Report Submission to State Agency. Report submission requirements for program-specific audits include the following:

- (a) The audit must be completed and the reporting package must be submitted by the auditee within 30 calendar days after receipt of the auditor's report or nine months after the end of the audit period (whichever is earlier). The state agency may authorize an extension when the nine-month timeframe would place an undue burden on the auditee. If the due date falls on a Saturday, Sunday, or state holiday, the reporting package is due the next business day.
- (b) The auditee must make copies available for public inspection unless restricted by law or rule. Auditees and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.
- (c) The reporting package for a program-specific audit must consist of the financial statements of the state program, a [Summary Schedule of Prior Audit Findings](#), a corrective action plan, and the auditor's report.

### COORDINATED AUDIT

Instead of multiple audits of individual programs, a local government receiving state-administered assistance may request by action of its governing body a single audit or coordinated audits by all state agencies from which it receives funds.<sup>88</sup> The local government's request for a single audit or audit coordination should be directed to SPD via email at [txgms@cpa.texas.gov](mailto:txgms@cpa.texas.gov). On receipt of a request for a single audit or audit coordination, the Comptroller, in consultation with SAO, must not later than the 30th day after the date of the request designate a single state agency to coordinate state audits of the local government.<sup>89</sup> With the exception of audits conducted by the Comptroller and SAO, the designated state agency must, to the extent practicable, assure single or coordinated state audits of the local government for as long as the designation remains in effect or until the local government by action of its governing body withdraws its request for audit coordination.<sup>90</sup>

### SUB-GRANTEES AND CONTRACTORS

An auditee may simultaneously be a grantee, a sub-grantee, and a contractor. Unless a program is exempt by state statute, state awards expended as a grantee or a sub-grantee are subject to audit under this section. Payments received for goods or services provided as a contractor under a state award. Refer to the [Sub-grantee and Contractor Determination](#) section for the considerations in determining whether payments constitute a federal

<sup>88</sup> TEX. GOV'T CODE § 783.008(a).

<sup>89</sup> TEX. GOV'T CODE § 783.008(b).

<sup>90</sup> TEX. GOV'T CODE §§ 783.008(c)-(d).

award or a payment for goods or services provided as a contractor.

### COMPLIANCE RESPONSIBILITY FOR CONTRACTORS

In most cases, the auditee's compliance responsibility for contractors is to ensure that the procurement, receipt, and payment for goods and services comply with state statutes, rules, and the terms and conditions of a state award. State award compliance requirements normally do not flow down to contractors. However, for procurement transactions in which the contractor is made responsible for meeting program requirements, the auditee must ensure those requirements are met, including by clearly stating the contractor's responsibilities within the contract and reviewing the contractor's records to determine compliance.

### *Relation to Other Audit Requirements*

TxGMS do not limit the authority of state agencies to conduct, or arrange for the conduct of, audits and evaluations of state awards, nor limit the authority of any state agency officials. The state agency, the state agency's authorized auditors, and the SAO may conduct or arrange for additional audits that may be necessary to carry out the state agency's responsibilities under state statutes, rules, or the terms and conditions of the state award. Any additional audits should be planned and performed in such a way as to build upon work performed, including the audit documentation, sampling, and testing already performed, by other auditors. To the extent a recent audit meets the state agency's needs, the state agency may rely upon and use the prior audit.

### *Remedies for Audit Noncompliance*

In cases of continued inability or unwillingness of a grantee or sub-grantee to have an audit conducted in accordance with this part, the state agency or pass-through entities must take appropriate action as provided in the [Remedies for Noncompliance](#) section.

### *Auditees*

#### AUDITEE RESPONSIBILITIES

The auditee must

- (1) Arrange for the audit required by the [Auditor Selection](#) section and ensure it is properly performed and submitted;
- (2) Prepare financial statements in accordance with the [Financial Statements](#) section;
- (3) Promptly follow up and take corrective action on audit findings. This includes preparing a [Summary Schedule of Prior Audit Findings](#) and a [Corrective Action Plan](#); and

- (4) Provide the auditor access to personnel, accounts, books, records, supporting documentation, and any other information needed for the auditor to perform the audit required by TxGMS.

### AUDITOR SELECTION

#### Auditor Procurement

When procuring audit services, the auditee must follow its own documented procurement procedures that reflect applicable state law (for example, Chapter 2254, Subchapter B of the Texas Government Code), including conflict of interest standards. When procuring audit services, the objective is to obtain high-quality audits. When requesting proposals for audit services, the objectives and scope of the audit must be made clear, and the local government must request a copy of the audit organization's peer review report, which the auditor must provide under GAGAS. If not otherwise prescribed by applicable law, factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price. When procuring audit services, the auditee shall follow applicable provisions of Chapter 2161 of the Texas Government Code.

#### Restriction on Auditor Preparing Indirect Cost Proposals

In addition to any state law restrictions, an auditor or audit organization who prepares the indirect cost proposal or cost allocation plan may not be selected to perform the audit required by TxGMS when the indirect costs recovered by the auditee during the prior year exceed \$1 million. This restriction applies to the base year used to prepare the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

#### Restriction Relating to Non-Audit Services

In addition to any state law restrictions, an auditor or audit organization providing non-audit services to the auditee may not also be selected to perform the audit required by TxGMS if provision of such services impairs auditor independence in accordance with GAGAS.

#### Use of State Auditors

State auditors may perform all or part of the work required under this part if they fully comply with the requirements of this section.

### FINANCIAL STATEMENTS

#### Financial Statements

The auditee must prepare financial statements that reflect its

financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year chosen to meet this section's requirements. However, the organization-wide financial statements may also include departments, agencies, and other organizational units that have separate audits and prepare separate financial statements.

### Schedule of Expenditures of State Awards

The auditee must also prepare a schedule of expenditures of state awards for the period covered by the auditee's financial statements that must include the total awards expended. The auditee may choose to provide information requested by state agencies or pass-through entities to make the schedule easier to use. For example, when a state program has multiple state award years, the auditee may separately list the amount of state awards expended for each year of a state award. The schedule must:

- (1) list individual state programs by state agency. For a cluster of programs, the auditee must provide the cluster name, a list of individual state programs within the cluster, and provide the state agency name. For research and development, total state awards expended must be shown either by individual state award or by state agency and major subdivision within the state agency.
- (2) for state awards received as a sub-grantee, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) provide total state awards expended for each individual state program and state grant identifying number. For a cluster of programs, the auditee must also provide the total for the cluster.
- (4) include the total amount provided to sub-grantees from each state program.
- (5) include notes describing the significant accounting policies used in preparing the schedule and whether the auditee elected to use the de minimis indirect cost rate.

## AUDIT FINDINGS FOLLOW-UP

### General

The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a Summary Schedule of Prior Audit Findings. The auditee must also prepare a Corrective Action Plan for current year audit findings. The Summary Schedule of Prior Audit Findings and the Corrective Action Plan must include the reference numbers the auditor assigns to audit findings. Because the summary schedule may include audit findings from multiple years, it must include the

fiscal year in which the finding initially occurred. The corrective action plan and summary schedule of prior audit findings must include financial statement findings that the auditor was required to report in accordance with GAGAS.

### Summary Schedule of Prior Audit Findings

The Summary Schedule of Prior Audit Findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs. The summary schedule must also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in clause (1) or no longer valid or not warranting further action in clause (3) as described below:

- (1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- (2) When audit findings were not corrected or only partially corrected, the summary schedule must describe the reasons for the finding's recurrence, planned corrective action, and any partial corrective action taken. When the corrective action taken significantly differs from the corrective action previously reported in a corrective action plan or the state agency's management decision, the summary schedule must provide an explanation.
- (3) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
  - two years have passed since the audit report in which the finding occurred was submitted to the state agency, pass-through entity, or oversight agency for the federal single audit;
  - the state agency, pass-through entity, or oversight agency for the federal single audit is not currently following up with the auditee on the audit finding; and
  - a management decision was not issued.

### Corrective Action Plan

At the completion of the audit, the auditee must prepare a corrective action plan to address each audit finding included in the auditor's report for the current year. The corrective action plan must be a document separate from the auditor's findings described in the [Audit Findings](#) section. The corrective action plan must also provide the name of the contact person responsible for the corrective action, the corrective action to be taken, and the anticipated completion date. When the auditee does not agree with the audit

findings or believes corrective action is not required, the corrective action plan must include a detailed explanation of the reasons.

## REPORT SUBMISSION TO STATE AGENCY

### General

The audit and the reporting package must be submitted by the auditee within 30 calendar days after the auditee receives the auditor's report, or nine months after the end of the audit period (whichever is earlier). The state agency may authorize an extension when the nine-month timeframe would place an undue burden on the auditee. If the due date falls on a Saturday, Sunday, or state holiday, the reporting package is due the next business day. The auditee must make copies available for public inspection unless restricted by law or rule. Auditees and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

### Reporting Package

The reporting package must include the following:

- (1) Financial Statements and Schedule of Expenditures of State Awards discussed in the [Financial Statements](#) section;
- (2) Summary Schedule of Prior Audit Findings discussed in the [Audit Findings Follow-up](#) section;
- (3) Auditor's report discussed in the [Audit Reporting](#) section; and
- (4) Corrective action plan discussed in the [Audit Findings Follow-up](#) section.

### Requests for Management Letters Issued by the Auditor

Auditees must submit, when requested by a state agency or pass-through entity, a copy of any management letters issued by the auditor.

### Report Retention Requirements

Auditees must retain a copy of the reporting package described in this section on file until the third anniversary of the later date of (1) the contract completion or expiration or (2) the resolution of all issues that arose from any litigation, claim, negotiation, audit, open records request, administrative review, or other action involving the contract or documents.

## Awarding State Agency Responsibilities

In addition to all other requirements of this part, the state agency must

- (1) Ensure that audits are completed, and reports are received in a timely manner in accordance with the requirements of TxGMS.

- (2) Provide technical advice and assistance to auditees and auditors.
- (3) Follow up on audit findings to ensure that local governments take appropriate and timely corrective action. Follow-up includes:
  - (a) issuing a management decision in accordance with the [Management Decision](#) section;
  - (b) monitoring the local government's progress implementing a corrective action;
  - (c) using audit follow-up techniques as appropriate, to improve state program outcomes through better audit resolution, follow-up, and corrective action.

## Auditors

### AUDIT REPORTING FOR FINANCIAL AUDIT

The auditor's report may be in the form of either combined or separate reports. It may be organized differently from the manner presented in this section. The auditor's report must state that the audit was conducted in accordance with this part and include the following:

- (1) An opinion (or disclaimer of opinion) on whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of state awards is fairly stated in all material respects in relation to the financial statements as a whole.
- (2) A report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements. This report must describe the scope of internal control and compliance testing and the results of the tests. Where applicable, the report must refer to the separate schedule of findings and questioned costs described in this section.
- (3) A report on compliance for each program and a report on internal control over compliance. This report must describe the scope of testing of internal control over compliance and include an opinion (or disclaimer of opinion) on whether the auditee complied with statutes, regulations, and the terms and conditions of state awards that could have a direct and material effect on each program and refer to the separate schedule of findings and questioned costs described in this section.
- (4) A schedule of findings and questioned costs that must include the following three components:
  - (a) A summary of the auditor's results, which must include:

- (i) The type of report the auditor issued (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on whether the audited financial statements were prepared in accordance with GAAP;
  - (ii) A statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
  - (iii) A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee;
  - (iv) A statement about whether significant deficiencies or material weaknesses in internal control over the programs were disclosed by the audit;
  - (v) The type of report the auditor issued (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on compliance for major programs;
  - (vi) A statement as to whether the audit disclosed any audit findings that the auditor is required to report under the [Audit Findings](#) section; and
  - (vii) An identification of programs by listing each individual program; however, in the case of a cluster of programs, only the cluster name as shown on the schedule of expenditures of state awards is required.
- (b) Findings relating to the financial statements required to be reported in accordance with GAGAS.
  - (c) Findings and questioned costs for state awards that must include audit findings as defined in the [Audit Findings](#) section and be reported in the following manner:
    - (i) Audit findings (for example, internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue must be presented as a single audit finding. Where practical, audit findings should be organized by state agency or pass-through entity.
    - (ii) Audit findings that relate to both the financial statements (paragraph (4)(b) of this section) and state awards (this paragraph (4)(c)) must be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form and reference a detailed reporting in the other section.

## AUDIT FINDINGS FOR FINANCIAL AUDIT

### Audit Findings Reported

The auditor must report the following as an audit finding in the schedule of findings and questioned costs:

- (1) Significant deficiencies and material weaknesses in internal control over major programs.
- (2) Material noncompliance with the provisions of state or federal law, rules, or the terms and conditions of state awards.
- (3) Known questioned costs when either known or likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. When reporting questioned costs, the auditor must include information to provide proper perspective for evaluating the prevalence and consequences of the questioned costs. If the known questioned costs are greater than \$25,000 for a state program that is not being audited as a major program, no audit finding needs to be reported (unless the auditor is made aware of the questioned costs as a result of an audit follow-up or other audit procedure).
- (4) The circumstances concerning why the auditor's report on compliance for each program is other than an unmodified opinion. This must be included unless the circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs.
- (5) Known or likely fraud affecting a state award, unless the fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs. This paragraph does not require the auditor to publicly report information that could compromise investigative or legal proceedings or to make an additional reporting when the auditor confirms that the fraud was reported outside the auditor's reports under the direct reporting requirements of GAGAS.
- (6) Instances where the results of audit follow-up procedures disclosed that the Summary Schedule of Prior Audit Findings prepared by the auditee materially misrepresents the status of any prior audit finding.

### Audit Finding Detail and Clarity

Audit findings must be presented with sufficient detail and clarity for the auditee to prepare a corrective action plan and take corrective action and for state agencies to arrive at a management decision. As applicable, the following information must be included in audit findings:

- (1) The state program and specific state award identification, including the program title and number, state award identification number, if applicable, and year, and the name of the state agency. When information, such as the program title and number or state award identification number, is unavail-

able, the auditor must provide the best information available to describe the state award.

- (2) The criteria or specific requirement for the audit finding (for example, the specific state and federal law, rule, or term and condition of the state award). The criteria or specific requirement provides a context for evaluating evidence and understanding findings. The criteria should generally identify the required or desired state or expectation with respect to the program or operation.
- (3) The condition found, including facts that support the deficiency identified in the audit finding.
- (4) A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.
- (5) The possible asserted effect to provide sufficient information to the auditee and state agency to permit them to determine the cause and effect to facilitate prompt and proper corrective action. A statement of the effect or potential effect should provide a clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria.
- (6) The identification of known questioned costs, by applicable state program name and state award identification number, and how these questioned costs were computed.
- (7) When there are known questioned costs but the dollar amount is undetermined or not reported, a description of why the dollar amount was undetermined or otherwise could not be reported.
- (8) Information to provide proper perspective for evaluating the prevalence and consequences of the audit finding. For example, whether the audit finding represents an isolated instance or a systemic problem. Where appropriate, instances identified must be related to the universe and the number of cases examined and be quantified in terms of dollar value. In addition, the audit finding should indicate whether the sampling was a statistically valid sample.
- (9) The identification of whether the audit finding is a repeat of a finding in the immediately prior audit. The audit finding must identify the applicable prior year audit finding reference numbers in these instances.
- (10) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
- (11) Views of responsible officials of the auditee.

### Reference Numbers

Each audit finding in the schedule of findings and questioned costs must include a reference number.

## AUDIT DOCUMENTATION

### Retention of Audit Documentation

The auditor must retain audit documentation and reports until the third anniversary of the later date of (1) the contract completion or expiration, or (2) the resolution of all issues that arose from any litigation, claim, negotiation, audit, open records request, administrative review, or other action involving the contract or documents. When the auditor is aware that the state agency or auditee is contesting an audit finding, the auditor must contact the parties contesting the audit finding for guidance prior to the destruction of the audit documentation and reports.

### Access to Audit Documentation

Audit documentation must be made available upon request to the state agency or State Auditor's Office to resolve audit findings, or to carry out oversight responsibilities. Access to audit documentation includes the right of state agencies to obtain copies of audit documentation, as is reasonable and necessary.

## CRITERIA FOR STATE PROGRAM RISK

### General

The auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring that could be material to the state program. The auditor must consider criteria, such as those described in of this section, to identify risk in state programs. Also, as part of the risk analysis, the auditor may wish to discuss a particular state program with auditee management and the state agency.

### Current and Prior Audit Experience

- (1) Weaknesses in internal control over state programs would indicate higher risk. Therefore, consideration should be given to the control environment over state programs. This includes considering factors such as the expectation of management's adherence to state and federal statutes, rules, and the terms and conditions of state awards, and the competence and experience of personnel who administer the state programs.
  - (a) A state program administered under multiple internal control structures may have higher risk. When assessing risk in a large single audit, the auditor must consider whether weaknesses are isolated in a single operating unit (for example, one college campus) or pervasive throughout the entity.
  - (b) A weak system for monitoring sub-grantees would indicate higher risk when significant parts of a state program are passed to sub-grantees through subawards.

- (2) Prior audit findings would indicate higher risk, especially when the situations identified in the audit findings could significantly impact a state program or have not been corrected.

#### **Oversight Exercised by State Agencies**

- (1) The oversight exercised by state agencies may be used to assess risk. For example, recent monitoring or other reviews performed by an oversight entity that disclosed no significant problems would indicate lower risk, whereas monitoring that disclosed significant problems would indicate higher risk.
- (2) State agencies may identify state programs that are higher risk.

#### **Inherent Risk of the State Program**

The nature of a state program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the state program contracts for goods and services. For example, state programs that disburse funds through third-party contracts or have eligibility criteria may be higher risk.

- (1) The phase of a state program in its lifecycle at the state agency may indicate risk. For example, a new state program with new or interim regulations may have higher risk than an established program with time-tested regulations. Also, significant changes in state programs, statutes, regulations, or the terms and conditions of state awards may increase risk.

- (2) The phase of a state program in its lifecycle at the auditee may indicate risk. For example, during the first and last years that an auditee participates in a state program, the risk may be higher due to the start-up or closeout of program activities and staff.

#### ***Management Decisions***

The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the state agency may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee. The state agency may also issue a management decision on findings relating to the financial statements, that are required to be reported in accordance with GAGAS. The state agency responsible for issuing the management decision should do so within six months of receipt of the report.

## VERSION HISTORY

| Release/Revision Date | Version | Summary of Revisions   |
|-----------------------|---------|--|
| January 1, 2020       | 1.0     | Publication Date of TxGMS.   |
| December 17, 2021     | 1.1     | <p>Non-substantive modifications (e.g., format adjustments, inclusion of hyperlinks, correction of typographical errors) throughout the TxGMS.</p> <p>Substantive revisions to the following sections: Audits, Appendices 2, 6, and 9.</p>   |
| October 1, 2024       | 2.0     | <p>Non-substantive modifications (e.g., format adjustments, correction of typographical errors) throughout the TxGMS.</p> <p>Non-substantive clarifications to the following sections: Throughout the TxGMS to align with 2 CFR Part 200.</p> <p>Substantive revisions to the following sections: Standard for Financial and Program Management: Internal Controls – Subaward Procedures: Fixed Amount Awards – Property Standards: Equipment - Supplies – Closeout – Indirect Costs: 15 percent de minimis Indirect Cost Rate – Audits: Audit Requirements – Appendices 2, 6, and 7</p> |

## APPENDIX 1

### ACRONYMS AND ABBREVIATIONS

|                |  |
|----------------|--|
| <b>ACFR</b>    | Annual Comprehensive Financial Report            |
| <b>ALN</b>     | Assistance Listing Number                        |
| <b>CFR</b>     | Code of Federal Regulations                      |
| <b>DUNS</b>    | Data Universal Numbering System                  |
| <b>ESBD</b>    | Electronic State Business Daily                  |
| <b>F&amp;A</b> | Facilities and Administration                    |
| <b>FMX</b>     | Fiscal Management Division website               |
| <b>GAA</b>     | General Appropriations Act (state)               |
| <b>GAAP</b>    | Generally Accepted Accounting Principles         |
| <b>GAGAS</b>   | Generally Accepted Government Auditing Standards |
| <b>GASB</b>    | Governmental Accounting Standards Board          |
| <b>IHE</b>     | Institutions of Higher Education                 |
| <b>LBB</b>     | Legislative Budget Board                         |
| <b>OMB</b>     | Office of Management and Budget (federal)        |
| <b>R&amp;D</b> | Research and Development                         |
| <b>RFA</b>     | Request for Applications                         |
| <b>SAM</b>     | System for Award Management (federal)            |
| <b>SAO</b>     | State Auditor's Office                           |
| <b>SEFA</b>    | Schedule of Expenditures Federal Awards          |
| <b>SPA</b>     | State Property Accounting                        |
| <b>SPD</b>     | Statewide Procurement Division                   |
| <b>SPTR</b>    | State Pass-Through Reconciliation                |
| <b>SWCAP</b>   | Statewide Cost Allocation Plan                   |
| <b>TAC</b>     | Texas Administrative Code                        |
| <b>TxGMS</b>   | Texas Grant Management Standards                 |
| <b>UGMS</b>    | Uniform Grant Management Standards               |
| <b>USAS</b>    | Uniform Statewide Accounting System              |
| <b>U.S.C.</b>  | United States Code                               |



## APPENDIX 2

### GLOSSARY

This Glossary provides definitions for terminology commonly used in state grant programs and the Chapter 783 Supplement for State Grant Programs. Other definitions may be found in state statutes, rules, or fiscal policies that apply more specifically to particular programs or activities. Because certain words found in state grant programs may have meanings that are the same, similar, or different to those found in federal grant programs, care should be taken to utilize the definition that is appropriate to the transaction. For definitions associated with terms found in federal grant programs, grant program managers must refer to 2 CFR Part 200 and any federal agency issued guidance. ***This Glossary does not provide guidance for terms found in federal grant programs.***

#### **Acquisition Cost**

The (total) cost of the asset including the cost to ready the asset for its intended use. For example, acquisition cost for equipment, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the grantee's or sub-grantee's regular accounting practices.

#### **Advance Payment**

A payment that a state agency or pass-through entity makes by any appropriate payment mechanism and payment method before the local government disburses the funds for program purposes.

#### **Allocation**

The process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

#### **Annual Comprehensive Financial Report (ACFR)**

A statewide financial report that encompasses all funds and component units of the State of Texas, prepared in conformance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements. Formerly known as Comprehensive Annual Financial Report (CAFR).

#### **Application**

The document(s) submitted in response to a Request for Applications or other notice of funding opportunity for financial assistance.

#### **Appropriation**

Legislative authorization to expend public funds for a specific purpose.

#### **Assignment**

Transfer of contractual rights from one party to another party.

#### **Auditee**

Any non-state entity that expends state awards that must be audited under TxGMS.

#### **Auditor**

Auditor means an auditor who is a public accountant or a federal, state, local government, or Indian Tribe audit organization that meets the general standards specified for external auditors in generally accepted government auditing standards (GAGAS). The term auditor does not include internal auditors of nonprofit organizations.

#### **Biennium**

For the State of Texas, a period of 24 consecutive months beginning on September 1 of each odd-numbered year. Example: September 1, 2025, through August 31, 2027.

#### **Budget**

The financial plan for the project or program that the state agency or pass-through entity approves during the award process or in subsequent amendments to the award. It may include the State and non-state share or only the state share, as determined by the state agency or pass-through entity.

#### **Capital Asset**

A possession of the State that has an estimated useful life of more than one year. Capital assets may or may not be capitalized for financial reporting purposes.

#### **Capital Expenditure**

Expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements,

rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.

### Central Service Cost Allocation Plan

The documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian Tribe to its departments and agencies on a centralized basis. The costs of these services may be allocated or billed to users.

### Closeout

The process by which the awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the award have been completed and takes actions as described in Texas Grant Management Standards. Final activity under contract management to ensure all deliverable, payment and capital equipment disposition activities have been appropriately completed. In some grant opportunities the actions associated with a [Closeout](#) all occur at the same time. However, there are other grant opportunities where the actions associated with Closeout may occur at different times. Sometimes the fiscal actions and the performance actions may reach Closeout years apart to achieve program goals.

### Cluster of Programs

A grouping of closely related programs that share common compliance requirements. The types of clusters of programs are research and development, student financial aid, and other clusters.

### Code of Federal Regulations (CFR)

A codification of the federal rules that have been previously published in the Federal Register. The CFR is divided into 50 titles that cover broad areas subject to federal regulation.

### Computing Devices

Machines that acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information. See also Supplies and Information Technology Systems.

### Continuation Funding

The second or subsequent budget period within an identified period of performance.

### Contract

The legal instrument used to enter into a procurement relationship with a contractor (e.g., private sector vendor, public sector entity) to acquire goods and services that are needed to carry out the project or program under a state grant.

### Contractor

An entity that receives a contract.

### Controlled Asset

An agency asset the State has determined as high loss risk to be secured and tracked because of the nature of the possession. The term does not include a capitalized asset, real property, an improvement to real property, or infrastructure. If the controlled asset is required to be reported to the SPA system, additional information may be found in the SPA Process User’s Guide located on the [Comptroller’s FMX website](#).

### Corrective Action

Action taken by the auditee that:

- (1) Corrects identified deficiencies;
- (2) Produces recommended improvements; or
- (3) Demonstrates that audit findings are either invalid or do not warrant auditee action.

### Cost Allocation Plan

A central service or public assistance cost allocation plan.

### Cost Objective

A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, and capital projects. A cost objective may be a major function of the grantee or sub-grantee, a particular service or project, a state award, or an indirect cost activity. See also [Final Cost Objective](#) and [Intermediate Cost Objective](#).

### Cost Sharing

The portion of project costs contributed by the grantee (unless otherwise authorized by state statute).

### Data Universal Numbering System (DUNS)

A system that assigns a unique nine-digit identification number, provided by Dun & Bradstreet (D&B).

### Disallowed costs

Charges to a state award that the state agency or pass-through entity determines to be unallowable, in accordance with the applicable statutes, regulations, or the terms and conditions of the state award.

### ECA Assistance Listings

A compilation of federal programs, projects, services and activities providing assistance or benefits to the American public. It contains financial and nonfinancial assistance programs administered by

various federal government agencies. The ECA Assistance Listings are available online under the Assistance Listings at [sam.gov](http://sam.gov).

### Enabling Legislation

Federal or State statute that gives entities the authority to establish grant programs. This legislation usually includes the broad parameters that the entity shall follow in the implementation of the grant program.

### Electronic State Business Daily (ESBD)

An online directory, administered by SPD, that publishes solicitations, contract awards, and grant opportunities for the purpose of informing the public.

### Equipment

Tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost that equals or exceeds the lesser of the capitalization level established by the grantee or sub-grantee for financial statement purposes, or \$10,000. See also Capital Assets, Computing Devices, General Purpose Equipment, Information Technology Systems, Special Purpose Equipment, and Supplies.

### Expenditures

Charges made by a grantee or sub-grantee to a project or program for which a state award was received.

- (a) The charges may be reported on a cash or accrual basis, as long as the methodology is disclosed and is consistently applied.
- (b) For reports prepared on a cash basis, expenditures are the sum of
  - (1) Cash disbursements for direct charges for property and services;
  - (2) The amount of indirect expense charged;
  - (3) The value of third-party in-kind contributions applied; and
  - (4) The amount of cash advance payments and payments made to sub-grantees.
- (c) For reports prepared on an accrual basis, expenditures are the sum of
  - (1) Cash disbursements for direct charges for property and services;
  - (2) The amount of indirect expense incurred;
  - (3) The value of third-party in-kind contributions applied; and
  - (4) The net increase or decrease in the amounts owed by the grantee or sub-grantee for
    - (i) Goods and other property received;

(ii) Services performed by employees, contractors, sub-grantees, and other payees; and

(iii) Programs for which no current services or performance are required such as annuities, insurance claims, or other benefit payments.

### Final Cost Objective

A cost objective that has allocated to it both direct and indirect costs and, in the grantee's or sub-grantee's accumulation system, is one of the final accumulation points, such as a particular award, internal project, or other direct activity of a grantee or sub-grantee. See also [Cost Objective](#) and [Intermediate Cost Objective](#).

### Fiscal Year

For the State of Texas, a period of 12 consecutive months beginning September 1 of each year and ending August 31 of the next year.

### FMX

The Comptroller's Fiscal Management Division website that assists state agencies and institutions of higher education to efficiently and effectively manage their appropriations, financial reporting, purchase and travel expenditures, payrolls and personnel.

### General Purpose Equipment

Equipment that is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles. See also [Equipment](#) and [Special Purpose Equipment](#).

### Generally Accepted Accounting Principles (GAAP)

Conventions, rules and procedures that serve as the norm for the fair presentation of financial statements.

### Generally Accepted Government Auditing Standards (GAGAS)

Generally accepted government auditing standards issued by the Comptroller General of the United States, which apply to financial audits. Also known as the Yellow Book.

### Governmental Accounting Standards Board (GASB)

A component of the Financial Accounting Foundation (FAF) — a private sector, nonprofit organization. GASB is not a governmental entity. GASB provides authoritative guidance on accounting and financial reporting for state and local governments. GASB establishes generally accepted accounting principles (GAAP) for state and local governments, but has no enforcement authority.

**Grant Agreement**

A legal instrument of financial assistance between a state agency and a grantee or between a pass-through entity and a sub-grantee that is used to enter into a relationship the principal purpose of which is to transfer anything of value from the state agency or pass-through entity to the grantee or sub-grantee to carry out a public purpose authorized by a state law.

**Grantee**

A non-state entity that receives a state award directly from a state agency to carry out an activity under a state program. The term grantee does not include sub-grantees. See also [Non-state Entity](#).

**Grantor**

For state grant programs, the entity providing financial assistance in the form of an award. Also referred to as the state agency.

**Improper Payment**

A payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements.

Includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts.

**Indirect Costs**

Those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. It may be necessary to establish multiple pools of indirect costs to facilitate equitable distribution of indirect expenses to the cost objectives served. Indirect cost pools must be distributed to benefitted cost objectives on basis that will produce an equitable result in consideration of relative benefits derived. For Institutions of Higher Education (IHE), the term facilities and administrative (F & A) cost is often used to refer to indirect costs.

**Indirect Cost Rate Proposal**

The documentation prepared by a grantee to substantiate its request to establish an indirect cost rate.

**Information Technology Systems**

Computing devices, ancillary equipment, software, firmware, and related procedures, services (including support services), and resources. See also Computing Devices and Equipment.

**Intangible Property**

Property having no physical existence, such as trademarks, copyrights, data (including data licenses), websites, IP licenses, trade secrets, patents, patent applications, and property such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership of either tangible or intangible property, such as intellectual property, software, or software subscriptions or licenses.

**Interagency Contract**

Written understanding between two or more agencies as authorized by Chapter 771 of the Texas Government Code.

**Interlocal Contract**

Written understanding between local government entities, a local government entity and a federally recognized Indian Tribe, or a local government entity and a state agency of Texas or another state as authorized by Chapter 791 of the Texas Government Code. For purposes of Chapter 791 of the Texas Government, a federally recognized Indian Tribe is listed by the United States Secretary of the Interior under 25 U.S.C. Section 479a-1, whose reservation is located within the boundaries of the State of Texas.

**Intermediate Cost Objective**

A cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives. See also Cost Objective and Final Cost Objective.

**Internal Controls**

A process, implemented by a grantee or sub-grantee, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

**Internal Control Over Compliance Requirements for State Awards**

A process implemented by a grantee or sub-grantee designed to provide reasonable assurance regarding the achievement of the following objectives for state awards:

- (a) Transactions are properly recorded and accounted for, in order to
  - (1) Permit the preparation of reliable financial statements and state reports;
  - (2) Maintain accountability over assets; and
  - (3) Demonstrate compliance with statutes, regulations, and the terms and conditions of the state award;

(b) Transactions are executed in compliance with

- (1) Statutes, regulations, and the terms and conditions of the state award that could have a direct and material effect on a state program; and
- (2) Any other statutes and regulations that are identified in the compliance supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

(c) Uses net proceeds to maintain, improve, or expand the organization's operations; and

(d) Is not an IHE.

### Obligations

When used in connection with a non-state entity's utilization of funds under a state award, orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-state entity during the same or a future period.

### Legislative Budget Board (LBB)

The permanent joint committee of the Texas Legislature that develops budget and policy recommendations for legislative appropriations for all agencies of state government. The LBB completes fiscal analyses for proposed legislation and conducts evaluations and reviews for the purpose of identifying and recommending changes that improve the efficiency and performance of state and local operations and finances.

### Local Government

A municipality, county, or other political subdivision of the state, as those terms are used in Government Code, Chapter 783. Does not include a school district or other special-purpose district.

### Major Program

A state program determined by the auditor to be a major program in accordance with TxGMS or a program identified as a major program by a state agency or pass-through entity in accordance with TxGMS.

### Management Decision

The evaluation by the state agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.

### Non-state Entity

A federal government, local government, Indian Tribe, institutions of higher education (IHE), nonprofit organization, or for-profit entity (if permitted by state law and the state award) that carries out a state award as a grantee or sub-grantee.

### Nonprofit Organization

Any organization that

- (a) Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;
- (b) Is not organized primarily for profit;

### Participant

Generally, an individual participating in or attending program activities under a state award, such as trainings or conferences, but who is not responsible for implementation of the state award. Individuals committing effort to the development or delivery of program activities under a state award (such as consultants, project personnel, or staff members of a grantee or sub-grantee) are not participants. Examples of participants may include community members participating in a community outreach program, members of the public whose perspectives or input are sought as part of a program, students, or conference attendees.

### Participant Support Costs

Direct costs that support participants and their involvement in a state award, such as stipends, subsistence allowances, travel allowances, registration fees, temporary dependent care, and per diem paid directly to or on behalf of participants.

### Pass-through entity

A grantee or subgrantee that provides a subaward to a sub-grantee (including lower tier sub-grantees) to carry out part of a state program. The authority of the pass-through entity under this part flows through the subaward agreement between the pass-through entity and sub-grantee.

### Performance Goal

A measurable target level of performance expressed as a tangible, measurable objective, against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate. In some instances (for example, discretionary research awards), this may be limited to the requirement to submit technical performance reports (to be evaluated in accordance with agency policy).

### Period of Performance

The time during which the non-state entity may incur new obligations to carry out the work authorized under the state award.

**Personal Property**

Property other than real property. May be tangible or intangible.

**Prior Approval**

The written approval obtained in advance by an authorized official of a state agency or pass-through entity of certain costs or programmatic decisions.

**Project Cost**

Total allowable costs incurred under a state award and all required cost sharing and voluntary committed cost sharing, including third-party contributions

**Property**

Real property or personal property.

**Questioned Costs; Known Questioned Cost; Likely Questioned Cost**

- (a) An amount, expended or received from a state award, that in the auditor’s judgment
  - (i) Is noncompliant or suspected noncompliant with state statutes, regulations, or the terms and conditions of the state award;
  - (ii) At the time of the audit, lacked adequate documentation to support compliance; or
  - (iii) Appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances.
- (b) The questioned cost under (a)(ii) is calculated as if the portion of a transaction that lacked adequate documentation were confirmed noncompliant.
- (c) There is no questioned cost solely because of
  - (i) Deficiencies in internal control; or
  - (ii) Noncompliance with the reporting type of compliance requirement if this noncompliance does not affect the amount expended or received from the state award.
- (d) Known questioned cost means a questioned cost specifically identified by the auditor. Known questioned costs are a subset of likely questioned costs.
- (e) Likely questioned cost means the auditor’s best estimate of total questioned costs, not just the known questioned costs. Likely questioned costs are developed by extrapolating from audit evidence obtained, for example, by projecting known questioned costs identified in an audit sample to the entire population from which the sample was drawn. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the likely questioned costs, not just the known questioned costs.

**Real Property**

Land, including land improvements, structures and appurtenances thereto, and legal interests in land, including fee interest, licenses, rights of way, and easements. Real property excludes moveable machinery and equipment.

**Request for Applications (RFA)**

A written solicitation announcement requesting the submission of applications for funding opportunities.

**Research and Development**

Basic and applied research activities and all development activities performed by grantee and sub-grantee. The term research also includes activities involving the training of individuals in research techniques where such activities use the same facilities as other research and development activities and where such activities are not included in the instruction function.

“Research” is the systematic study directed toward fuller scientific knowledge or understanding of the subject studied. “Development” is the systematic use of knowledge and understanding gained from research directed toward to produce useful materials, devices, systems, or methods, including designing and developing prototypes and processes.

**Schedule of Expenditures of Federal Awards (SEFA)**

Used to report the federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal agencies or indirectly from pass-through entities. Each agency that expends federal awards is required to submit the SEFA to the Comptroller either by hard copy or through the SEFA web application.

**Statewide Cost Allocation Plan (SWCAP)**

Prepared by the Governor’s Office each fiscal year. Identifies the costs incurred for the provision of central administrative and support activities (central services such as accounting and payroll) and allocates those costs to the agencies receiving the centralized services.

**Single Audit**

With amendment in 1996, provides audit requirements for entities that receive federal financial assistance above a designated monetary threshold. The annual audit reduces the audit burden for non-federal entities in that one audit is conducted instead of multiple audits of individual programs.

**Special Purpose Equipment**

Equipment that is used only for research, medical, scientific, or other similar technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical

instruments, spectrometers, and associated software. See also [Equipment](#) and [General Purpose Equipment](#).

### State

The State of Texas.

### State Agency

As defined in Chapter 783 of the Government Code. In TxGMS, generally refers to the agency that provides a state award directly to a grantee unless the context indicates otherwise. See also [State Award](#) and [Grantee](#).

### State Award

State award has the meaning, depending on the context, in either paragraph (1) or (2) of this section:

- (1) The state financial assistance that a non-state entity receives directly from a state agency or indirectly from a pass-through entity.
- (2) The grant agreement.

### State Share

The portion of the total project costs that are paid by state funds or in-kind assistance.

### State Pass-Through Reporting (SPTR)

The web application used to submit the State Grant Pass-Through Schedule and report state grant money passed between agencies. SPTR is available on the Comptroller's website.

### Subaward

An award provided by a pass-through entity to a sub-grantee for the sub-grantee to carry out part of a state award received by the pass-through entity. It does not include payments to a contractor, beneficiary, or participant.

### Sub-grantee

A non-state entity that receives a subaward from a pass-through entity to contribute to the goals and objectives of the project by carrying out part of a state program. The term sub-grantee does not include a beneficiary or participant. A sub-grantee may also be a grantee of other state awards directly from a state agency. A sub-grantee may also be referred to as a subrecipient.

### Supply

All tangible personal property other than those described in [Equipment](#). A computing device is a supply if the acquisition cost is below the lesser of the capitalization level established by the grantee or sub-grantee for financial statement purposes or \$10,000, regardless of the length of its useful life. See also [Computing Devices](#) and [Equipment](#).

### Texas Acquisition Threshold

The same dollar amount as the federal Simplified Acquisition Threshold including any adjustments to the federal Simplified Acquisition Threshold that may occur after the publication date of TxGMS. The dollar amount associated with federal Simplified Acquisition Threshold is determined in accordance with 48 CFR Part 2, Subpart 2.1. As of the publication of Version 2.0 of TxGMS, the federal Simplified Acquisition Threshold is \$250,000.

### Termination

The action a state agency, pass-through entity, or grantee takes to discontinue a state award, in whole or in part at any time before the planned end date of the period of performance.

### Third-Party In-Kind Contributions

The value of non-cash contributions (meaning property or services) that

- (1) benefit a project or program funded by state award; and
- (2) are contributed by non-state third parties, without charge, to a grantee or sub-grantee under a state award.

### Unliquidated Obligations

Financial obligations incurred by the grantee or sub-grantee but not paid (liquidated) for financial reports prepared on a cash basis. For reports prepared on an expenditure basis, these are obligations incurred by the grantee or sub-grantee for which expenditures have not been recorded.

### Unobligated Balance

The amount of funds under a state award that the grantee or sub-grantee has not obligated. The amount is computed by subtracting the cumulative amount of the grantee's or sub-grantee's unliquidated obligations and expenditures of funds under the state award from the cumulative amount of the funds that the state agency or pass-through entity authorized the grantee or sub-grantee to obligate.

### Voluntary Committed Cost Sharing

Cost sharing specifically pledged voluntarily in the proposal's budget or the state award on the part of the grantee or sub-grantee that becomes a binding requirement of the state award.



## APPENDIX 3

### ADDITIONAL RESOURCES

#### STATE RESOURCES

Comptroller's Fiscal Management Website (FMX): <https://fmx.cpa.texas.gov/fmx/>

Electronic State Business Daily: <http://www.txsmartbuy.com/esbd>

General Appropriations Act: <http://www.lbb.state.tx.us/budget.aspx>

LBB Contracts Database: [http://www.lbb.state.tx.us/Contract\\_Reporting.aspx](http://www.lbb.state.tx.us/Contract_Reporting.aspx)

State of Texas Procurement and Contract Management Guide:  
<https://comptroller.texas.gov/purchasing/publications/procurement-contract.php>

Texas Administrative Code: <https://www.sos.texas.gov/texreg/index.shtml>

Texas.gov eGrants: <https://txapps.texas.gov/tolapp/egrants/search.htm>

TxGMS: <https://comptroller.texas.gov/purchasing/grant-management/>

#### FEDERAL RESOURCES

ECA Assistance Listings: <https://eca.state.gov/organizational-funding/applying-grant/assistance-listings>

Code of Federal Regulations: <https://www.ecfr.gov/>

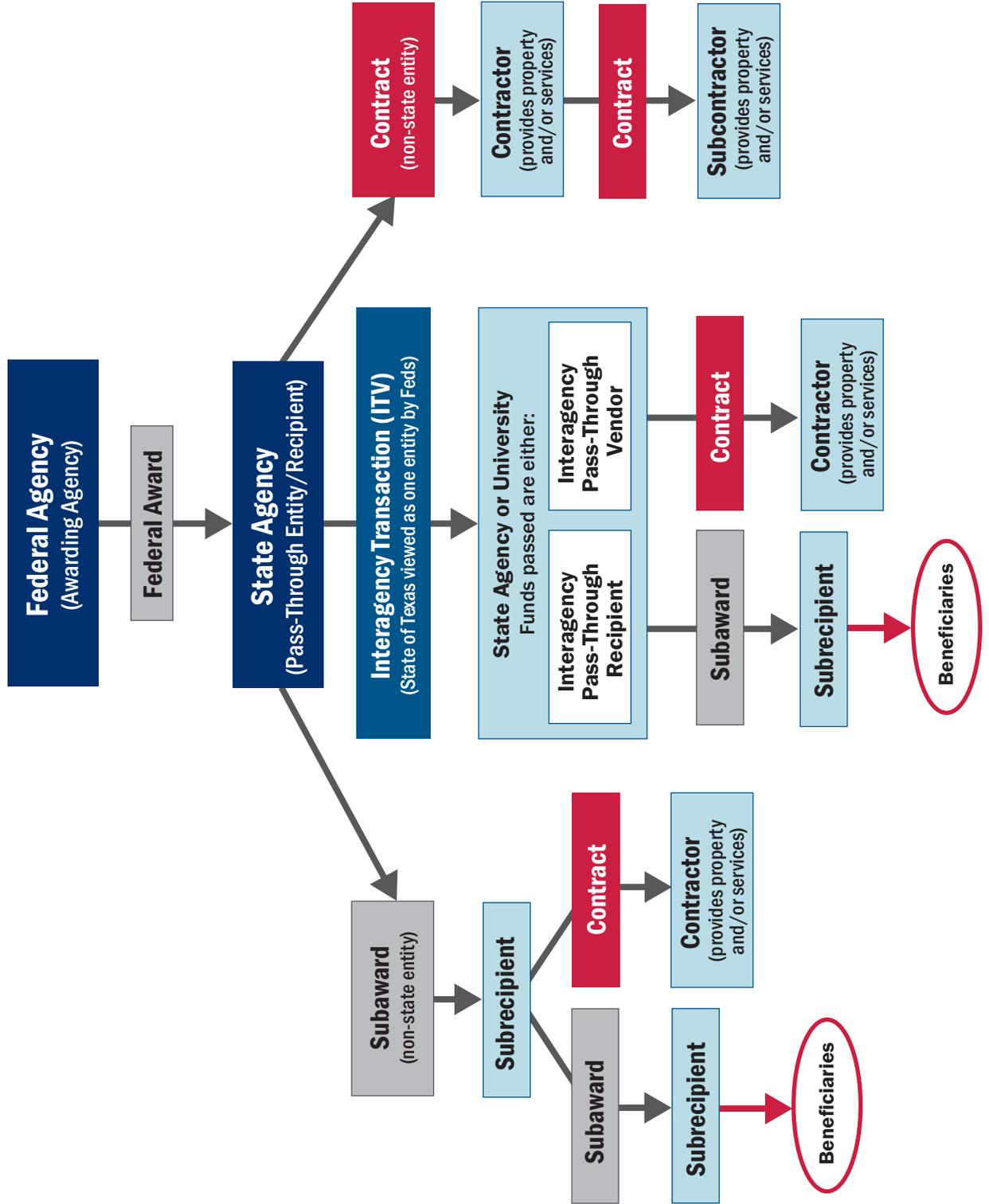
System for Award Management: <https://www.sam.gov/SAM/>

Uniform Guidance: <https://www.govinfo.gov/app/collection/cfr/2024/>

Uniform Guidance Training Materials: <https://cfo.gov/grants/>

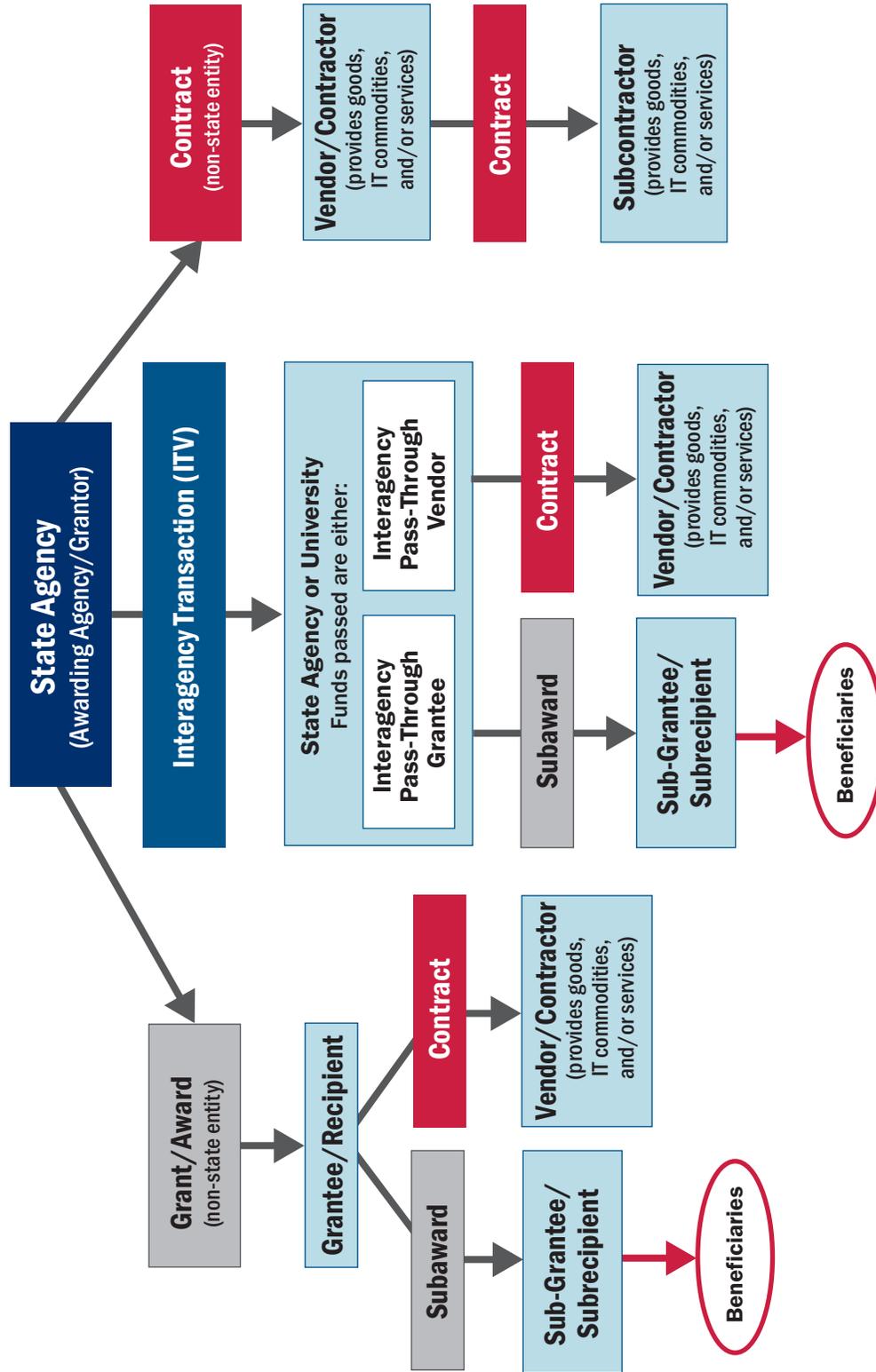


**APPENDIX 4**  
**TYPES OF RELATIONSHIPS IN FEDERAL GRANT AWARDS**





**APPENDIX 5**  
**TYPES OF RELATIONSHIPS IN STATE GRANT AWARDS**





## APPENDIX 6

### UNIFORM ASSURANCES BY LOCAL GOVERNMENTS

In accordance with Section 783.005 of the Texas Government Code, this document identifies the Uniform Assurances that a state agency must include in its grant agreements and procurement contracts with local governments.

The wording of the Uniform Assurance must substantially conform to the Standard Text. (Alternate versions of the Standard Text for certain Assurances are provided.) It is expected that the following terms will be revised by the state agency as appropriate for conformity with the applicable transaction documents: **Agency**, **Respondent**, **Response**, and **Solicitation**.

General guidance is provided along with examples of supplemental text that routinely accompany the required clause. Any additional text included by the state agency must not conflict with or weaken a Uniform Assurance. It is recommended that grant program managers seek assistance from agency legal counsel prior to modifying the Standard Text as slight variations may result in the state agency’s non-compliance with applicable statutes.

| Assurance                           | Standard Text   | Guidance  |
|-------------------------------------|---|---|
| <b>Byrd Anti-Lobbying Amendment</b> | <p><b>Respondent</b> certifies that no federal appropriated funds have been paid or will be paid to any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress on its behalf to obtain, extend, or modify this contract or grant. If non-federal funds are used by <b>Respondent</b> to conduct such lobbying activities, <b>Respondent</b> shall promptly file the prescribed disclosure form. In accordance with 31 U.S.C. § 1352(b)(5), <b>Respondent</b> acknowledges and agrees that it is responsible for ensuring that each subrecipient and subcontractor certifies its compliance with the expenditure prohibition and the declaration requirement.</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text required by the federal agency.</i></p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts exceeding \$100,000 that are financed from federal funds.</p> <p><b>NOTE:</b> Unless otherwise directed by the federal agency, the OMB prescribed SF-LLL is the standard disclosure reporting form for lobbying paid for with non-federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)--</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p>Byrd Anti-Lobbying Amendment (31 U.S.C. 1352)—Contractors that apply or bid for an award exceeding \$100,000 must file the required certification. Each tier certifies to the tier above that it will not and has not used federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any federal contract, grant or any other award covered by 31 U.S.C. 1352. Each tier must also disclose any lobbying with non-federal funds that takes place in connection with obtaining any federal award. Such disclosures are forwarded from tier to tier up to the non-federal award.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |

| Assurance                              | Standard Text  | Guidance   |
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| <p><b>Child Support Obligation</b></p> | <p><b>Respondent</b> represents and warrants that it will include the following clause in the award documents for every subaward and subcontract and will require subrecipients and contractors to certify accordingly: “Under Section 231.006 of the Family Code, the vendor or applicant certifies that the individual or business entity named in this contract, bid or application is not ineligible to receive the specified grant, loan, or payment and acknowledges that this contract may be terminated and payment may be withheld if this certification is inaccurate. A bid or an application for a contract, grant, or loan paid from state funds must include the name and social security number of the individual or sole proprietor and each partner, shareholder, or owner with an ownership interest of at least 25 percent of the business entity submitting the bid or application.”</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p><b>NOTE:</b> Pursuant to Sections 231.006(a) and 231.302(c)(3) of the Texas Family Code, this certification applies to lower tier transactions.</p> <p>Section 231.006(d) of the Texas Family Code mandates the use of statutorily specified text. Section 231.006(j) of the Texas Family Code provides that “A state agency may accept a bid that does not include the required information if the state agency collects the information before the contract, grant, or loan is executed.”</p> <p>Section 231.006(a) of the Texas Family Code provides that a child support obligor who is more than 30 days delinquent in paying child support and a business entity in which the obligor is a sole proprietor, partner, shareholder, or owner with an ownership interest of at least 25 percent is not eligible to (1) receive payments from state funds under a contract to provide property, materials, or service; or (2) receive a state-funded grant or loan.</p> <p>Supplemental text to the required clause may include the following:</p> <p><b>FEDERAL PRIVACY ACT NOTICE:</b> This notice is given pursuant to the Federal Privacy Act. Disclosure of your Social Security Number (SSN) is required under Section 231.006(c) and Section 231.302(c)(2) of the Texas Family Code. The Social Security number will be used to identify persons that may owe child support and will be kept confidential to the fullest extent allowed under Section 231.302(e) of the Texas Family Code.</p> <p><b>Legal Authority:</b> TEX. FAM. CODE §§ 231.006, 231.302.</p> |

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| <p><b>Clean Air Act and Federal Water Pollution Control Act</b></p> | <p><b>Respondent</b> represents and warrants that it will comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401-7671q) and the Federal Water Pollution Control Act as amended (33 U.S.C. 1251-1387).</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text specified by the federal agency.</i></p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts exceeding \$150,000 financed from federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)--</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p style="padding-left: 40px;">(G) Clean Air Act (42 U.S.C. 7401-7671q.) and the Federal Water Pollution Control Act (33 U.S.C. 1251-1387), as amended—Contracts and subgrants of amounts in excess of \$150,000 must contain a provision that requires the non-federal award to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401-7671q) and the Federal Water Pollution Control Act as amended (33 U.S.C. 1251-1387). Violations must be reported to the federal agency and the Regional Office of the Environmental Protection Agency (EPA).</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |
| <p><b>Compliance With Laws, Rules, and Requirements</b></p>         | <p><b>Respondent</b> represents and warrants that it will comply, and assure the compliance of all its subrecipients and contractors, with all applicable federal and state laws, rules, regulations, and policies in effect or hereafter established. In addition, <b>Respondent</b> represents and warrants that it will comply with all requirements imposed by the awarding agency concerning special requirements of law, program requirements, and other administrative requirements. In instances where multiple requirements apply to <b>Respondent</b>, the more restrictive requirement applies.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts financed from federal grant funds.</p> <p><b>Legal Authority:</b> 2 CFR §§ 200.300, 200.302, 200.303, 200.318.</p>   |
| <p><b>Contract Oversight</b></p>                                    | <p><b>Respondent</b> represents and warrants that it will maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.</p>  | <p><b>APPLICABILITY:</b> Clause applies to procurement contracts that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> 2 CFR § 200.318(b); TEX. GOVT CODE § 783.005.</p>   |

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| <p><b>Contract Work Hours and Safety Standards Act</b></p>             | <p><b>Respondent</b> represents and warrants that it will comply with the requirements of the Contract Work Hours and Safety Standards Act (40 U.S.C. 3701-3708).</p> <p style="text-align: center;">Or</p> <p style="text-align: center;">Other text specified by the federal agency.</p> | <p><b>APPLICABILITY:</b> Clause applies to procurement contracts exceeding \$100,000 that are financed from federal funds and involve the employment of mechanics or laborers.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)-</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p>(E) Contract Work Hours and Safety Standards Act (40 U.S.C. 3701-3708). Where applicable, all contracts awarded by the non-federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with 40 U.S.C. 3702 and 3704, as supplemented by Department of Labor regulations (29 CFR Part 5). Under 40 U.S.C. 3702 of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of 40 U.S.C. 3704 are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions that are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |
| <p><b>Cybersecurity Training Program (Local Government System)</b></p> | <p><b>Respondent</b> represents and warrants its compliance with Section 2054.5191 of the Texas Government Code relating to the cybersecurity training program for local government employees who have access to a local government computer system or database.</p>                       | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE § 2054.5191.</p>  |
| <p><b>Cybersecurity Training Program (State Contractor)</b></p>        | <p>If <b>Respondent</b> has access to any state computer system or database, <b>Respondent</b> shall complete cybersecurity training and verify completion of the training program to the <b>Agency</b> pursuant to and in accordance with Section 2054.5192 of the Government Code.</p>   | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE § 2054.5192.</p>  |

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| <p><b>Davis-Bacon Act and the Copeland Act</b></p> | <p><b>Respondent</b> represents and warrants that it will comply with the requirements of the Davis-Bacon Act (40 U.S.C. 3141-3144, and 3146-3148) as supplemented by Department of Labor regulations (29 CFR Part 5, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction”) and the Copeland Act (40 U.S.C. §276c and 18 U.S.C. §874).</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text specified by the federal agency.</i></p> | <p><b>APPLICABILITY:</b> Clause applies to certain construction contracts financed from federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)--</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p>(D) Davis-Bacon Act, as amended (40 U.S.C. 3141-3148). When required by federal program legislation, all prime construction contracts in excess of \$2,000 awarded by non-federal entities must include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 3141-3144, and 3146-3148) as supplemented by Department of Labor regulations (29 CFR Part 5, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction”). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The non-federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. The non-federal entity must report all suspected or reported violations to the federal agency. The contracts must also include a provision for compliance with the Copeland “Anti-Kickback” Act (40 U.S.C. 3145), as supplemented by Department of Labor regulations (29 CFR Part 3, “Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States”). The Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The non-federal entity must report all suspected or reported violations to the federal agency.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |

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| <p><b>Debarment and Suspension</b></p> | <p><b>Respondent</b> certifies that it and its principals are not suspended or debarred from doing business with the state or federal government as listed on the <i>State of Texas Debarred Vendor List</i> maintained by the Texas Comptroller of Public Accounts and the <i>System for Award Management (SAM)</i> maintained by the General Services Administration.</p> <p style="text-align: center;">Or</p> <p><i>Other text specified by the federal agency, provided the certification also addresses the State of Texas Debarred Vendor List maintained by the Texas Comptroller of Public Accounts.</i></p>   | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)--</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p>(H) Debarment and Suspension (Executive Orders 12549 and 12689) – A contract award (see 2 CFR 180.220) must not be made to parties listed on the governmentwide exclusions in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR part 1986 Comp., p. 189) and 12689 (3 CFR part 1989 Comp., p. 235), “Debarment and Suspension.” SAM Exclusions contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II; Executive Orders 12549 and 12689; TEX. GOV'T CODE § 783.005.</p> |
| <p><b>Debts and Delinquencies</b></p>  | <p><b>Respondent</b> agrees that any payments due under the contract or grant shall be applied towards any debt or delinquency that is owed to the State of Texas.</p> <p style="text-align: center;">Or</p> <p><b>Respondent</b> agrees that any payments due under the contract or grant shall be directly applied towards eliminating any debt or delinquency it has to the State of Texas including, but not limited to, delinquent taxes, delinquent student loan payments, and delinquent child support.</p> <p style="text-align: center;">Or</p> <p><b>Respondent</b> acknowledges and agrees that, to the extent <b>Respondent</b> owes any debt including, but not limited to, delinquent taxes, delinquent student loans, and child support owed to the State of Texas, any payments or other amounts <b>Respondent</b> is otherwise owed under the contract or grant may be applied toward any debt <b>Respondent</b> owes the State of Texas until the debt is paid in full. These provisions are effective at any time <b>Respondent</b> owes any such debt or delinquency.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts financed from state funds.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE §§ 403.055, 2252.903.</p>   |

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| <p><b>Disaster Recovery Plan</b></p>                           | <p>In accordance with 13 Texas Administrative Code § 6.94(a) (9), Respondent shall provide to Agency the descriptions of its business continuity and disaster recovery plans.</p> <p style="text-align: center;">Or</p> <p>Upon request of Agency, Respondent shall provide the descriptions of its business continuity and disaster recovery plans.</p> <p style="text-align: center;">Or</p> <p>Upon request of Agency, Respondent shall provide copies of its most recent business continuity and disaster recovery plans.</p> | <p><b>APPLICABILITY:</b> Clause required for any grant agreement or procurement contract with an entity that has custody of vital state records.</p> <p>13 TAC § 6.94(a)(9) states that each state agency must require all third-party custodians of records to provide the state agency with descriptions of their business continuity and/or disaster recovery plans as regards to the protection of the state agency’s vital state records.</p> <p>The term “vital state record” is defined in Section 441.180(13) of the Texas Government Code to mean any state record necessary to</p> <ul style="list-style-type: none"> <li>(A) the resumption or continuation of state agency operations in an emergency or disaster;</li> <li>(B) the re-creation of the legal and financial status of the agency; or</li> <li>(C) the protection and fulfillment of obligations to the people of the state.</li> </ul> <p>Supplemental text to the required clause may provide additional details regarding the required business continuity and disaster recovery plans (e.g., title and date of plan).</p> <p><b>Legal Authority:</b> TEX. GOV’T CODE § 441.190; 13 TAC § 6.94(a)(9).</p> |
| <p><b>Disclosure of Violations of Federal Criminal Law</b></p> | <p>Respondent represents and warrants its compliance with 2 CFR § 200.113, which requires the disclosure in writing of violations of federal criminal law involving fraud, bribery, and gratuity and the reporting of certain civil, criminal, or administrative proceedings to SAM.</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text specified by the federal agency.</i></p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements financed from federal funds.</p> <p>2 CFR § 200.113 provides as follows:</p> <p>The non-federal entity or applicant for a federal award must disclose, in a timely manner, in writing to the federal agency or pass-through entity all violations of federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the federal award. Non-federal entities that have received a federal award including the term and condition outlined in Appendix XII—Award Term and Condition for Recipient Integrity and Performance Matters are required to report certain civil, criminal, or administrative proceedings to SAM. Failure to make required disclosures can result in any of the remedies described in § 200.339 Remedies for noncompliance, including suspension or debarment. (See also 2 CFR Part 180, 31 U.S.C. 3321, and 41 U.S.C. 2313.)</p> <p><b>Legal Authority:</b> 2 CFR § 200.113.</p>   |

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| <p><b>Disclosure of Prior State Employment</b></p> | <p>In accordance with Section 2254.033 of the Texas Government Code, relating to consulting services, Respondent certifies that it does not employ an individual who has been employed by Agency or another agency at any time during the two years preceding the submission of the Response or, in the alternative, Respondent has disclosed in its Response the following: (i) the nature of the previous employment with Agency or the other agency; (ii) the date the employment was terminated; and (iii) the annual rate of compensation for the employment at the time of its termination.</p> | <p><b>APPLICABILITY:</b> Clause applies to procurement contracts for consulting services under Chapter 2254 of the Texas Government Code.</p> <p>The term “consultant” is defined to be a person that provides or proposes to provide a consulting service. The term includes a political subdivision but does not include the federal government, a state agency, or a state governmental entity. TEX. GOV'T CODE § 2254.021.</p> <p>Section 2254.034 of the Texas Government Code states the following:</p> <ul style="list-style-type: none"> <li>(a) A contract entered into in violation of Sections 2254.029 through 2254.031 is void.</li> <li>(b) A contract entered into with a private consultant who did not comply with Section 2254.033 is void.</li> <li>(c) If a contract is void under this section,             <ul style="list-style-type: none"> <li>(1) the comptroller may not draw a warrant or transmit money to satisfy an obligation under the contract; and</li> <li>(2) a state agency may not make any payment under the contract with state or federal money or money held in or outside the state treasury.</li> </ul> </li> <li>(d) This section applies to all consulting services contracts, including renewals, amendments, and extensions of consulting services contracts.</li> </ul> <p><b>Legal Authority:</b> TEX. GOV'T CODE § 2254.033.</p> |

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| <p><b>Disclosure Protections for Certain Charitable Organizations, Charitable Trusts, and Private Foundations</b></p> | <p><b>Respondent</b> represents and warrants that it will comply with Section 2252.906 of the Texas Government Code relating to disclosure protections for certain charitable organizations, charitable trusts, and private foundations.</p>             | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p>Section 2252.906(a) of the Texas Government Code states the following:</p> <p>In this section,</p> <ol style="list-style-type: none"> <li>(1) “Charitable organization” means an organization that is exempt from federal income tax under Section 501(a), Internal Revenue Code of 1986, by being listed as an exempt organization in Section 501(c) of that code. The term does not include a property owners’ or homeowners’ association.</li> <li>(2) “Grant-making organization” means an organization that makes grants to charitable organizations but is not a private foundation, private foundation trust, or split interest trust.</li> <li>(3) “Private foundation” has the meaning assigned by Section 509(a), Internal Revenue Code of 1986.</li> <li>(4) “Split interest trust” means an irrevocable trust in which the income is first dispersed to the beneficiaries of the trust for a specified period and the remainder of the trust is donated to a designated charity.</li> </ol> <p><b>Legal Authority:</b> TEX. GOV’T CODE § 2252.906.</p> |
| <p><b>Discrimination Prohibited</b></p>   | <p>In accordance with Section 2105.004 of the Texas Government Code, <b>Respondent</b> represents and warrants that it will not use block grant funds in a manner that discriminates on the basis of race, color, national origin, sex, or religion.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts financed from block grants.</p> <p><b>Legal Authority:</b> TEX. GOV’T CODE § 2105.004.</p>   |
| <p><b>Dispute Resolution</b></p>  | <p>The dispute resolution process provided in Chapter 2009 of the Texas Government Code is available to the parties to resolve any dispute arising under the agreement.</p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> TEX. GOV’T CODE §§ 791.015, 2009.002.</p>  |

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| <p><b>Equal Employment Opportunity</b></p> | <p>The <b>Respondent</b> hereby agrees that it will incorporate or cause to be incorporated into any contract for construction work, or modification thereof, as defined in the regulations of the Secretary of Labor at 41 CFR Chapter 60, which is paid for in whole or in part with funds obtained from the federal Government or borrowed on the credit of the federal Government pursuant to a grant, contract, loan, insurance, or guarantee, or undertaken pursuant to any federal program involving such grant, contract, loan, insurance, or guarantee, the following equal opportunity clause:</p> <p>During the performance of this contract, the <b>Respondent</b> agrees as follows:</p> <p>(1) The <b>Respondent</b> will not discriminate against any employee or applicant for employment because of race, color, religion, sex, sexual orientation, gender identity, or national origin. The <b>Respondent</b> will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex, sexual orientation, gender identity, or national origin. Such action shall include, but not be limited to the following:</p> <p>Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The <b>Respondent</b> agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided setting forth the provisions of this nondiscrimination clause.</p> <p>(2) The <b>Respondent</b> will, in all solicitations or advertisements for employees placed by or on behalf of the <b>Respondent</b>, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, sexual orientation, gender identity, or national origin.</p> | <p><b>APPLICABILITY:</b> Clause applies to certain construction contracts financed from federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)-</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p>(C) Equal Employment Opportunity. Except as otherwise provided under 41 CFR Part 60, all contracts that meet the definition of “federally assisted construction contract” in 41 CFR Part 60-1.3 must include the equal opportunity clause provided under 41 CFR 60-1.4(b), in accordance with Executive Order 11246, “Equal Employment Opportunity” (30 FR 12319, 12935, 3 CFR Part, 1964-1965 Comp., p. 339), as amended by Executive Order 11375, “Amending Executive Order 11246 Relating to Equal Employment Opportunity,” and implementing regulations at 41 CFR Part 60, “Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor.”</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |

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| <p><b>Equal Employment Opportunity</b><br/><i>(continued)</i></p> | <p>(3) The <b>Respondent</b> will not discharge or any other manner discriminate against any employee or applicant for employment because such employee or applicant has inquired about, discussed, or disclosed the compensation of the employee or applicant or another employee or applicant. This provision shall not apply to instances in which an employee who has access to the compensation information of other employees or applicants as a part of such employee's essential job functions discloses the compensation of such other employees or applicants to individuals who do not otherwise have access to such information, unless such disclosure is in response to a formal complaint such employee or applicant has inquired about, discussed, or disclosed the compensation of the employee or applicant or another employee or applicant. This provision shall not apply to instances in which an employee who has access to the compensation information of other employees or applicants as a part of such employee's essential job functions discloses the compensation of such other employees or applicants to individuals who do not otherwise have access to such information, unless such disclosure is in response to a formal complaint or charge, in furtherance of an investigation, proceeding, hearing, or action, including an investigation conducted by the employer, or is consistent with the <b>Respondent's</b> legal duty to furnish information.</p> <p>(4) The <b>Respondent</b> will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided advising the said labor union or workers' representatives of the <b>Respondent's</b> commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.</p> <p>(5) The <b>Respondent</b> will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.</p> <p>(6) The <b>Respondent</b> will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.</p> |          |

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| <p><b>Equal Employment Opportunity</b><br/><i>(continued)</i></p> | <p>(7) In the event of the <b>Respondent's</b> noncompliance with the nondiscrimination clauses of this contract or with any of the said rules, regulations, or orders, this contract may be canceled, terminated, or suspended in whole or in part and the <b>Respondent</b> may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.</p> <p>(8) The <b>Respondent</b> will include the portion of the sentence immediately preceding paragraph (1) and the provisions of paragraphs (1) through (8) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The <b>Respondent</b> will take such action with respect to any subcontract or purchase order as the administering agency may direct as a means of enforcing such provisions, including sanctions for noncompliance:</p> <p>Provided, however, that in the event a contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the administering agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.</p> <p>The <b>Respondent</b> further agrees that it will be bound by the above equal opportunity clause with respect to its own employment practices when it participates in federally assisted construction work: Provided that if the <b>Respondent</b> so participating is a state or local government, the above equal opportunity clause is not applicable to any agency, instrumentality or subdivision of such government that does not participate in work on or under the contract.</p> |          |

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| <p><b>Equal Employment Opportunity</b><br/><i>(continued)</i></p> | <p>(9) The <b>Respondent</b> agrees that it will assist and cooperate actively with the administering agency and the Secretary of Labor in obtaining the compliance of contractors and subcontractors with the equal opportunity clause and the rules, regulations, and relevant orders of the Secretary of Labor, that it will furnish the administering agency and the Secretary of Labor such information as they may require for the supervision of such compliance, and that it will otherwise assist the administering agency in the discharge of the agency’s primary responsibility for securing compliance.</p> <p>The <b>Respondent</b> further agrees that it will refrain from entering into any contract or contract modification subject to Executive Order 11246 of September 24, 1965, with a contractor debarred from, or who has not demonstrated eligibility for, Government contracts and federally assisted construction contracts pursuant to the Executive Order and will carry out such sanctions and penalties for violation of the equal opportunity clause as may be imposed upon contractors and subcontractors by the administering agency or the Secretary of Labor pursuant to Part II, Subpart D of the Executive Order. In addition, the <b>Respondent</b> agrees that if it fails or refuses to comply with these undertakings, the administering agency may take any or all of the following actions: Cancel, terminate, or suspend in whole or in part this grant (contract, loan, insurance, guarantee); refrain from extending any further assistance to the <b>Respondent</b> under the program with respect to which the failure or refund occurred until satisfactory assurance of future compliance has been received from such applicant; and refer the case to the Department of Justice for appropriate legal proceedings.</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text specified by the federal agency.</i></p> |   |
| <p><b>Excluded Parties</b></p>                                    | <p><b>Respondent</b> certifies that it is not listed in the prohibited vendors list authorized by Executive Order No. 13224, “<i>Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism</i>”, published by the United States Department of the Treasury, Office of Foreign Assets Control.</p>  | <p><b>APPLICABILITY:</b> Clause applies as long as Executive Order No. 13224 is in effect.</p> <p>Executive Order 13224 (Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), was issued by President George W. Bush on September 23, 2001, as a response to the attacks on September 11, 2001.</p> <p><b>Legal Authority:</b> Executive Order No. 13224.</p> |

| Assurance  | Standard Text  | Guidance   |
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| <p><b>Executive Head of a State Agency Affirmation</b></p> | <p>Under Section 669.003 of the Texas Government Code, Respondent certifies that it does not employ, or has disclosed its employment of, any former executive head of the Agency. Respondent must provide the following information in the Response.</p> <p>Name of Former Executive: _____</p> <p>Name of State Agency: _____</p> <p>Date of Separation from State Agency: _____</p> <p>Position with Respondent: _____</p> <p>Date of Employment with Respondent: _____</p> <p style="text-align: center;">Or</p> <p>In accordance with Section 669.003 of the Texas Government Code, relating to contracting with the executive head of a state agency, Respondent certifies that it is not (1) the executive head of the Agency, (2) a person who at any time during the four years before the date of the contract or grant was the executive head of the Agency, or (3) a person who employs a current or former executive head of the Agency.</p> <p style="text-align: center;">Or</p> <p>Under Section 669.003 of the Texas Government Code, relating to contracting with an executive head of a state agency, Respondent represents that no person who served as an executive of Agency, in the past four (4) years, was involved with or has any interest in the contract or grant. If Respondent employs or has used the services of a former executive of Agency, then Respondent shall provide the following information in the Response: name of the former executive, the name of the state agency, the date of separation from the state agency, the position held with Respondent, and the date of employment with Respondent.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p>Section 669.003 of the Texas Government Code states the following:</p> <p>A state agency may not enter into a contract with the executive head of the state agency, with a person who at any time during the four years before the date of the contract was the executive head of the state agency, or with a person who employs a current or former executive head of a state agency affected by this section, unless the governing body votes, in an open meeting, to approve the contract; and notifies the Legislative Budget Board, not later than the fifth day before the date of the vote, of the terms of the proposed contract.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE §§ 669.003.</p> |

| Assurance                                      | Standard Text   | Guidance   |
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| <p><b>Federal Solid Waste Disposal Act</b></p> | <p><b>Respondent</b> represents and warrants that it will comply with the requirements of Section 6002 of the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text specified by the federal agency.</i></p>   | <p><b>APPLICABILITY:</b> Clause applies to certain procurement contracts financed from federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)-</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p style="padding-left: 40px;">(J) See §200.323 Procurement of recovered materials.</p> <p>2 CFR § 200.323 (Procurement of Recovered Materials) provides the following:</p> <p style="padding-left: 40px;">A non-federal entity that is a state agency or agency of a political subdivision of a state and its contractors must comply with Section 6002 of the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act. The requirements of Section 6002 include procuring only items designated in guidelines of the Environmental Protection Agency (EPA) at 40 CFR part 247 that contain the highest percentage of recovered materials practicable, consistent with maintaining a satisfactory level of competition, where the purchase price of the item exceeds \$10,000 or the value of the quantity acquired during the preceding fiscal year exceeded \$10,000; procuring solid waste management services in a manner that maximizes energy and resource recovery; and establishing an affirmative procurement program for procurement of recovered materials identified in the EPA guidelines.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |
| <p><b>Firearm Suppressor Policy</b></p>        | <p><b>Respondent</b> certifies that it has not received a final judicial determination finding it adopted a rule, order, ordinance, or policy under which it enforces, or allows the enforcement of, a federal statute, order, rule, or regulation that purports to regulate a firearm suppressor in violation of Texas Government Code §2.102(a) in an action brought by the Attorney General under Texas Government Code §2.104. If <b>Respondent</b> is currently being sued under Texas Government Code §2.104 or is sued under this section at any point during the duration of this grant, <b>Respondent</b> agrees to immediately disclose the lawsuit and its posture to the <b>Agency</b>.</p> | <p><b>Legal Authority:</b> TEX. GOV'T CODE, Chapter 2, Subchapter C.</p>   |

| Assurance                             | Standard Text   | Guidance  |
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| <p><b>Former Agency Employees</b></p> | <p><b>Respondent</b> represents and warrants that none of its employees including, but not limited to, those authorized to provide services under the contract, were former employees of the <b>Agency</b> during the twelve (12) month period immediately prior to the date of execution of the contract.</p> <p style="text-align: center;">Or</p> <p>In accordance with Section 2252.901 of the Texas Government Code, <b>Respondent</b> represents and warrants that none of its employees including, but not limited to, those authorized to provide services under the contract, were former employees of the <b>Agency</b> during the twelve (12) month period immediately prior to the date of execution of the contract.</p> | <p><b>APPLICABILITY:</b> Clause applies to procurement contracts that are consulting services contracts under Chapter 2254 of the Texas Government Code, if appropriated money will be used to make payments under the contract.</p> <p>The term “consultant” is defined to be a person that provides or proposes to provide a consulting service. The term includes a political subdivision but does not include the federal government, a state agency, or a state governmental entity. TEX. GOV'T CODE § 2254.021.</p> <p>Section 2252.901(a) of the Texas Government Code states the following:</p> <p style="padding-left: 20px;">A state agency may not enter into an employment contract, a professional services contract under Chapter 2254, or a consulting services contract under Chapter 2254 with a former or retired employee of the agency before the first anniversary of the last date on which the individual was employed by the agency, if appropriated money will be used to make payments under the contract. This section does not prohibit an agency from entering into a professional services contract with a corporation, firm, or other business entity that employs a former or retired employee of the agency within one year of the employee’s leaving the agency, provided that the former or retired employee does not perform services on projects for the corporation, firm, or other business entity that the employee worked on while employed by the agency.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE §§ 2252.901.</p> |

| Assurance                             | Standard Text  | Guidance   |
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| <p><b>Funding Limitation</b></p>      | <p><b>Respondent</b> understands that all obligations of <b>Agency</b> under the contract or grant are subject to the availability of grant funds. The contract or grant is subject to termination or cancellation, either in whole or in part, without penalty to <b>Agency</b> if such funds are not appropriated or become unavailable.</p> <p style="text-align: center;">Or</p> <p>The contract or grant shall not be construed as creating a debt on behalf of <b>Agency</b> in violation of Article III, Section 49a of the Texas Constitution. <b>Respondent</b> understands that all obligations of <b>Agency</b> under the contract are subject to the availability of grant funds.</p> <p style="text-align: center;">Or</p> <p><b>Respondent</b> agrees that nothing in this grant will be interpreted to create an obligation or liability of the <b>Agency</b> in excess of the funds delineated in this grant. <b>Respondent</b> agrees that funding for this grant is subject to the actual receipt by the <b>Agency</b> of grant funds appropriated to the <b>Agency</b>. <b>Respondent</b> agrees that the grant funds, if any, received from the <b>Agency</b> may be limited by the term of each state biennium and by specific appropriation authority to and the spending authority of the <b>Agency</b> for the purpose of this grant. <b>Respondent</b> agrees that notwithstanding any other provision of this grant, if the <b>Agency</b> is not appropriated the funds or if the <b>Agency</b> does not receive the appropriated funds for this grant program, or if the funds appropriated to the <b>Agency</b> for this grant program are required to be reallocated to fund other federal or state programs or purposes, the <b>Agency</b> is not liable to pay the <b>Respondent</b> any remaining balance on this grant.</p> | <p><b>APPLICABILITY:</b> Clause must be included in any grant agreement or procurement contract with a term that crosses the biennium.</p> <p>The Texas Constitution and the General Appropriations Act prohibit an agency from incurring obligations in excess of amounts lawfully appropriated by the Texas Legislature over the course of a biennium. Therefore, any installment purchase, lease, or any other type of purchase that incurs an obligation beyond the current appropriations is strictly prohibited, unless such obligation is expressly conditioned upon continued legislative appropriation. For general information regarding the one exception to the prohibition against incurring excess obligations, refer to the “Termination for Non-Appropriations, Excess Obligations Prohibited” Section of the <i>State of Texas Procurement and Contract Management Guide</i>.</p> <p><b>Legal Authority:</b> TEX CONST Art III § 49a; TEX CONST Art VIII § 6; General Appropriations Act, Art IX, § 6.03 (2024-2025 Biennium)</p> |
| <p><b>Governing Law and Venue</b></p> | <p>This agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to the conflicts of law provisions. The venue of any suit arising under this agreement is fixed in any court of competent jurisdiction of Travis County, Texas, unless the specific venue is otherwise identified in a statute that directly names or otherwise identifies its applicability to the contracting state agency.</p>   | <p><b>APPLICABILITY:</b> Clause required for procurement contracts that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE § 783.005.</p>  |

| Assurance  | Standard Text   | Guidance   |
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| <p><b>Indemnification (General)</b></p>                | <p><b>RESPONDENT</b> SHALL DEFEND, INDEMNIFY AND HOLD HARMLESS THE STATE OF TEXAS AND <b>AGENCY</b>, AND/OR ITS OFFICERS, AGENTS, EMPLOYEES, REPRESENTATIVES, CONTRACTORS, ASSIGNEES, AND/OR DESIGNEES FROM ANY AND ALL LIABILITY, ACTIONS, CLAIMS, DEMANDS, OR SUITS, AND ALL RELATED COSTS, ATTORNEY FEES, AND EXPENSES ARISING OUT OF, OR RESULTING FROM ANY ACTS OR OMISSIONS OF <b>RESPONDENT</b> OR ITS AGENTS, EMPLOYEES, SUBCONTRACTORS, ORDER FULFILLERS, OR SUPPLIERS OF SUBCONTRACTORS IN THE EXECUTION OR PERFORMANCE OF THE CONTRACT AND ANY PURCHASE ORDERS ISSUED UNDER THE CONTRACT. THE DEFENSE SHALL BE COORDINATED BY <b>RESPONDENT</b> WITH THE OFFICE OF THE TEXAS ATTORNEY GENERAL WHEN TEXAS STATE AGENCIES ARE NAMED DEFENDANTS IN ANY LAWSUIT AND <b>RESPONDENT</b> MAY NOT AGREE TO ANY SETTLEMENT WITHOUT FIRST OBTAINING THE CONCURRENCE FROM THE OFFICE OF THE TEXAS ATTORNEY GENERAL. <b>RESPONDENT</b> AND <b>AGENCY</b> AGREE TO FURNISH TIMELY WRITTEN NOTICE TO EACH OTHER OF ANY SUCH CLAIM.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p>NOTE: Depending on the transaction, the parties may also negotiate an additional indemnification clause to specifically address intellectual property, engineering services, or architectural services.</p> <p>Vendor created liability under a contract may pose a financial risk to the State in violation of the prohibition against Excess Obligations.</p> <p>Legal counsel should be sought prior to the agency agreeing to a mutual indemnification or indemnification of another entity as such an obligation may constitute a “debt” in violation of law. See Tex. Att’y Gen. Op. No. MW-475 (1982).</p> <p>A statute may expressly authorize the state’s indemnification of another entity. See TEX. GOVT CODE § 808.003.</p> <p>Supplemental text to the required clause may include the following:</p> <p style="padding-left: 40px;">THIS PARAGRAPH IS NOT INTENDED TO AND SHALL NOT BE CONSTRUED TO REQUIRE <b>RESPONDENT</b> TO INDEMNIFY OR HOLD HARMLESS THE STATE OR <b>AGENCY</b> FOR ANY CLAIMS OR LIABILITIES RESULTING FROM THE NEGLIGENT ACTS OR OMISSIONS OF <b>AGENCY</b> OR ITS EMPLOYEES.</p> <p style="padding-left: 40px;">For the avoidance of doubt, <b>Agency</b> shall not indemnify <b>Respondent</b> or any other entity under the contract.</p> <p><b>Legal Authority:</b> TEX CONST Art VIII § 6; TEX. GOVT CODE § 2254.0031.</p> |
| <p><b>Law Enforcement Agency Grant Restriction</b></p> | <p>If <b>Respondent</b> is a law enforcement agency regulated by Chapter 1701 of the Texas Occupations Code, <b>Respondent</b> represents and warrants that it will not use appropriated money unless the law enforcement agency is in compliance with all rules adopted by the Texas Commission on Law Enforcement (TCOLE), or TCOLE certifies that it is in the process of achieving compliance with such rules.</p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements financed from appropriated funds.</p> <p><b>Legal Authority:</b> General Appropriations Act, Art IX, § 4.01 (2024-2025 Biennium).</p>  |

| Assurance  | Standard Text  | Guidance  |
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| <p><b>Legal Authority</b></p>                                    | <p><b>Respondent</b> represents that it possesses legal authority to apply for the grant. A resolution, motion or similar action has been duly adopted or passed as an official act of the <b>Respondent's</b> governing body, authorizing the filing of the <b>Response</b>, including all understandings and assurances contained therein, and directing and authorizing the person identified as the official representative, or the designee of <b>Respondent</b> to act in connection with the <b>Response</b> and to provide such additional information as may be required.</p>   | <p><b>APPLICABILITY:</b> Clause applies to grant agreements that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE § 783.005.</p>  |
| <p><b>Limitations on Grants to Units of Local Government</b></p> | <p><b>Respondent</b> acknowledges and agrees that appropriated funds may not be expended in the form of a grant to, or contract with, a unit of local government unless the terms of the grant or contract require that the funds received under the grant or contract will be expended subject to the limitations and reporting requirements similar to those provided by the following:</p> <p>Parts 2 and 3 of the Texas General Appropriations Act, Art. IX, except there is no requirement for increased salaries for local government employees;</p> <p>Sections 556.004, 556.005, and 556.006 of the Texas Government Code; and</p> <p>Sections 2113.012 and 2113.101 of the Texas Government Code.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements financed from appropriated funds.</p> <p>The term “unit of local government” is defined in General Appropriations Act, Art IX, § 4.04 (2024-2025 Biennium) to be</p> <p>a council of governments, a region planning commission, or a similar regional planning agency created under Chapter 391 of the Local Government Code;</p> <p>a local workforce development board; or</p> <p>a community center as defined by Health and Safety Code § 534.001(b).</p> <p><b>Legal Authority:</b> General Appropriations Act, Art IX, § 4.04 (2024-2025 Biennium).</p>   |
| <p><b>Lobbying Expenditure Restriction</b></p>                   | <p><b>Respondent</b> represents and warrants that <b>Agency's</b> payments to <b>Respondent</b> and <b>Respondent's</b> receipt of appropriated or other funds under the contract or grant are not prohibited by Sections 403.1067 or 556.0055 of the Texas Government Code, which restrict lobbying expenditures.</p>   | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p>Section 403.1067 of the Texas Government Code provides the following:</p> <p>(a) An organization, program, political subdivision, public institution of higher education, local community organization, or other entity receiving funds or grants from the permanent funds in Section 403.105, 403.1055, 403.106, 403.1065, or 403.1066 may not use the funds or grants to pay:</p> <ol style="list-style-type: none"> <li>(1) lobbying expenses incurred by the recipient;</li> <li>(2) a person or entity that is required to register with the Texas Ethics Commission under Chapter 305, Government Code;</li> <li>(3) any partner, employee, employer, relative, contractor, consultant, or related entity of a person or entity described by Subdivision (2); or</li> <li>(4) a person or entity who has been hired to represent associations or other entities for the purpose of affecting the outcome of legislation, agency rules, ordinances, or other government policies.</li> </ol> |

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| <p><b>Lobbying Expenditure Restriction</b><br/><i>(Continued)</i></p> | <p><b>Respondent</b> represents and warrants that <b>Agency</b>'s payments to <b>Respondent</b> and <b>Respondent</b>'s receipt of appropriated or other funds under the contract or grant are not prohibited by Sections 403.1067 or 556.0055 of the Texas Government Code, which restrict lobbying expenditures.</p> | <p>(b) Except as provided by this subsection, the persons or entities described by Subsection (a) are not eligible to receive the money or participate either directly or indirectly in the contracts, funds, or grants awarded in Section 403.105, 403.1055, 403.106, 403.1065, or 403.1066. A registrant under Chapter 305 is not ineligible under this subsection if the person is required to register under that chapter solely because the person communicates directly with a member of the executive branch to influence administrative action concerning a matter relating to the purchase of products or services by a state agency.</p> <p>(c) Grants or awards made under Section 403.105, 403.1055, 403.106, 403.1065, or 403.1066 may not be conditioned on the enactment of legislation, agency rules, or local ordinances.</p> <p>Section 556.0055 of the Texas Government Code provides the following:</p> <p>(a) A political subdivision or private entity that receives state funds may not use the funds to pay:</p> <ul style="list-style-type: none"> <li>(1) lobbying expenses incurred by the recipient of the funds;</li> <li>(2) a person or entity that is required to register with the Texas Ethics Commission under Chapter 305;</li> <li>(3) any partner, employee, employer, relative, contractor, consultant, or related entity of a person or entity described by Subdivision (2); or</li> <li>(4) a person or entity that has been hired to represent associations or other entities for the purpose of affecting the outcome of legislation, agency rules, ordinances, or other government policies.</li> </ul> <p>(b) A political subdivision or private entity that violates Subsection (a) is not eligible to receive additional state funds.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE §§ 403.1067, 556.0055.</p> |
| <p><b>No Conflicts of Interest (federal)</b></p>                      | <p><b>Respondent</b> represents and warrants its compliance with the federal agency's conflict of interest policies in accordance 2 CFR § 200.112.</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text specified by the federal agency.</i></p>                                     | <p><b>APPLICABILITY:</b> Clause applies to grant agreements financed from federal funds.</p> <p>2 CFR § 200.112 provides the following:</p> <p>The federal agency must establish conflict of interest policies for federal awards. The non-federal entity must disclose in writing any potential conflict of interest to the federal agency or pass-through entity in accordance with applicable federal agency policy.</p> <p><b>Legal Authority:</b> 2 CFR § 200.112.</p>  |

| Assurance                                      | Standard Text  | Guidance   |
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| <p><b>No Conflicts of Interest (state)</b></p> | <p><b>Respondent</b> represents and warrants that performance under the contract or grant will not constitute an actual or potential conflict of interest or reasonably create an appearance of impropriety. Further, <b>Respondent</b> represents and warrants that in the administration of the grant, it will comply with all conflict of interest prohibitions and disclosure requirements required by applicable law, rules, and policies, including Chapter 176 of the Texas Local Government Code. If circumstances change during the course of the contract or grant, <b>Respondent</b> shall promptly notify <b>Agency</b>.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE §§ 2252.908, 2254.032; TEX LOCAL GOV'T CODE Chapter 176; Tex. Att'y Gen. Op. No. JC-0484 (2002) (concluding that grants awarded by state agencies are subject to the strict common-law rule prohibiting conflict of interest) see also Tex. Att'y Gen. Op. No. KP-0259 (2019) (determining that Section 2261.252(e) of the Texas Government Code does not abrogate the common-law conflict of interest doctrine for state agency purchase orders of \$25,000 or less).</p> |
| <p><b>No Waiver of Sovereign Immunity</b></p>  | <p>The Parties expressly agree that no provision of the grant or contract is in any way intended to constitute a waiver by the <b>Agency</b> or the State of Texas of any immunities from suit or from liability that the <b>Agency</b> or the State of Texas may have by operation of law.</p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> U.S. CONST. amend. XI.</p>   |
| <p><b>Open Meetings</b></p>                    | <p>If the <b>Respondent</b> is a governmental entity, <b>Respondent</b> represents and warrants its compliance with Chapter 551 of the Texas Government Code, which requires all regular, special or called meeting of a governmental body to be open to the public, except as otherwise provided by law.</p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p>Legal Authority: TEX. GOV'T CODE § 551.002.</p>  |
| <p><b>Political Polling Prohibition</b></p>    | <p><b>Respondent</b> represents and warrants that it does not perform political polling and acknowledges that appropriated funds may not be granted to, or expended by, any entity that performs political polling.</p>  | <p><b>APPLICABILITY:</b> The prohibition regarding political polling does not apply to a poll conducted by an academic institution as a part of the institution's academic mission that is not conducted for the benefit of a particular candidate or party. General Appropriations Act, Art IX, § 4.03 (2024-2025 Biennium).</p> <p><b>Legal Authority:</b> General Appropriations Act, Art IX, § 4.03 (2024-2025 Biennium).</p>  |
| <p><b>Public Camping Ban</b></p>               | <p><b>Respondent</b> certifies that it has not received a final judicial determination finding it intentionally adopted or enforced a policy that prohibited or discouraged the enforcement of a public camping ban in an action brought by the Attorney General under Local Government Code §364.003. If <b>Respondent</b> is currently being sued under the provisions of Local Government Code §364.003, or is sued under this section at any point during the duration of this grant, <b>Respondent</b> must immediately disclose the lawsuit and its current posture to the <b>Agency</b>.</p>                                      | <p><b>APPLICABILITY:</b> Applies to any grant made to a local entity with state funds. However, a local entity that has not violated Section 364.002 may not be denied state funds, even if it is a part of another entity that is ineligible for funding. For example, a police department may be an eligible local entity, even if it is part of a city that is ineligible. See Local Government Code § 364.004(c) and 361.001(1).</p> <p><b>Legal Authority:</b> Local Government Code, Chapter 364</p>   |

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| <p><b>Texas Public Information Act</b></p>    | <p>Information, documentation, and other material in connection with this <b>Solicitation</b> or any resulting contract or grant may be subject to public disclosure pursuant to Chapter 552 of the Texas Government Code (the “Public Information Act”). In accordance with Section 2252.907 of the Texas Government Code, <b>Respondent</b> is required to make any information created or exchanged with the State pursuant to the contract or grant, and not otherwise excepted from disclosure under the Texas Public Information Act, available in a format that is accessible by the public at no additional charge to the State.</p> <p style="text-align: center;">Or</p> <p><b>Respondent</b> understands that <b>Agency</b> will comply with the Texas Public Information Act (Chapter 552 of the Texas Government Code) as interpreted by judicial rulings and opinions of the Attorney General of the State of Texas. Information, documentation, and other material in connection with this <b>Solicitation</b> or any resulting contract or grant may be subject to public disclosure pursuant to the Texas Public Information Act. In accordance with Section 2252.907 of the Texas Government Code, <b>Respondent</b> is required to make any information created or exchanged with the State pursuant to the contract, and not otherwise excepted from disclosure under the Texas Public Information Act, available in a format that is accessible by the public at no additional charge to the State.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts that are financed from state or federal funds.</p> <p>Supplemental text to the required clause may include the following:</p> <p>Specific formats acceptable to the <b>Agency</b> include Word, Excel, and PDF.</p> <p>Supplemental text to the required clause may include details of the agency’s protocol for labeling confidential information and procedures for receipt and handling of public information requests.</p> <p><b>Legal Authority:</b> TEX. GOV’T CODE Chapter 552; TEX. GOV’T CODE § 2252.907.</p> |
| <p><b>Reporting Compliance</b></p>            | <p><b>Respondent</b> represents and warrants that it will submit timely, complete, and accurate reports in accordance with the grant and maintain appropriate backup documentation to support the reports.</p>   | <p><b>APPLICABILITY:</b> Clause applies to grant agreements that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> 2 CFR §§ 200.327-.329; TEX. GOV’T CODE § 783.005.</p>  |
| <p><b>Records Retention (federal)</b></p>     | <p><b>Respondent</b> represents and warrants its compliance with the records retention requirements of 2 CFR § 200.333. <b>Agency</b> reserves the right to direct a <b>Respondent</b> to retain documents for a longer period of time or transfer certain records to <b>Agency</b> custody when it is determined the records possess longer term retention value. <b>Respondent</b> must include the substance of this clause in all subawards and subcontracts.</p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements and procurement contracts financed from federal funds.</p> <p><b>Legal Authority:</b> 2 CFR § 200.334.</p>   |
| <p><b>Records Retention (state-grant)</b></p> | <p><b>Respondent</b> shall maintain and retain all records relating to the performance of the grant including supporting fiscal documents adequate to ensure that claims for grant funds are in accordance with applicable State of Texas requirements. These records will be maintained and retained by <b>Respondent</b> for a period of four (4) years after the grant expiration date or until all audit, claim, and litigation matters are resolved, whichever is later. <b>Agency</b> reserves the right to direct a <b>Respondent</b> to retain documents for a longer period of time or transfer certain records to <b>Agency</b> custody when it is determined the records possess longer term retention value. <b>Respondent</b> must include the substance of this clause in all subawards and subcontracts.</p>  | <p><b>APPLICABILITY:</b> Clause applies to grant agreements financed from state funds.</p> <p>NOTE: The records retention time period may be modified as necessary to be consistent with the state agency’s approved records retention schedule.</p> <p><b>Legal Authority:</b> TEX. CIV. PRAC. &amp; REM. CODE § 16.051; TEX. GOV’T CODE § 441.185.</p>   |

| Assurance   | Standard Text  | Guidance  |
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| <p><b>Records Retention (state-procurement)</b></p> | <p>For the time period specified in Section 441.1855 of the Texas Government Code, <b>Respondent</b> shall maintain and retain all records relating to the performance of the contract including supporting fiscal documents adequate to ensure that claims for contract funds are in accordance with applicable State of Texas requirements. <b>Respondent</b> must include the substance of this clause in all subcontracts.</p> | <p><b>APPLICABILITY:</b> Clause applies to procurement contracts financed from state grant funds.</p> <p>Section 441.1855 of the Texas Government Code provides:</p> <p>(a) Notwithstanding Section 441.185 or 441.187, a state agency</p> <ol style="list-style-type: none"> <li>(1) shall retain in its records each contract entered into by the state agency and all contract solicitation documents related to the contract; and</li> <li>(2) may destroy the contract and documents only after the seventh anniversary of the date:             <ol style="list-style-type: none"> <li>(A) the contract is completed or expires; or</li> <li>(B) all issues that arise from any litigation, claim, negotiation, audit, open records request, administrative review, or other action involving the contract or documents are resolved.</li> </ol> </li> </ol> <p>(b) A contract solicitation document that is an electronic document must be retained under Subsection (a) in the document's electronic form. A state agency may print and retain the document in paper form only if the agency provides for the preservation, examination, and use of the electronic form of the document in accordance with Subsection (a), including any formatting or formulas that are part of the electronic format of the document.</p> <p>(c) In this section:</p> <ol style="list-style-type: none"> <li>(1) "Contract solicitation document" includes any document, whether in paper form or electronic form, that is used by a state agency to evaluate responses to a competitive solicitation for a contract issued by the agency.</li> <li>(2) "Electronic document" means:             <ol style="list-style-type: none"> <li>(A) information that is created, generated, sent, communicated, received, or stored by electronic means; or</li> <li>(B) the output of a word processing, spreadsheet, presentation, or business productivity application.</li> </ol> </li> </ol> <p><b>Legal Authority:</b> TEX. GOVT CODE § 441.1855.</p> |

| Assurance  | Standard Text   | Guidance  |
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| <p><b>Remedies for Nonperformance</b></p>                    | <p>If <b>Respondent</b> fails to comply with any requirement of the contract, <b>Agency</b> may terminate or cancel all or any part of the contract, may obtain substitute requested items, may withhold acceptance and payments to <b>Respondent</b>, may revoke any prior acceptance, may require <b>Respondent</b> to refund amounts paid prior to revocation of acceptance and may pursue all rights and remedies against <b>Respondent</b> under the contract and any applicable law. Remedies for nonperformance may also include suspension or debarment. No provision of the contract shall constitute or be construed as a waiver of any of the privileges, rights, defenses, remedies, or immunities available to <b>Agency</b> as an agency of the State of Texas or otherwise available to <b>Agency</b>. The failure to enforce or any delay in the enforcement of any privileges, rights, defenses, remedies, or immunities detailed in the contract or otherwise available to <b>Agency</b> by law will not constitute a waiver of said privileges, rights, defenses, remedies, or immunities or be considered as a basis for estoppel.</p> <p style="text-align: center;">Or</p> <p><i>Other contract text that satisfies the requirements of 2 CFR Part 200 Appendix II (A).</i></p> | <p><b>APPLICABILITY:</b> Clause applies to procurement contracts exceeding the federal Simplified Acquisition Threshold that are financed from federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)-</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p>Contracts for more than the simplified acquisition threshold currently set at \$150,000, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as authorized by 41 U.S.C. 1908, must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |
| <p><b>Reporting Suspected Fraud and Unlawful Conduct</b></p> | <p><b>Respondent</b> represents and warrants that it will comply with Section 321.022 of the Texas Government Code, which requires that suspected fraud and unlawful conduct be reported to the State Auditor’s Office.</p>   | <p><b>APPLICABILITY:</b> Clause applies to grant agreements that are financed from state or federal funds.</p> <p>Section 321.013(a) of the Texas Government Code provides:</p> <p>The State Auditor shall conduct audits of all departments, including institutions of higher education, as specified in the audit plan. At the direction of the committee, the State Auditor shall conduct an audit or investigation of any entity receiving funds from the state.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE § 321.022.</p>  |

| Assurance   | Standard Text  | Guidance   |
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| <p><b>Rights to Inventions Made Under a Contract or Agreement</b></p> | <p><b>Respondent</b> represents and warrants that it will comply with the requirements of 37 CFR Part 401 (“Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements”) and any implementing regulations issued by the awarding agency, if federal award meets the definition of “funding agreement” under 37 CFR §401.2(a) and the <b>Respondent</b> wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that “funding agreement.”</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other text specified by the federal agency.</i></p> | <p><b>APPLICABILITY:</b> Clause applies to certain grant agreements and procurement contracts financed from federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)-</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p>(F) Rights to Inventions Made Under a Contract or Agreement. If the federal award meets the definition of “funding agreement” under 37 CFR §401.2 (a) and the recipient or subrecipient wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that “funding agreement,” the recipient or subrecipient must comply with the requirements of 37 CFR Part 401, “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements,” and any implementing regulations issued by the awarding agency.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |

| Assurance                                    | Standard Text   | Guidance  |
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| <p><b>State Auditor's Right to Audit</b></p> | <p>The state auditor may conduct an audit or investigation of any entity receiving funds from the state directly under the contract or indirectly through a subcontract under the contract. The acceptance of funds directly under the contract or indirectly through a subcontract under the contract acts as acceptance of the authority of the state auditor, under the direction of the legislative audit committee, to conduct an audit or investigation in connection with those funds. Under the direction of the legislative audit committee, an entity that is the subject of an audit or investigation by the state auditor must provide the state auditor with access to any information the state auditor considers relevant to the investigation or audit.</p> <p style="text-align: center;">Or</p> <p>Pursuant to Section 2262.154 of the Texas Government Code, the state auditor may conduct an audit or investigation of any entity receiving funds from the state directly under any contract or indirectly through a subcontract under the contract. The acceptance of funds by the Respondent or any other entity or person directly under the contract or indirectly through a subcontract under the contract acts as acceptance of the authority of the state auditor, under the direction of the legislative audit committee, to conduct an audit or investigation in connection with those funds. Under the direction of the legislative audit committee, the Respondent or other entity that is the subject of an audit or investigation by the state auditor must provide the state auditor with access to any information the state auditor considers relevant to the investigation or audit. Respondent shall ensure that this paragraph concerning the authority to audit funds received indirectly by subcontractors through the contract and the requirement to cooperate is included in any subcontract it awards.</p> | <p><b>APPLICABILITY:</b> Clause applies to grant agreements or procurement contracts that are financed from state or federal funds.</p> <p>Supplemental text to the required clause may include the following:</p> <p>The contract or grant may be amended unilaterally by Agency to comply with any rules and procedures of the state auditor in the implementation and enforcement of Section 2262.154 of the Texas Government Code.</p> <p><b>Legal Authority:</b> TEX. GOV'T CODE § 2262.154.</p> |
| <p><b>Subaward Monitoring</b></p>            | <p>Respondent represents and warrant that it will monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with applicable statutes, regulations, and the terms and conditions of the subaward, and that subaward performance goals are achieved.</p>   | <p><b>APPLICABILITY:</b> Clause applies to grant agreements that are financed from state or federal funds.</p> <p><b>Legal Authority:</b> 2 CFR § 200.332(d); TEX. GOV'T CODE § 783.005.</p>  |

| Assurance  | Standard Text  | Guidance  |
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| <p><b>Termination and Cancellation Circumstances</b></p> | <p><i>Agency</i> reserves the right to terminate the contract at any time, in whole or in part, without cost or penalty, by providing thirty (30) calendar days' advance written notice. <i>Agency</i> reserves the right, in its sole discretion, to terminate the contract in whole or in part for <i>Respondent's</i> material breach, provided that <i>Respondent</i> has been given advance written notice specifying the nonperformance and a thirty (30)-calendar-day period in which to cure the breach.</p> <p>In the event of contract termination, <i>Respondent</i> must, unless otherwise mutually agreed upon in writing, cease all work immediately upon the effective date of termination. Termination or expiration of the contract shall not affect <i>Agency's</i> right to use previously purchased licensed software through the term of each such license, nor any maintenance or support purchased prior to such termination. In the event of contract termination, the <i>Agency's</i> sole and maximum obligation shall be to pay <i>Respondent</i> for previously authorized services completed in accordance with contract requirements and performed prior to the effective date of termination. <i>Agency</i> shall have no other liability, including no liability for any costs associated with the termination.</p> <p><i>Agency</i> reserves the right to pursue reasonable costs, fees, expenses, and other amounts or damages available to the <i>Agency</i> under the contract or under applicable law, including, but not limited to, attorneys' fees and court costs, if termination or cancellation is at the <i>Respondent's</i> request or if the <i>Agency</i> terminates the contract for cause.</p> <p style="text-align: center;">Or</p> <p style="text-align: center;"><i>Other contract text that satisfies the requirements of 2 CFR Part 200 Appendix II (B).</i></p> | <p><b>APPLICABILITY:</b> Clause applies to procurement contracts exceeding \$10,000 that are financed from federal funds.</p> <p>2 CFR Part 200 Appendix II (Contract Provisions for Non-Federal Entity Contracts Under Federal Awards)--</p> <p>In addition to other provisions required by the federal agency or the non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions covering the following, as applicable:</p> <p style="padding-left: 40px;">(B) All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-federal entity including the manner by which it will be effected and the basis for settlement.</p> <p><b>Legal Authority:</b> 2 CFR Part 200 Appendix II.</p> |



## APPENDIX 7 SELECTED ITEMS OF COST SUPPLEMENT CHART

This chart includes a Chapter 783 Supplement for state grant programs. The Chapter 783 Supplement specifies certain financial management conditions prescribed by the Comptroller under Chapter 783 of the Texas Government Code for particular state grant program cost items. To the extent that a requirement designated in the Chapter 783 Supplement is inconsistent with state law, including a state agency's enabling statute, state law prevails.

This chart does not serve as a substitute for legal counsel. It is recommended that grant program managers seek assistance from agency legal counsel if there are questions about the applicability of a state law or policy to a specific transaction. Inquiries from state agencies regarding expenditure matters may be directed to the **Expenditure Assistance Section** within the Comptroller's Fiscal Management Division at [expenditure.assistance@cpa.texas.gov](mailto:expenditure.assistance@cpa.texas.gov) or **(512) 475-0966**.

| State Grant Program Considerations             |   |
|--|---|
| Selected Cost Items                            | Chapter 783 Supplement for State Grant Programs   |
| Federal Grant Program Considerations           | Uniform Guidance  |
| <p><b>Advertising and Public Relations</b></p> | <p>2 CFR § 200.421</p> <p>(a) The term "advertising costs" means the costs of advertising media and corollary administrative costs. Advertising media includes, but is not limited to, magazines, newspapers, radio and television, direct mail, exhibits, and electronic or computer transmittals.</p> <p>(b) The only allowable advertising costs are those which are solely for:</p> <ul style="list-style-type: none"> <li>(1) The recruitment of personnel required by the local government for the performance of a state award. See also <a href="#">Recruiting Costs</a>;</li> <li>(2) The procurement of goods and services for the performance of a state award;</li> <li>(3) The disposal of scrap or surplus materials acquired in the performance of an award except when local governments are reimbursed for disposal costs at a predetermined amount; or</li> <li>(4) Program outreach (for example, recruiting project participants) and other specific purposes necessary to meet the state award requirements.</li> </ul> <p>(c) The term "public relations" includes community relations, and means those activities dedicated to maintaining the local government's image or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.</p> <p>(d) The only allowable public relations costs are:</p> <ul style="list-style-type: none"> <li>(1) Costs specifically required by the state award;</li> <li>(2) Costs of communicating with the public and press about specific activities or accomplishments which result from the performance of the state award (these costs are considered necessary as part of the outreach effort for the state award); or</li> <li>(3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of funding opportunities or financial matters.</li> </ul> <p>(e) Unallowable advertising and public relations costs include the following:</p> <ul style="list-style-type: none"> <li>(1) All advertising and public relations costs other than as specified in paragraphs (b) and (d) of this section;</li> </ul> |

| State Grant Program Considerations                  |  |
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| Chapter 783 Supplement for State Grant Programs     |  |
| Selected Cost Items                                 | Federal Grant Program Considerations   |
|   | Uniform Guidance   |
| <b>Advertising and Public Relations (continued)</b> | <p>(2) Costs of meetings, conventions, conferences, or other events related to other activities of the entity (see also Conferences), including:</p> <ul style="list-style-type: none"> <li>(i) Costs of displays, demonstrations, and exhibits;</li> <li>(ii) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and</li> <li>(iii) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;</li> </ul> <p>(3) Costs of promotional items and memorabilia;</p> <p>(4) Costs of advertising and public relations designed solely to promote the local government.</p>   |
| <b>Advisory Councils</b>                            | <p>2 CFR § 200.422</p> <p>An advisory council or committee is a body that provides advice to the management of such entities as corporations, organizations, or foundations. Costs incurred by both internal and external advisory councils or committees are allowable if authorized by state law or executive order. See also <a href="#">General Costs of Government</a>.</p>   |
| <b>Alcoholic Beverages</b>                          | <p>2 CFR § 200.423</p> <p>The cost of alcoholic beverages is unallowable unless authorized by state law.</p>   |
| <b>Alumni Activities</b>                            | <p>2 CFR § 200.424</p> <p>Costs incurred by IHEs for, or in support of, alumni activities are unallowable.</p>   |
| <b>Audit Services</b>                               | <p>2 CFR § 200.425</p> <p>(a) A reasonably proportionate share of the costs of audits required by, and performed in accordance with state law and the audit requirements of TxGMS are allowable. However, the following audit costs are unallowable:</p> <ul style="list-style-type: none"> <li>(1) Any costs when required audits have not been conducted, or have been conducted but not in accordance with the requirements.</li> <li>(b) The costs of a financial statement audit of a local government that does not currently have a state award may be included in the indirect cost pool for a cost allocation plan or indirect cost proposal.</li> <li>(c) Pass-through entities may charge state awards for the cost of agreed-upon-procedures engagements to monitor subrecipients (in accordance with TxGMS) exempt from having an audit conducted under the requirements of TxGMS. This cost is allowable only if the agreed-upon-procedures engagements are:                             <ul style="list-style-type: none"> <li>(1) Conducted in accordance with GAGAS attestation standards, as appropriate;</li> <li>(2) Paid for and arranged by the pass-through entity;</li> <li>(3) Limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting; and</li> <li>(4) Comply with state law (for example, Section 2113.102 of the Texas Government Code).</li> </ul> </li> </ul> |

| State Grant Program Considerations              |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs |                                      |  |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance   |
| <b>Bad Debts</b>                                | 2 CFR § 200.426                      | Bad debts (debts determined to be uncollectable), including losses (whether actual or estimated) arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts are also unallowable. See <a href="#">Collections of Improper Payments</a> .  |
| <b>Bonding Costs</b>                            | 2 CFR § 200.427                      | (a) Bonding costs arise when the state agency requires assurance against financial loss to itself or others because of an act or default of the local government. They also arise when the local government requires similar assurance, including bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds for employees and officials.<br>(b) Costs of bonding required under the state award's terms and conditions are allowable.<br>(c) Costs of bonding required by the local government in the general conduct of its operations are allowable as an indirect cost to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances. |
| <b>Collections of Improper Payments</b>         | 2 CFR § 200.428                      | The costs incurred by a local government to recover improper payments, including improper overpayments, are allowable as either direct or indirect costs, as appropriate. The non-local government may use the amounts collected in accordance with applicable law. To the extent available, the local government must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.  |
| <b>Commencement and Convocation Costs</b>       | 2 CFR § 200.429                      | For IHEs, costs incurred for commencements and convocations are unallowable unless they serve a proper public purpose and are authorized by the state agency.  |

| State Grant Program Considerations                    |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs       |                                      |  |
| Selected Cost Items                                   | Federal Grant Program Considerations | Uniform Guidance   |
| <p><b>Compensation-<br/>Personal<br/>Services</b></p> | <p>2 CFR § 200.430</p>               | <p>(a) General. Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the state award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits addressed in <a href="#">Compensation-Fringe Benefits</a>. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this section, and that the total compensation for individual employees:</p> <ul style="list-style-type: none"> <li>(1) Is reasonable for the services rendered and conforms to the established written policy of the local government consistently applied to both state and non-state activities;</li> <li>(2) Follows an appointment made in accordance with the local government's laws, rules, or written policies and meets the requirements of state and federal statute, where applicable; and</li> <li>(3) Is determined and supported as provided in paragraph (g) of this section, Standards for Documentation of Personnel Expenses, when applicable.</li> </ul> <p>(b) Reasonableness. Compensation for employees engaged in work on state awards will be reasonable to the extent that it is consistent with that paid for similar work in other activities of the local government. In cases where the kinds of employees required for state awards are not found in the other activities of the local government, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the local government competes for the kind of employees involved.</p> <p>(c) Professional activities outside the local government. Unless the state agency expressly authorizes an arrangement, a local government must follow its written local government policies and procedures concerning the permissible extent of professional services that can be provided outside the local government for non-organizational compensation. Where the local government does not have written policies or procedures, or they do not adequately define the permissible extent of consulting or other non-organizational activities undertaken for extra outside pay, the state government may require the local government to allocate the effort of professional staff working on state awards between:</p> <ul style="list-style-type: none"> <li>(1) Local government activities, and</li> <li>(2) Non-organizational professional activities. Appropriate arrangements governing compensation must be negotiated on a case-by-case basis if the state agency considers the extent of non-organizational professional effort excessive or inconsistent with the conflicts-of-interest terms and conditions of the state award.</li> </ul> <p>(d) Unallowable costs.</p> <ul style="list-style-type: none"> <li>(1) Costs unallowable under other sections of these principles must not be allowable under this section because they constitute personnel compensation.</li> <li>(2) The allowable compensation for certain employees is subject to a ceiling in accordance with statute.</li> </ul> <p>(e) Special considerations. Special considerations in determining the allowability of compensation will be given to any change in a local government's compensation policy resulting in a substantial increase in its employees' level of compensation (particularly when the change was concurrent with an increase in the ratio of state awards to other activities) or any change in the treatment of allowability of specific types of compensation due to changes in state policy.</p> |

| State Grant Program Considerations                                    |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs                       |                                      |  |
| Selected Cost Items   | Federal Grant Program Considerations | Uniform Guidance   |
| <p><b>Compensation-<br/>Personal<br/>Services<br/>(continued)</b></p> | <p>2 CFR § 200.430</p>               | <p>(f) Incentive compensation. Incentive compensation to employees based on cost reduction, efficient performance, suggestion awards, or safety awards is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued according to an agreement entered into in good faith between the local government and the employees before the services were rendered, or according to an established followed by the local government so consistently as to imply, in effect, an agreement to make such payment.</p> <p>(g) Standards for Documentation of Personnel Expenses.</p> <p>(1) Charges to state awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:</p> <ul style="list-style-type: none"> <li>(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;</li> <li>(ii) Be incorporated into the official records of the local government;</li> <li>(iii) Reasonably reflect the total activity for which the employee is compensated by the local government, not exceeding 100 percent of compensated activities (for IHEs, this is the IBS);</li> <li>(iv) Encompass both state and federally assisted and all other activities compensated by the local government on an integrated basis, but may include the use of subsidiary records as defined in the local government's written policy;</li> <li>(v) Comply with the established accounting policies and practices of the local government (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.);</li> <li>(vi) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one state award; a state award and non-state award; an indirect cost activity and a direct cost activity; two or more indirect activities allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity</li> <li>(vii) Budget estimates (meaning, estimates determined before the services are performed) alone do not qualify as support for charges to state awards, but may be used for interim accounting purposes, provided that: <ul style="list-style-type: none"> <li>(A) The system for establishing the estimates produces reasonable approximations of the activity performed;</li> <li>(B) Significant changes in the related work activity (as defined by the local government's written policies) are promptly identified and entered into the records. Short-term (such as one or two months) fluctuations between workload categories do not need be considered as long as the distribution of salaries and wages is reasonable over the longer term; and</li> <li>(C) The local government's system of internal controls includes processes to perform periodic after-the-fact reviews of interim charges made to state and federal awards based on budget estimates. All necessary adjustment must be made so that the final amount charged to the state award is accurate, allowable, and properly allocated.</li> </ul> </li> <li>(viii) Because practices vary as to the activity constituting a full workload (for example, the Institutional Base Salary (IBS) for IHEs), records may reflect categories of activities expressed as a percentage distribution of total activities.</li> </ul> |

| State Grant Program Considerations   |                                      |   |
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| Chapter 783 Supplement for State Grant Programs                              |                                      |   |
| Selected Cost Items  | Federal Grant Program Considerations | Uniform Guidance  |
| <p><b>Compensation-<br/>Personal<br/>Services</b><br/><i>(continued)</i></p> | <p>2 CFR § 200.430</p>               | <p>(ix) It is recognized that teaching, research, service, and administration are often inextricably intermingled in an academic setting. Therefore, a precise assessment of factors contributing to costs is not required when IHEs record salaries and wages charged to state awards.</p> <p>(2) For records that meet the standards required in paragraph (g)(1) of this section, the local government is not required to provide additional support or documentation for the work performed other than that referenced in paragraph (g)(3) of this section.</p> <p>(3) In accordance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.</p> <p>(4) Salaries and wages of employees used in meeting cost sharing requirements on state awards must be supported in the same manner as salaries and wages claimed for reimbursement from state awards.</p> <p>(5) States, local governments, and Indian Tribes, may use substitute processes or systems for allocating salaries and wages to state awards either in place of or in addition to the records described in paragraph (1) if approved by the state agency. Such systems may include, but are not limited to, random moment sampling, “rolling” time studies, case counts, or other quantifiable measures of work performed.</p> <p>(i) Substitute systems that use sampling methods must meet acceptable statistical sampling standards including:</p> <p>(A) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in paragraph (g)(5)(iii) of this section;</p> <p>(B) The sample must cover the entire period involved; and</p> <p>(C) The results must be statistically valid and applied to the period being sampled.</p> <p>(ii) Allocating charges for the sampled employees’ supervisors and clerical and support staff, based on the results of the sampled employees, will be acceptable.</p> <p>(iii) Less than full compliance with the statistical sampling standards noted in paragraph (5)(g) may be accepted by the state agency if it concludes that the amounts allocated to state awards will be minimal, or if it concludes that the system proposed by the local government will result in lower costs to state awards than a system which complies with the standards.</p> <p>(6) State agencies are encouraged to approve alternative proposals based on outcomes and milestones for program performance when these are clearly documented. These plans are acceptable as an alternative to the requirements of paragraph (g)(1) of this section when approved by the state agency.</p> <p>(7) For state awards of similar purpose activity or instances of approved blended funding, a local government may submit performance plans that incorporate funds from multiple state awards and account for their combined use based on performance-oriented metrics, provided the plans are approved in advance by all involved state agencies. In these instances, the local government must submit a request for waiver of the requirements based on documentation that describes the method of charging costs, relates the charging of costs to the specific activity that is applicable to all fund sources, and is based on quantifiable measures of the activity in relation to time charged.</p> |

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| <p><b>Compensation-<br/>Personal<br/>Services</b><br/><i>(continued)</i></p> | <p>2 CFR § 200.430</p>               | <p>(8) For a local government whose records do not meet the standards described in this section, the state government may require personnel activity reports, including prescribed certifications, or equivalent documentation supporting the records as required in this section. A sample personnel activity report is provided in Appendix 8.</p> <p>(h) Nonprofit Organizations. This paragraph (h) provides guidance specific to only nonprofit organizations. For compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof, a determination must be made that the compensation is reasonable for the actual personal services rendered rather than a distribution of earnings above actual costs. Compensation may include director's and executive committee member's fees, incentive awards, off-site or incentive pay, location allowances, hardship pay, and cost-of-living differentials.</p> <p>(i) Institutions of Higher Education (IHEs). This paragraph provides guidance specific to only IHEs.</p> <p>(1) Determining allowable personnel costs. Certain conditions require special consideration and possible limitations in determining allowable personnel compensation costs under state awards. Among such conditions are the following:</p> <ul style="list-style-type: none"> <li>(i) Allowable activities. Charges to state awards may include reasonable amounts for activities contributing and directly related to work under an agreement, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research subjects, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.</li> <li>(ii) Incidental activities. Incidental activities for which supplemental compensation is allowable under the written institutional policy (at a rate not to exceed institutional base salary) do not need to be included in the records described in paragraph (g). To charge payments of incidental activities directly, such activities must either be expressly authorized in the state award budget or receive prior written approval by the state agency.</li> </ul> <p>(2) Salary basis. Charges for work performed on state awards by faculty members during the academic year are allowable at the institutional base salary (IBS) rate. Except as noted in paragraph (i)(1)(ii), in no event, will charges to state awards, irrespective of the basis of computation, exceed the proportionate share of the IBS for that period. This principle applies to all members of the faculty at an institution. IBS is the annual compensation paid by an IHE for an individual's appointment, whether that individual's time is spent on research, instruction, administration, or other activities. IBS excludes any income an individual earns outside of duties performed for the IHE. Unless there is prior approval by the state agency, charges of a faculty member's salary to a state award may not exceed the proportionate share of the IBS for the period during which the faculty member worked on the state award.</p> <p>(3) Intra-Institution of Higher Education (IHE) consulting. Intra-IHE consulting by faculty is assumed to be undertaken as an IHE obligation requiring no compensation in addition to IBS. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the faculty members is in addition to their regular responsibilities, any charges for such work representing additional compensation above IBS are allowable provided that such consulting arrangements are expressly authorized in the state award or approved in writing by the state agency.</p> |

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| <p><b>Compensation-<br/>Personal<br/>Services<br/>(continued)</b></p> | <p>2 CFR § 200.430</p>               | <p>(4) Extra service pay. Extra service pay typically represents overload compensation, subject to institutional compensation policies for services above and beyond IBS. Where extra service pay results from Intra-IHE consulting, it is subject to the same requirements of paragraph (b) of this section. It is allowable if all of the following conditions are met:</p> <ul style="list-style-type: none"> <li>(i) The IHE establishes consistent written policies which apply uniformly to all faculty members, not just those working on state awards.</li> <li>(ii) The IHE establishes a consistent written definition of work covered by IBS, which is specific enough to determine conclusively when work beyond that level has occurred. This definition may be described in appointment letters or other documentation.</li> <li>(iii) The supplementation amount paid is commensurate with the IBS pay rate and additional work performed. See paragraph (i)(2) of this section.</li> <li>(iv) The salaries, as supplemented, fall within the salary structure and pay ranges established by and documented in writing or otherwise applicable to the IHE.</li> <li>(v) The total salaries charged to state and federal awards, including extra service payments, are subject to the standards of documentation as described in paragraph (g).</li> </ul> <p>(5) Periods outside the academic year.</p> <ul style="list-style-type: none"> <li>(i) Except as specified for teaching activity in paragraph (i)(5)(ii) of this section, charges for work performed by faculty members on state awards during periods not included in the base salary period must be at a rate not more than the IBS.</li> <li>(ii) Charges for teaching activities performed by faculty members on state awards during periods not included in IBS period must be based on the written policy of the IHE governing compensation to faculty members for teaching assignments during such periods.</li> </ul> <p>(6) Part-time faculty. Charges for work performed on state awards by faculty members having only part-time appointments must be determined at a rate not more than that regularly paid for part-time assignments.</p> <p>(7) Sabbatical leave costs. Rules for sabbatical leave are as follows:</p> <ul style="list-style-type: none"> <li>(i) Costs of leaves of absence by employees for performance of graduate work or sabbatical study, travel, or research are allowable, provided the IHE has a uniform written policy on sabbatical leave for persons engaged in instruction and persons engaged in research. These costs must be allocated equitably among all related activities of the IHE.</li> <li>(ii) Where sabbatical leave is included in fringe benefits for which a cost is determined for assessment as a direct charge, the aggregate amount of such assessments applicable to all work of the institution during the base period must be reasonable in relation to the IHE's actual experience under its sabbatical leave policy.</li> </ul> <p>(8) Salary rates for non-faculty members. Non-faculty full-time professional personnel may also earn "extra service pay" in accordance with the IHE's written policy and consistent with paragraph (i)(1)(i).</p> |

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| Compensation-Fringe Benefits                    | 2 CFR § 200.431                      | <p>(a) General. Fringe benefits are allowances and services employers provides to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefits. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, local government-employee agreement, or an established policy of the local government.</p> <p>(b) Leave. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if all of the following criteria are met:</p> <ul style="list-style-type: none"> <li>(1) They are provided under established written leave policies;</li> <li>(2) The costs are equitably allocated to all related activities, including state awards; and,</li> <li>(3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the local government or a specified grouping of employees.</li> </ul> <p>(i) When a local government uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment and must be allocated as a general administrative expense to all activities.</p> <p>(ii) The accrual basis may be only used for those types of leave for which a liability as defined by GAAP exists when the leave is earned. When a local government uses the accrual basis of accounting, allowable leave costs are the lesser of the amount accrued or funded.</p> <p>(c) Fringe Benefits. The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in <a href="#">Insurance and Indemnification</a>); pension plan costs; and other similar benefits are allowable, provided such benefits are permitted under established written policies. The local government must allocate fringe benefits to state awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such state awards and other activities, and charged as direct or indirect costs following the local government's accounting practices.</p> <p>(d) Cost objectives. The local government may assign fringe benefits to cost objectives by identifying specific benefits to specific individual employees or by allocating them based on entity-wide salaries and wages of the employees receiving the benefits. When the allocation method is used, separate allocations must be made to selective groupings of employees, unless the local government demonstrates that costs in relationship to salaries and wages do not differ significantly for different groups of employees.</p> <p>(e) Insurance. See also <a href="#">Insurance and Indemnification</a>, paragraphs (d)(1) and (2).</p> <p>(1) Provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, the extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made must not exceed the present value of the liability.</p> |

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| <p><b>Compensation-Fringe Benefits</b><br/><i>(continued)</i></p> | <p>2 CFR § 200.431</p>               | <p>(2) Insurance costs on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The cost of such insurance is unallowable when the local government is named as beneficiary are unallowable.</p> <p>(3) Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay (if allowable), and similar employee benefits (for example, post-retirement health benefits), are allowable in the year of payment provided that the local government follows a consistent costing policy.</p> <p>(f) Automobiles. That portion of automobile costs furnished by the entity that relates to personal use by employees (including transportation to and from work) is unallowable as a fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees.</p> <p>(g) Pension Plan Costs. Pension plan costs incurred in accordance with the established written policies of the local government are allowable, provided that:</p> <ul style="list-style-type: none"> <li>(1) Such policies meet the test of reasonableness.</li> <li>(2) The methods of cost allocation are not discriminatory.</li> <li>(3) For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP.</li> <li>(4) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 calendar days after each quarter of the year to which such costs are assignable are unallowable. The local government may follow the "Cost Accounting Standard for Composition and Measurement of Pension Costs" (48 CFR § 9904.412).</li> <li>(5) Premiums for pension plan termination insurance that are paid according to the Employee Retirement Income Security Act (ERISA) of 1974 (29 U.S.C. 1301 - 1461) are allowable. Late payment charges on such premiums are unallowable. Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are unallowable.</li> <li>(6) Pension plan costs may be computed using a pay-as-you-go method or an actuarial cost method recognized by GAAP and following the local government's established written policies.             <ul style="list-style-type: none"> <li>(i) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</li> <li>(ii) Pension costs calculated using an actuarial cost method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after six months (or a later period agreed to by the state agency) are allowable in the year funded. The state agency may agree to an extension if an appropriate adjustment is made to compensate for the timing of the charges to the state government and related state reimbursement and the local government's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the state government for the time value of state reimbursements in excess of contributions to the pension fund.</li> <li>(iii) Amounts funded by the local government in excess of the actuarially determined amount for a fiscal year may be used as the local government's contribution in future periods.</li> </ul> </li> </ul> |

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| <p><b>Compensation-Fringe Benefits</b><br/><i>(continued)</i></p> | <p>2 CFR § 200.431</p>               | <p>(iv) When a local government establishes or converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion is allowable if amortized over a period of years in accordance with GAAP.</p> <p>(v) Payments for unfunded pension costs must be charged in accordance with the allocation principles of this subpart. Specifically, the local government may not charge unfunded pension costs directly to a state award if those unfunded pension costs are not allocable to that award.</p> <p>(vi) The local government must provide the state government an equitable share of any previously allowed pension costs (including subsequent earnings) that revert or inure to the local government through a refund, withdrawal, or other credit.</p> <p>(h) (Post-Retirement Health. A post-retirement health plan (PRHP) refers to the costs of health insurance or health services not included in a pension plan covered by paragraph (g) for retirees and their spouses, dependents, and survivors. PRHP costs may be computed using a pay-as-you-go method or an actuarial cost method recognized by GAAP and following the local government's established written policies.</p> <p>(1) For PRHP financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</p> <p>(2) PRHP costs calculated using an actuarial cost method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after six months (or a later period agreed to by the state agency) are allowable in the year funded. The state agency may agree to an extension if an appropriate adjustment is made to compensate for the timing of the charges to the state government and related state reimbursement and the local government's contributions to the PRHP fund. Adjustments may be made by cash refund, reduction in the current year's PRHP costs, or other equitable procedures to compensate the state government for the time value of state reimbursements in excess of contributions to the PRHP fund.</p> <p>(3) Amounts funded by the local government in excess of the actuarially determined amount for a fiscal year may be used as the local government's contribution in future periods.</p> <p>(4) If a local government establishes or converts to an actuarial cost method and funds PRHP costs in accordance with this method, the initial unfunded liability attributable to prior years is allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the state agency.</p> <p>(5) Payments for unfunded PRHP costs must be charged in accordance with the allocation principles of this subpart. Specifically, the local government may not charge unfunded PRHP costs directly to a state award if those unfunded PRHP costs are not allocable to that award.</p> <p>(6) To be allowable in the current year, the PRHP costs must be paid either to:</p> <ul style="list-style-type: none"> <li>(i) An insurer or other benefit provider as current year costs or premiums; or</li> <li>(ii) An insurer or trustee that will maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.</li> </ul> <p>(7) The state government must provide the state government an equitable share of any previously allowed post-retirement benefit costs (including subsequent earnings) that revert or inure to the local government through a refund, withdrawal, or other credit.</p> |

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| <p><b>Compensation-Fringe Benefits</b><br/><i>(continued)</i></p> | <p>2 CFR § 200.431</p>               | <p>(i) Severance Pay.</p> <p>(1) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by employers to workers whose employment is being terminated. Severance pay is allowable only to the extent that, in each case, it is required by state law.</p> <p>(2) Costs of severance payments are divided into two categories as follows:</p> <p>(i) Actual severance payments for normal turnover must be allocated to all activities; or, where the local government provides for a reserve for normal severances, such method is acceptable if the charge to current operations is reasonable in light of payments made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the local government.</p> <p>(ii) Measuring the costs of abnormal or mass severance pay by means of an accrual method will not achieve equity for both parties. Therefore, accruals are not allowable. However, the state government recognizes its obligation to contribute its fair share toward a specific payment. Prior approval by the state agency, as appropriate, is required.</p> <p>(3) Costs incurred in severance pay packages that are in excess of the standard severance pay provided by the local government to an employee upon termination of employment and that are paid to the employee contingent upon a change in management control over, or ownership of, the local government's assets, are unallowable.</p> <p>(j) Institutions of higher education (IHEs).</p> <p>(1) Fringe benefits in the form of undergraduate and graduate tuition or tuition remission for individual employees are allowable, provided such benefits are granted in accordance with established written policies of the IHE, and are distributed to all IHE activities on an equitable basis. Tuition benefits for family members other than the employee are unallowable.</p> <p>(2) Fringe benefits in the form of undergraduate and graduate tuition or tuition remission for individual employees not employed by the IHE are limited to the tax-free amount allowed by the Internal Revenue Code as amended.</p> <p>(3) IHEs may offer employees tuition waivers or tuition reductions, provided that the benefit does not discriminate in favor of highly compensated employees. Employees can exercise these benefits at other institutions according to institutional policy. See <a href="#">Scholarships and Student Aid Costs</a>, for treatment of tuition remission provided to students.</p> <p>(k) Fringe benefit programs and other benefit costs.</p> <p>(1) For IHEs whose costs are paid by a state or local government, fringe benefit programs (such as pension costs and FICA) and any other benefits costs incurred specifically on behalf of, and in direct benefit to, the IHE, are allowable, subject to the following:</p> <p>(i) The costs meet the requirements of <a href="#">Basic Considerations</a> containing unallowable costs;</p> <p>(ii) The costs are properly supported by approved cost allocation plans in accordance with applicable state cost accounting principles; and</p> <p>(iii) The costs are not otherwise borne directly or indirectly by the state government.</p> <p>(2) The allowability of these costs for the IHE does not depend on whether they are recorded in the accounting records of the IHE.</p> |

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| <b>Conferences</b>                              | 2 CFR § 200.432                      | A conference means an event whose primary purpose is to disseminate technical information beyond the local government and is necessary and reasonable for successful performance under the state award. Allowable conference costs may include the rental of facilities, speakers' fees, attendance fees, costs of meals and refreshments, local transportation, and other items incidental to such conferences unless further restricted by state law or the terms and conditions of the state award. The costs of identifying and providing locally available dependent-care resources for participants are allowable as needed unless prohibited by state law. Conference hosts/sponsors must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary, and managed to minimize costs to the state award. The state agency may authorize exceptions for programs including Indian Tribes, children, and the elderly. See also <i>Entertainment Costs</i> , <i>Participant Support Costs</i> , <a href="#">Travel Costs</a> , and <a href="#">Trustees</a> .  |
| <b>Contingency Provisions</b>                   | 2 CFR § 200.433                      | <p>(a) Contingency provisions are part of a budget estimate of future costs (typically of large construction projects, IT systems, or other items approved by the state agency) which are associated with possible events or conditions arising from causes for which the precise outcome is indeterminable at the time of estimate and that are likely to result, in the aggregate, in additional costs for the approved activity or project. Contingency amounts for major project scope changes, unforeseen risks, or extraordinary events must not be included in the budget estimates for a state award.</p> <p>(b) It is permissible for contingency amounts other than those excluded in paragraph (a) of this section to be explicitly included in budget estimates to the extent necessary to improve their precision. Contingency amounts must be estimated using broadly accepted cost estimating methodologies, specified in the budget documentation of the state award, and accepted by the state agency. As such, contingency amounts are to be included in the state award. In order for actual costs incurred to be allowable, they must comply with the <a href="#">Cost Principles</a> and other requirements of TXGMS and be verifiable from the local government's records.</p> <p>(c) Payments to a local government's "contingency reserve" or any similar payment made for events the occurrence of which cannot be foretold with certainty as to the time or intensity, or with an assurance of their happening, are unallowable, except as noted in <a href="#">Compensation—Fringe Benefits</a> regarding self-insurance, pensions, severance (if allowable), and post-retirement health costs and <a href="#">Insurance and Indemnification</a>.</p> <p>(d) Contingencies are allowable with prior approval of the state agency.</p> |

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| Contributions and Donations                     | 2 CFR § 200.434                      | <p>(a) Costs of contributions and donations, including cash, property, and services, from the local government to other entities, are unallowable.</p> <p>(b) The value of services and property donated (that is, in-kind donations) to the local government may not be charged to the state award either as a direct or indirect cost. The value of donated services and property may be used to meet cost sharing requirements. See <a href="#">Cost Sharing</a> section of TxGMS. Depreciation on donated assets is permitted so long as the donated property is not counted towards meeting cost sharing requirements (See <a href="#">Depreciation</a>).</p> <p>(c) Services donated or volunteered to the local government may be provided by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services may not be charged to the state award as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing requirements in accordance with the provisions of the <a href="#">Cost Sharing</a> section of TxGMS.</p> <p>(d) To the extent feasible, services donated to the local government will be supported by the same methods used to support the allocability of regular personnel services.</p> <p>(e) Nonprofit Organizations. The value of services donated to a nonprofit organization and used in the performance of a direct cost activity must be considered in the determination of the nonprofit organization's indirect cost rate(s) and, accordingly, must be allocated a proportionate share of applicable indirect costs when the following circumstances exist:</p> <ul style="list-style-type: none"> <li>(1) The aggregate value of the services is material;</li> <li>(2) The services are supported by a significant amount of the indirect costs incurred by the nonprofit organization; <ul style="list-style-type: none"> <li>(i) In those instances where there is no basis for determining the fair market value of the services rendered, the nonprofit organization and the state agency must negotiate an appropriate allocation of indirect cost to the services.</li> <li>(ii) Where donated services directly benefit a project supported by the state award, the indirect costs allocated to the services will be considered as a part of the project's total costs. Such indirect costs may be reimbursed under the state award or used to meet cost sharing requirements.</li> </ul> </li> </ul> <p>(f) Fair market value of donated services must be computed as described in the <a href="#">Cost Sharing</a> section of TxGMS.</p> <p>(g) Personal property and use of space.</p> <ul style="list-style-type: none"> <li>(1) Donated personal property and use of space may be furnished to a local government. The value of the personal property and space may not be charged to the state award either as a direct or indirect cost.</li> <li>(2) The value of the donations of personal property and use of space may be used to meet cost sharing requirements described in the <a href="#">Standards for Financial and Program Management</a> section of TxGMS. The local government must value the donations in accordance with <a href="#">Standards for Financial and Program Management</a>. Where local government treats donations as indirect costs, indirect cost rates must separate the value of the donations so that reimbursement is not made.</li> </ul> |

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| <p><b>Defense and Prosecution of Criminal and Civil Proceedings, Claims, Appeals and Patent Infringements</b></p> | <p>Uniform Guidance<br/><br/>2 CFR § 200.435</p> | <p>Chapter 783 Supplement for State Grant Programs<br/><br/>Unless authorized in advance by the state agency, costs incurred in connection with any criminal, civil or administrative proceeding are not allowable.</p> |

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| <b>Depreciation</b>                             | 2 CFR § 200.436                      | <p>(a) Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use. The local government may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are needed and used in the local government's activities and correctly allocated to state and federal awards. The compensation must be made by computing the proper depreciation.</p> <p>(b) The allocation for depreciation must be made in accordance with Appendices III through IX of the Uniform Guidance.</p> <p>(c) Depreciation is computed applying the following rules. The computation of depreciation must be based on the acquisition cost of the assets involved. For an asset donated to the local government by a third party, its fair market value at the time of the donation must be considered as the acquisition cost. Such assets may be depreciated or claimed as cost sharing but not both. When computing depreciation charges, the acquisition cost will exclude:</p> <ol style="list-style-type: none"> <li>(1) The cost of land;</li> <li>(2) Any portion of the cost of buildings and equipment borne by or donated by the state or federal government, irrespective of where the title was originally vested or is presently located;</li> <li>(3) Any portion of the cost of buildings and equipment contributed by or for the local government that is already claimed as cost sharing or where law or agreement prohibits recovery; and</li> <li>(4) Any asset acquired solely for the performance of a non-state award.</li> </ol> <p>(d) When computing depreciation charges, the following must be observed:</p> <ol style="list-style-type: none"> <li>(1) The period of useful service or useful life established in each case for usable capital assets must take into consideration such factors as the type of construction, nature of the equipment, technological developments in the particular area, historical data, and the renewal and replacement policies followed for the individual items or classes of assets involved.</li> <li>(2) The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods must reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method must be presumed to be the appropriate method. Once used, depreciation methods may not be changed unless approved in advance by the state agency. The depreciation methods used to calculate the depreciation amounts for indirect cost rate purposes must be the same methods used by the local government for its financial statements.</li> <li>(3) The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components. Each component may be depreciated over its estimated useful life in this case. The building components must be grouped into three general components: building shell (including construction and design costs), building services systems (for example elevators, HVAC, and plumbing system), and fixed equipment (for example, sterilizers, casework, fume hoods, cold rooms and glassware/washers). A state agency may authorize a local government to use more than these three groupings in exceptional cases. When a local government elects to depreciate its buildings by their components, the same depreciation method must be used for indirect and financial statements purposes, as described in paragraphs (d)(1) and (2) of this section.</li> <li>(4) No depreciation may be allowed on assets that have outlived their depreciable lives.</li> </ol> |

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| <b>Depreciation (continued)</b>                 | 2 CFR § 200.436                      | <p>(5) Where the depreciation method is introduced to replace the use allowance method, depreciation must be computed as if the asset had been depreciated over its entire life (meaning, from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The total amount of use allowance and depreciation for an asset (including imputed depreciation applicable to periods before the conversion from the use allowance method and depreciation after the conversion) may not exceed the total acquisition cost of the asset.</p> <p>(e) Adequate property records must support depreciation charges, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed. The local government may use statistical sampling techniques when taking these inventories. In addition, the local government must maintain adequate depreciation records showing the amount of depreciation taken each period. In addition, adequate depreciation records showing the amount of depreciation taken each period must also be maintained.</p> |
| <b>Employee Health and Welfare Costs</b>        | 2 CFR § 200.437                      | <p>(a) Costs incurred in accordance with the local government's established written policies for improving working conditions, employer-employee relations, employee health, and employee performance are allowable.</p> <p>(b) These costs must be equitably apportioned to all activities of the local government. Income generated from these activities must be credited to the cost thereof unless such income has been irrevocably sent to employee welfare organizations.</p> <p>(c) Losses resulting from operating food services are allowable only if the local government's objective is to operate food services on a break-even basis. Losses sustained because of operating objectives other than the above are allowable only when:</p> <ul style="list-style-type: none"> <li>(1) The local government can demonstrate unusual circumstances; and</li> <li>(2) Approved by the state agency.</li> </ul>  |
| <b>Entertainment Costs</b>                      | 2 CFR § 200.438                      | <p>(a) Entertainment costs. Costs of entertainment, including amusement, diversion, and social activities and any associated costs (such as gifts) are unallowable unless they have a specific and direct programmatic purpose and are included in a state award.</p> <p>(b) Prizes. Cost of prizes or challenges are allowable if they have a specific and direct programmatic purpose and are included in the state award.</p>   |

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| <b>Equipment and Other Capital Expenditures</b>        |                                      | 2 CFR § 200.439  |
|  |                                      | <p>(a) Capital expenditures for general purpose equipment, buildings, and land are allowable as direct costs, but only with the prior written approval of the state agency.</p> <p>(b) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$10,000 or more have the prior written approval of the state agency.</p> <p>(c) Capital expenditures for improvements to land, buildings, or equipment that materially increase their value or useful life are allowable as a direct cost but only with the prior written approval of the state agency. See <a href="#">Depreciation</a> on the allowability of depreciation on buildings, capital improvements, and equipment. See <a href="#">Rental Costs of Real Property and Equipment</a>.</p> <p>(d) When approved as a direct cost in accordance with paragraphs (1) through (3), capital expenditures must be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the state agency.</p> <p>(e) The local government may claim the unamortized portion of any equipment written off as a result of a change in capitalization levels by continuing to claim the otherwise allowable depreciation on the equipment or by amortizing the amount to be written off over a period of years negotiated with the state agency for indirect cost.</p> <p>(f) Cost of equipment disposal. If the state agency instructs the local government to otherwise dispose of or transfer the equipment the costs of such disposal or transfer are allowable.</p> <p>(g) Equipment and other capital expenditures are unallowable as indirect costs. See <a href="#">Depreciation</a>.</p> |
| <b>Exchange Rates</b>                                  |                                      | 2 CFR § 200.440  |
|  |                                      | <p>(a) If approved in advance by the state agency, cost increases for fluctuations in exchange rates are allowable costs subject to the availability of funding. Before providing approval, the state agency must ensure that adequate funds are available to cover currency fluctuations.</p> <p>(b) The local government is required to make reviews of local currency gains to determine the need for additional state funding before the expiration date of the state award. Subsequent adjustments for currency increases may be allowable only when the local government provides the state agency with adequate source documentation from a commonly used source in effect at the time the expense was made, and to the extent that sufficient state funds are available.</p>   |
| <b>Fines, Penalties, Damages and Other Settlements</b> |                                      | 2 CFR § 200.441  |
|  |                                      | Costs resulting from local government violations of, alleged violations of, or failure to comply with, federal, state, local, tribal, or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the state award, or with the prior written approval of the state agency. See also <a href="#">Defense and Prosecution of Criminal and Civil Proceedings, Claims, Appeals and Patent Infringements</a> .  |

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| <b>Fund Raising and Investment Management Costs</b>          | 2 CFR § 200.442                      | <p>(a) Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable. Fundraising costs for meeting the state program objectives are allowable with prior written approval from the state agency.</p> <p>(b) Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable except when associated with investments covering pension, self-insurance, or other funds which include state participation allowed by this TxGMS.</p> <p>(c) Costs related to the physical custody and control of monies and securities are allowable.</p> <p>(d) Both allowable and unallowable fundraising and investment activities must be allocated as an appropriate share of indirect costs in accordance with the <a href="#">Direct Costs</a> section of TxGMS.</p>  |
| <b>Gains and Losses on Disposition of Depreciable Assets</b> | 2 CFR § 200.443                      | <p>(a) The local government must include gains and losses on the sale, retirement, or other disposition of depreciable property in the year they occur as credits or charges to the asset cost grouping(s) of the property. The amount of the gain or loss is the difference between the amount realized on the property and the undepreciated basis of the property.</p> <p>(b) Gains and losses from the disposition of depreciable property must not be recognized as a separate credit or charge under the following conditions:</p> <ol style="list-style-type: none"> <li>(1) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under <a href="#">Depreciation</a> and <a href="#">Equipment and Other Capital Expenditures</a>.</li> <li>(2) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.</li> <li>(3) A loss results from failing to maintain proper insurance, except as provided in <a href="#">Insurance and Indemnification</a>.</li> <li>(4) Compensation for the use of the property was provided through use allowances instead of depreciation.</li> <li>(5) Gains and losses arising from extraordinary or bulk sales, retirements, or other dispositions must be considered on a case-by-case basis.</li> </ol> <p>(c) Gains or losses of any nature arising from the sale or exchange of property other than the property covered in paragraph (a) of this section must be excluded in computing state award costs).</p> <p>(d) When assets acquired with state funds, in part or wholly, are disposed of, the distribution of the proceeds must be made in accordance with the <a href="#">Property Standards</a> section of TxGMS.</p> |

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| <b>General Costs of Government</b>              | 2 CFR § 200.444                      | <p>(a) For states, local governments, and Indian Tribes, the general costs of government are unallowable except as provided in <a href="#">Travel Costs</a>. Unallowable costs include:</p> <ul style="list-style-type: none"> <li>(1) Salaries and expenses of the Office of the Governor of a state or the chief executive of a local government or the chief executive of an Indian Tribe;</li> <li>(2) Salaries and other expenses of a state legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, or school board, whether incurred for purposes of legislation or executive direction;</li> <li>(3) Costs of the judicial branch of a government;</li> <li>(4) Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by statute or regulation. However, this does not preclude the allowability of other legal activities of the Attorney General as described in <a href="#">Defense and Prosecution of Criminal and Civil Proceedings, Claims, Appeals and Patent Infringements</a>; and</li> <li>(5) Costs of other general types of government services normally provided to the general public, such as fire and police, unless provided as a direct cost under a program statute or regulation.</li> </ul> <p>(b) Indian tribes and Councils of Governments (COGs) as defined by state law, may include up to 50 percent of salaries and expenses directly attributable to managing and operating state programs by the chief executive and their staff in the indirect cost calculation without documentation.</p> |
| <b>Goods or Services for Personal Use</b>       | 2 CFR § 200.445                      | <ul style="list-style-type: none"> <li>(a) Costs of goods or services for the personal use of the local government's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.</li> <li>(b) Housing costs (for example, depreciation, maintenance, utilities, furnishings, rent), housing allowances, and personal living expenses for local government employees are only allowable as direct costs and must be approved in advance by the state agency.</li> </ul>  |

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| Idle Facilities and Idle Capacity               | 2 CFR § 200.446                      | <p>(a) Definitions for the purpose of this section:</p> <ul style="list-style-type: none"> <li>(1) Facilities means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the local government.</li> <li>(2) Idle facilities mean completely unused facilities that exceed the local government's current needs.</li> <li>(3) Idle capacity means the unused capacity of partially used facilities. It is the difference between:                             <ul style="list-style-type: none"> <li>(i) That which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays; and</li> <li>(ii) The extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.</li> </ul> </li> <li>(4) Cost of idle facilities or idle capacity means maintenance, repair, housing, rent, and other related costs (for example, insurance, interest, and depreciation). These costs could include the costs of idle public safety emergency facilities, telecommunications, or information technology system capacity that is built to withstand major fluctuations in load (for example, consolidated data centers).</li> </ul> <p>(b) The costs of idle facilities are unallowable except to the extent that:</p> <ul style="list-style-type: none"> <li>(1) They are necessary to meet workload requirements which may fluctuate, and are allocated appropriately to all benefiting programs; or</li> <li>(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under this exception, costs of idle facilities are allowable for a reasonable period, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities.</li> </ul> <p>(c) The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. These costs are allowable, provided that the capacity is reasonably anticipated to be necessary to carry out the purpose of the state award or was originally reasonable and is not subject to reduction or elimination by use on other state or federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.</p> <p>(d) The costs of idle facilities are allowable with prior approval by the state agency.</p> |

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| <p><b>Insurance and Indemnification</b></p>     | <p>2 CFR § 200.447</p>               | <p>(a) Costs of insurance required or approved and maintained, by the terms and conditions of the state award, are allowable.</p> <p>(b) Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:</p> <ul style="list-style-type: none"> <li>(1) The types, extent, and cost of coverage are in accordance with the local government's established written policy and sound business practices.</li> <li>(2) Costs of insurance or contributions to any reserve covering the risk of loss of, or damage to, state government property are allowable except to the extent that the state agency has approved the costs.</li> <li>(3) Costs allowed for business interruption or other similar insurance must exclude coverage of management fees.</li> <li>(4) Insurance costs on the lives of trustees, officers, or other employees holding positions of similar responsibilities are allowable only when the insurance represents additional compensation. See <a href="#">Compensation—Fringe Benefits</a>. This insurance is allowable when the local government is identified as the beneficiary.</li> <li>(5) Insurance costs to correct defects in the local government's materials or workmanship are allowable.</li> <li>(6) Medical liability (malpractice) insurance is an allowable cost of a state research program only when the program involves human subjects or training of participants in research techniques. Medical liability insurance costs must be treated as a direct cost and assigned to individual projects based on how the insurer allocates the risk to the population covered by the insurance.</li> </ul> <p>(c) Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are allowable unless expressly authorized in the state award. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.</p> <p>(d) Contributions to a reserve for a self-insurance program including workers' compensation, unemployment compensation, and severance pay are allowable subject to the following requirements:</p> <ul style="list-style-type: none"> <li>(1) The type, extent, and cost of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, a provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, must not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by considering factors such as the local government's settlement rate for those liabilities and its investment rate of return.</li> <li>(2) Earnings or investment income on reserves must be credited to those reserves.</li> </ul> |

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| <p><b>Insurance and Indemnification</b><br/><i>(Continued)</i></p> | <p>2 CFR § 200.447</p>               | <p>(3) (i) Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, and other relevant factors or information. Reserve levels related to employee-related coverages must normally be limited to the value of claims:</p> <ul style="list-style-type: none"> <li>(A) Submitted and adjudicated but not paid;</li> <li>(B) Submitted but not adjudicated; and</li> <li>(C) Incurred but not submitted.</li> </ul> <p>(ii) Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.</p> <p>(4) Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to the types of insured risk and losses generated by the various insured activities or agencies of the local government. If individual departments or agencies of the local government experience significantly different levels of claims for a particular risk, those differences must be recognized by using separate allocations or other techniques resulting in an equitable allocation.</p> <p>(5) Whenever funds are transferred from a self-insurance reserve to other accounts (for example, general fund or unrestricted account), refunds must be made to the state government for its share of funds transferred, including earned or imputed interest from the date of transfer and debt interest, if applicable, chargeable in accordance with the claims collection regulations of the state agency.</p> <p>(e) Insurance refunds must be credited against insurance costs in the year the refund is received.</p> <p>(f) Indemnification includes securing the local government against liabilities to third persons and other losses not compensated by insurance or otherwise. To the extent permitted by state law, the state government is obligated to indemnify the local government only to the extent expressly provided for in the state award, except as provided in paragraph (c).</p> |

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| Intellectual Property                           | 2 CFR § 200.448                      | <p>(a) Patent and copyright costs.</p> <p>(1) The following costs related to securing patents and copyrights are allowable:</p> <ul style="list-style-type: none"> <li>(i) Costs of preparing disclosures, reports, and other documents required by the state award, and of searching the art to the extent necessary to make such disclosures;</li> <li>(ii) Costs of preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where the state government requires that a title or a royalty-free license be conveyed to the state government; and</li> <li>(iii) General counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee intellectual property agreements. See <a href="#">Professional Services Costs</a>.</li> </ul> <p>(2) The following costs related to securing patents and copyrights are unallowable:</p> <ul style="list-style-type: none"> <li>(i) Costs of preparing disclosures, reports, and other documents, and of searching the art to make disclosures not required by the state award;</li> <li>(ii) Costs in connection with filing and prosecuting any foreign patent application, or any United States patent application, where the state award does not require conveying title or a royalty-free license to the state government.</li> </ul> <p>(b) Royalties and other costs for the use of patents and copyrights.</p> <p>(1) Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the state award are allowable unless:</p> <ul style="list-style-type: none"> <li>(i) The state government already has a license or the right to free use of the patent or copyright.</li> <li>(ii) The patent or copyright has been adjudicated to be invalid, or administratively determined to be invalid.</li> <li>(iii) The patent or copyright is considered to be unenforceable.</li> <li>(iv) The patent or copyright is expired.</li> </ul> <p>(2) Special care should be exercised in determining reasonableness when the royalties may have been obtained as a result of less-than-arm's-length bargaining, such as:</p> <ul style="list-style-type: none"> <li>(i) Royalties paid to persons, including corporations, affiliated with the local government.</li> <li>(ii) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a state award would be made.</li> <li>(iii) Royalties paid under an agreement entered into after a state award is made to a local government.</li> </ul> <p>(3) In any case involving a patent or copyright formerly owned by the local government, the amount of royalty allowed must not exceed the cost which would have been allowed had the local government retained ownership.</p> |

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| Interest  | 2 CFR § 200.449                      | <p>(a) General. Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the local government's own funds are unallowable. Financing costs (including interest) to acquire, construct, or replace capital assets are allowable, subject to the requirements of this section.</p> <p>(b) Capital assets.</p> <p>(1) An asset cost includes (as applicable) acquisition costs, construction costs, and other costs capitalized in accordance with GAAP.</p> <p>(2) For software development projects, only interest attributable to the portion of the project costs capitalized in accordance with GAAP or the state's capitalization policy is allowable.</p> <p>(c) Requirements for all local governments.</p> <p>(1) The local government uses the capital assets in support of state awards;</p> <p>(2) The allowable asset costs to acquire facilities and equipment are limited to a fair market value available to the local government from an unrelated (arm's length) third party.</p> <p>(3) The local government obtains the financing via an arm's length transaction (meaning, a transaction with an unrelated third party); or claims reimbursement of actual interest cost at a rate available via such a transaction.</p> <p>(4) The local government limits claims for state reimbursement of interest costs to the least expensive alternative. For example, a capital lease may be determined less costly than purchasing through debt financing, in which case reimbursement must be limited to the amount of interest determined if leasing had been used.</p> <p>(5) The local government expenses or capitalizes allowable interest cost in accordance with GAAP.</p> <p>(6) Earnings generated by the investment of borrowed funds pending their disbursement for the asset costs are used to offset the current period's allowable interest cost, whether that cost is expensed or capitalized. Earnings subject to being reported to the Internal Revenue Service (IRS) under arbitrage requirements are excludable.</p> <p>(7) Prior written approval by the state agency is required for any debt arrangement to purchase or construct facilities. The state agency may condition its approval of the debt arrangement on an initial equity contribution by the local government. The following conditions must apply to debt arrangements over \$1 million to purchase or construct facilities unless the local government makes an initial equity contribution to the purchase of 25 percent or more. For this purpose, "initial equity contribution" means the amount or value of contributions made by the local government for the acquisition of facilities prior to occupancy.</p> <p>(i) The local government must reduce claims for reimbursement of interest cost by an amount equal to imputed interest earnings on excess cash flow attributable to the portion of the facility used for state awards.</p> <p>(ii) The local government must impute interest on excess cash flow as follows:</p> <p>(A) Annually, the local government must prepare a cumulative (from the project's inception) report of monthly cash inflows and outflows, regardless of the funding source. For this purpose, inflows consist of state reimbursement for depreciation, amortization of capitalized construction interest, and annual interest cost. Outflows consist of initial equity contributions, debt principal payments (less the pro-rata share attributable to the cost of land), and interest payments.</p> |

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| <b>Interest<br/>(Continued)</b>   | 2 CFR § 200.449                      | <p>(B) To compute monthly cash inflows and outflows, the local government must divide the annual amounts by the months in the year (usually 12) that the building is in service.</p> <p>(C) For any month in which cumulative cash inflows exceed cumulative outflows, interest must be calculated on the excess inflows for that month and be treated as a reduction to allowable interest cost. The interest rate to be used must be the three-month Treasury bill closing rate as of the last business day of that month.</p> <p>(8) Interest attributable to a fully depreciated asset is unallowable.</p> <p>(d) Additional requirements for states, local governments, and Indian Tribes.</p> <p>(1) The requirement to offset the interest earned on borrowed funds against current allowable interest cost (paragraph (c)(5), of this section) also applies to earnings on debt service reserve funds.</p> <p>(2) The local government must negotiate the amount of allowable interest cost related to the acquisition of facilities with asset costs of \$1 million or more, as described in paragraph (c)(7) of this section. For this purpose, a local government must consider only cash inflows and outflows attributable to that portion of the real property used for state awards.</p> |
| <b>Lobbying</b>   | 2 CFR § 200.450                      | <p>(a) Lobbying is defined by relevant state law. The costs associated with prohibited lobbying activities are unallowable.</p> <p>(b) When a local government seeks reimbursement for indirect costs, total lobbying costs must be identified separately in the indirect cost rate proposal and thereafter be treated as other unallowable activity costs in accordance with the procedures of the <a href="#">Direct Costs</a> section of TxGMS.</p>   |
| <b>Losses on Other Awards or Contracts</b>                                | 2 CFR § 200.451                      | Any excess costs over income under any other award or contract of any nature is unallowable. This includes, but is not limited to, the local government's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect costs. Also, any excess of costs over authorized funding levels transferred from any award or contract to another is unallowable. All losses are not allowable indirect costs and must be included in the appropriate indirect cost rate base for allocating indirect costs.   |
| <b>Maintenance and Repair Costs</b>                                       | 2 CFR § 200.452                      | Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment (including state property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable. Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life must be treated as Capital Expenditures. See <a href="#">Equipment and Other Capital Expenditures</a> . These costs are only allowable to the extent not paid through rental or other agreements.  |
| <b>Materials and Supplies Costs, Including Costs of Computing Devices</b> | 2 CFR § 200.453                      | <p>(a) Costs of the local government's membership in business, technical, and professional organizations are allowable.</p> <p>(b) Costs of the local government's subscriptions to business, professional, and technical periodicals are allowable.</p> <p>(c) Costs of membership in any civic or community organization are allowable with prior approval by the state awarding agency.</p> <p>(d) Costs of membership in any country club or social or dining club or organization are unallowable.</p> <p>(e) Costs of membership in organizations whose primary purpose is lobbying are unallowable. See also <a href="#">Lobbying</a>.</p>  |

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| Selected Cost Items  | Federal Grant Program Considerations   |
|  | Uniform Guidance   |
| <b>Memberships, Subscriptions, and Professional Activity Costs</b> | <p>2 CFR § 200.454</p> <p>(a) Costs of the local government's membership in business, technical, and professional organizations are allowable.</p> <p>(b) Costs of the local government's subscriptions to business, professional, and technical periodicals are allowable.</p> <p>(c) Costs of membership in any civic or community organization are allowable.</p> <p>(d) Costs of membership in any country club or social or dining club or organization are unallowable.</p> <p>(e) Costs of membership in organizations whose primary purpose is lobbying are unallowable. See <a href="#">Lobbying</a>.</p> |
| <b>Organization Costs</b>  | <p>2 CFR § 200.455</p> <p>Costs such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the nonprofit organization in connection with the establishment or reorganization of an organization, are unallowable except with prior approval of the state agency.</p>  |
| <b>Participant Support Costs</b>                                   | <p>2 CFR § 200.456</p> <p>Participant support costs means direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects. Participant support costs are allowable with prior approval of the state agency. The classification of items as participant support costs must be documented in the local government's written policies and procedures consistently across all state awards.</p>  |
| <b>Plant and Security Costs</b>                                    | <p>2 CFR § 200.457</p> <p>Necessary and reasonable expenses incurred for the protection and security of facilities, personnel, and work products are allowable. Such costs include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; protective (non-military) gear, devices, and equipment; contractual security services; and consultants. Capital expenditures for plant security purposes are subject to the requirements specified in <a href="#">Equipment</a> and <a href="#">Other Capital Expenditures</a>.</p>                               |
| <b>Pre-award Costs</b>   | <p>2 CFR § 200.458</p> <p>Pre-award costs are those incurred before the start date of the state award directly pursuant to the negotiation and in anticipation of the state award where such costs are necessary for efficient and timely performance of the scope of work. These costs are allowable only to the extent that they would have been allowed if incurred after the start date of the state award and only with the written approval of the state agency.</p>   |

| State Grant Program Considerations              |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs |                                      |  |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance   |
| <b>Professional Service Costs</b>               | 2 CFR § 200.459                      | <p>(a) Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill as defined by Chapter 2254 of the Texas Government Code, and who are not officers or employees of the local government, are allowable, subject to paragraphs (b) and (c) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the state government. In addition, legal and related services are limited under <a href="#">Defense and Prosecution of Criminal and Civil Proceedings, Claims, Appeals and Patent Infringements</a>.</p> <p>(b) In determining the allowability of costs in a particular case, no single factor or any combination of factors is necessarily determinative. However, the following factors are relevant:</p> <ol style="list-style-type: none"> <li>(1) The nature and scope of the service rendered in relation to the service required.</li> <li>(2) The necessity of contracting for the service, considering the local government's capability in the particular area.</li> <li>(3) The past pattern of such costs, particularly in the years prior to receiving a state award(s).</li> <li>(4) The impact of state awards on the local government's business (meaning, what new problems have arisen).</li> <li>(5) Whether the proportion of state work to the local government's total business influences the local government in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under state awards.</li> <li>(6) Whether the service can be performed more economically by direct employment rather than contracting.</li> <li>(7) The qualifications of the individual or entity providing the service and the customary fees charged, especially on non-state funded activities.</li> <li>(8) Adequacy of the contractual agreement for the service (for example, description of the service, estimate of the time required, rate of compensation, and termination provisions).</li> </ol> <p>(c) To be allowable, retainer fees must be supported by evidence of bona fide services available or rendered in addition to the factors in paragraph (b) of this section.</p> |
| <b>Proposal Costs</b>                           | 2 CFR § 200.460                      | <p>Proposal costs are the costs of the local government in preparing bids, proposals, or applications on potential state and non-state awards or projects, including developing data necessary to support the local government's bids or proposals. Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be treated as indirect costs and allocated to all current activities of the local government. No proposal costs of past accounting periods may be allocated to the current period.</p>  |

| State Grant Program Considerations              |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs |                                      |  |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance   |
| <b>Publication and Printing Costs</b>           | 2 CFR § 200.461                      | <p>(a) Publication costs for electronic and print media, including distribution, promotion, and general handling, are allowable. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the local government if they are not identifiable with a particular cost objective.</p> <p>(b) Page charges, article processing charges (APCs) or similar fee such as open access fees for professional journal publications and other peer-reviewed publications resulting from a state award are allowable where:</p> <ol style="list-style-type: none"> <li>(1) The publications report work supported by the state government; and</li> <li>(2) The charges are levied impartially on all items published by the journal, whether or not under a state award.</li> <li>(3) The local government may charge the state award before closeout for the costs of publication or sharing of research results if the costs were not incurred during the period of performance of the state award.</li> </ol>  |
| <b>Rearrangement and Reconversion Costs</b>     | 2 CFR § 200.462                      | <p>(a) Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable as indirect costs. Special arrangements and alterations are allowable as a direct cost if the costs are incurred specifically for a state award and with prior approval of the state agency.</p> <p>(b) Costs incurred in restoring or rehabilitating the local government's facilities to approximately the same condition existing immediately before the commencement of a state award(s), less costs related to normal wear and tear, are allowable.</p>  |
| <b>Recruiting Costs</b>                         | 2 CFR § 200.463                      | <p>(a) Subject to paragraphs (b) and (c) of this section, and provided that the size of the staff recruited and maintained is in keeping with workload requirements, costs of "help wanted" advertising, operating costs of an employment office necessary to secure and maintain adequate staff, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees, are allowable to the extent that such costs are incurred pursuant to the local government's standard recruitment program. When the local government uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.</p> <p>(b) Special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel that do not meet the test of reasonableness or do not conform with the established practices of the local government, are allowable.</p> <p>(c) If relocation costs incurred incident to recruitment of a new employee have been funded in whole or in part by a state award, and the newly hired employee resigns for reasons within the employee's control within 12 months after hire, the local government must refund or credit the state share of such relocation costs. See <a href="#">Relocation Costs of Employees</a>.</p> <p>(d) Short-term-visas (as opposed to longer-term, immigration visas) are generally an allowable cost and they may be proposed as a direct cost because they are issued for a specific period and purpose and can be clearly identified as directly connected to work performed on a state award. For these costs to be directly charged to a state award, they must:</p> <ol style="list-style-type: none"> <li>(1) Be critical and necessary for the conduct of the project;</li> <li>(2) Be allowable under the applicable cost principles;</li> <li>(3) Be consistent with the local government's cost accounting practices and local government's established written policy; and</li> <li>(4) Meet the definition of "direct cost" as described in the applicable cost principles.</li> </ol> |

| State Grant Program Considerations              |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs |                                      |  |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance   |
| <p><b>Relocation Costs of Employees</b></p>     | <p>2 CFR § 200.464</p>               | <p>(a) Relocation costs are costs incident to the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an existing employee or upon recruitment of a new employee. Relocation costs are allowable, subject to the limitations described in paragraphs (b), (c), and (d) of this section, provided that:</p> <ol style="list-style-type: none"> <li>(1) The move is for the benefit of the employer.</li> <li>(2) Reimbursement to the employee is in accordance with an established written policy consistently followed by the employer.</li> <li>(3) The reimbursement does not exceed the employee's actual (or reasonably estimated) expenses.</li> </ol> <p>(b) Allowable relocation costs for current employees are limited to the following:</p> <ol style="list-style-type: none"> <li>(1) The costs of transportation of the employee, members of his or her immediate family and his household, and personal effects to the new location.</li> <li>(2) The costs of finding a new home, such as advance trips by employees and spouses to locate living quarters and temporary lodging during the transition period, up to a maximum period of 30 calendar days.</li> <li>(3) Closing costs, such as brokerage, legal, and appraisal fees, incident to the disposition of the employee's former home. These costs, together with those described in (4), are limited to 8 percent of the sales price of the employee's former home.</li> <li>(4) The continuing costs of ownership (for up to six months) of the vacant former home after the settlement or lease date of the employee's new permanent home, such as maintenance of buildings and grounds (exclusive of fixing-up expenses), utilities, taxes, and property insurance.</li> <li>(5) Other necessary and reasonable expenses normally incident to relocation, such as the costs of canceling an unexpired lease, transportation of personal property, and purchasing insurance against loss of or damages to personal property. The cost of canceling an unexpired lease is limited to three times the monthly rental.</li> </ol> <p>(c) Allowable relocation costs for new employees are limited to those described in paragraphs (b)(1) and (2) of this section. If relocation costs incurred incident to the recruitment of a new employee have been funded in whole or in part by a state award and the newly hired employee resigns for reasons within the employee's control within 12 months after hire, the local government must refund or credit the state government for its share of the cost. If a new employee is relocating to an overseas location and dependents are not permitted for any reason, and the costs do not include transporting household goods, the costs must be considered travel costs in accordance with <a href="#">Travel Costs</a>, not relocation costs under this section.</p> <p>(d) The following costs related to relocation are unallowable:</p> <ol style="list-style-type: none"> <li>(1) Fees and other costs associated with acquiring a new home.</li> <li>(2) A loss on the sale of a former home.</li> <li>(3) Continuing mortgage principal and interest payments on a home being sold.</li> <li>(4) Income taxes paid by an employee related to reimbursed relocation costs.</li> </ol> |

| State Grant Program Considerations              |                                      |   |
|---|--------------------------------------|---|
| Chapter 783 Supplement for State Grant Programs |                                      |   |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance  |
| Rental Costs of Real Property and Equipment     | 2 CFR § 200.465                      | <p>(a) Subject to the limitations described in paragraphs (b) through (d) of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as costs of comparable rental properties; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and if other options are available.</p> <p>(b) Rental costs under “sale and lease back” arrangements are allowable only up to the amount that would have been allowed if the local government had continued to own the property. This amount would include expenses such as depreciation, maintenance, taxes, and insurance.</p> <p>(c) Rental costs under “less-than-arm’s-length” leases are allowable only up to the amount described in paragraph (b) of this section. For this purpose, a less-than-arm’s-length lease is one under which one party to the lease agreement can control or substantially influence the actions of the other. Such leases include, but are not limited to, those between:</p> <ul style="list-style-type: none"> <li>(1) Divisions of the local government;</li> <li>(2) The local government under common control through common officers, directors, or members; and</li> <li>(3) The local government and a director, trustee, officer, or key employee of the local government or an immediate family member, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, the local government may establish a separate corporation to own property and lease it back to the local government.</li> <li>(4) Family members include one party with any of the following relationships to another party: <ul style="list-style-type: none"> <li>(i) Spouse, and parents thereof;</li> <li>(ii) Children, and spouses thereof;</li> <li>(iii) Parents, and spouses thereof;</li> <li>(iv) Siblings, and spouses thereof;</li> <li>(v) Grandparents and grandchildren, and spouses thereof;</li> <li>(vi) Domestic partner and parents thereof, including domestic partners of any individual in (2) through (5) of this definition; and</li> <li>(vii) Any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship.</li> </ul> </li> </ul> |

| State Grant Program Considerations              |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs |                                      |  |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance   |
| <b>Scholarships and Student Aid Costs</b>       | 2 CFR § 200.466                      | <p>(a) Costs of scholarships, fellowships, and student aid programs at IHEs are allowable only when the purpose of the state award is to provide training to participants, and the state agency.</p> <p>(b) Tuition remission and other forms of compensation paid as, or instead of, wages to students performing necessary work are allowable provided that:</p> <ol style="list-style-type: none"> <li>(1) The individual is conducting activities necessary to the state award;</li> <li>(2) Tuition remission and other support are provided in accordance with the established written policy of the IHE and consistently provided in a like manner to students in return for similar activities conducted under state awards as well as other activities; and</li> <li>(3) The student is enrolled in an advanced degree program at the IHE or an affiliated institution during the academic period and the student's activities under the state award are related to their degree program;</li> <li>(4) The tuition or other payments are reasonable compensation for the work performed and are conditioned explicitly upon the performance of necessary work; and</li> <li>(5) The IHE compensates students under state awards as well as other activities in similar manners.</li> </ol> <p>(c) Charges for tuition remission and other forms of compensation paid to students as, or instead of, salaries and wages are subject to the reporting requirements in <a href="#">Compensation—Personal Services</a>. The charges must be treated as a direct or indirect cost in accordance with the actual work performed. Tuition remission may be charged on an average rate basis. See <a href="#">Compensation—Fringe Benefits</a>.</p> |
| <b>Selling and Marketing Costs</b>              | 2 CFR § 200.467                      | <p>Costs of selling and marketing any products or services of the local government are unallowable unless they are allowed under <a href="#">Advertising and Public Relations</a> and are necessary to meet the requirements of the state award.</p>   |
| <b>Specialized Service Facilities</b>           | 2 CFR § 200.468                      | <p>(a) The costs of services provided by highly complex or specialized facilities operated by the local government are allowable, provided the charges for the services meet the conditions of either paragraph (b) or (c) of this section, and take into account any items of income or state financing that qualify as Applicable Credits. These costs include charges for facilities such as computing facilities, wind tunnels, and reactors.</p> <p>(b) The costs of such services, when material, must be charged directly to the applicable state awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:</p> <ol style="list-style-type: none"> <li>(1) Does not discriminate between activities under state awards and other activities of the local government, including usage by the local government for internal purposes; and</li> <li>(2) Is designed to recover only the aggregate costs of the services. Each service's costs must normally consist of its direct costs and an allocable share of all indirect costs. Rates must be adjusted at least biennially and must consider any over or under-applied costs of the previous period(s).</li> </ol> <p>(c) Where the costs incurred for a service are not material, they may be allocated as indirect costs.</p> <p>(d) Under extraordinary circumstances, the state agency and the local government may negotiate and establish an alternative costing arrangement if it is in the state agency's best interest.</p>   |

| State Grant Program Considerations              |                                      |   |
|---|--------------------------------------|---|
| Chapter 783 Supplement for State Grant Programs |                                      |   |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance  |
| <b>Student Activity Costs</b>                   | 2 CFR § 200.469                      | Costs incurred for intramural activities, student publications, student clubs, and other student activities are unallowable unless expressly authorized in the state award.   |
| <b>Taxes (including Value Added Tax)</b>        | 2 CFR § 200.470                      | <p>(a) For states, local governments, and Indian Tribes:</p> <ul style="list-style-type: none"> <li>(1) Taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect state programs or changes in tax policies that disproportionately affect state programs.</li> <li>(2) Gasoline taxes, motor vehicle fees, and other taxes that are, in effect, user fees for benefits provided to the state government are allowable.</li> <li>(3) This provision does not restrict the authority of the state agency to identify taxes where state participation is inappropriate.</li> </ul> <p>(b) Nonprofit organizations and IHEs.</p> <ul style="list-style-type: none"> <li>(1) Taxes that the nonprofit organizations and IHEs are required to pay and which are paid or accrued in accordance with GAAP are generally allowable. These costs include payments made to local governments instead of taxes and that are commensurate with the local government services received. The following taxes are unallowable:                             <ul style="list-style-type: none"> <li>(i) Taxes for which exemptions are available to the nonprofit organizations and IHEs directly or which are available to the nonprofit organizations and IHEs based on an exemption afforded the state government and, in the latter case, when the state agency makes available the necessary exemption certificates;</li> <li>(ii) Special assessments on land which represent capital improvements; and</li> <li>(iii) Federal income taxes.</li> </ul> </li> <li>(2) Any refund of taxes and interest thereon, which were allowed as state award costs, must be credited to the state government as a cost reduction or cash refund, as appropriate. However, any interest paid or credited to a nonprofit organization and IHE incident to a refund of tax, interest, and penalty will be paid or credited to the state government only to the extent that such interest accrued over the period during which the state government has reimbursed the nonprofit organization or IHE for the taxes, interest, and penalties.</li> <li>(c) Value Added Tax (VAT). Foreign taxes charged for procurement transactions that a local government is legally required to pay in a country are allowable. Foreign tax refunds or applicable credits under state awards refer to receipts or reduction of expenditures, which operate to offset or reduce expense items that are allocable to state awards as direct or indirect costs. To the extent that such credits accrued or received by the local government relate to allowable cost, these costs must be credited to the state agency as a cost reduction or cash refunds, as appropriate. In cases where the costs are credited back to the state award, the local government may reduce the state share of costs by the amount of the foreign tax reimbursement, or where state award has not expired, the state agency may allow the local government to use the foreign government tax refund for approved activities under the state award.</li> </ul> |

| State Grant Program Considerations              |                                      |   |
|---|--------------------------------------|---|
| Chapter 783 Supplement for State Grant Programs |                                      |   |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance  |
| Termination Costs                               | 2 CFR § 200.472                      | <p>(a) Termination Costs. Termination of a state award generally gives rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the state award not been terminated. Cost principles covering these items are set forth in this section. They must be used in conjunction with the other termination requirements of this part.</p> <p>(1) The cost of items reasonably usable on the local government's other work is unallowable unless the local government submits evidence that it would not retain such items without sustaining a loss. In deciding whether such items are reasonably usable on other work of the local government, the state agency or pass-through entity should consider the local government's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the local government must be considered evidence that the items are reasonably usable on the local government's other work. Any acceptance of common items as allocable to the terminated portion of the state award must be limited to the extent that the quantities of such items on hand, in transit, and on order do not exceed the reasonable quantitative requirements of other work.</p> <p>(2) If the local government cannot discontinue certain costs immediately after the effective termination date, despite making all reasonable efforts, then the costs are generally allowable within the limitations of this part. Any costs continuing after termination due to the negligent or willful failure of the local government to immediately discontinue the costs are unallowable.</p> <p>(3) Loss of useful value of special tooling, machinery, and equipment is generally allowable if:</p> <ul style="list-style-type: none"> <li>(i) Such special tooling, special machinery, or equipment is not reasonably capable of use in the other work of the local government;</li> <li>(ii) The interest of the state government is protected by transfer of title or by other means deemed appropriate by the state agency (see <a href="#">Equipment</a>, paragraph (d)); and</li> <li>(iii) The loss of useful value for any one terminated state award is limited to the portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the state award bears to the entire terminated state award and other state awards for which the special tooling, machinery, or equipment was acquired.</li> </ul> <p>(4) If paragraph (a)(4)(i) and (ii) below are satisfied, rental costs under unexpired leases (less the residual value of such leases) are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated state award. These rental costs may include the cost of alterations of the leased property and the cost of reasonable restoration required by the lease, provided the alterations were necessary for the performance of the state award.</p> <ul style="list-style-type: none"> <li>(i) The amount of claimed rental costs does not exceed the reasonable use value of the property leased for the period of the state award and a further period as may be reasonable; and</li> <li>(ii) The local government makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of the lease.</li> </ul> <p>(5) The following settlement expenses are generally allowable.</p> <ul style="list-style-type: none"> <li>(i) Accounting, legal, clerical, and similar costs that are reasonably necessary for: <ul style="list-style-type: none"> <li>(A) The preparation and presentation to the state agency or pass-through entity of settlement claims and supporting data with respect to the terminated portion of the state award, unless the termination is for cause (see <a href="#">Remedies for Noncompliance</a> section of TxGMS); and</li> <li>(B) The termination and settlement of subawards.</li> </ul> </li> </ul> |

| State Grant Program Considerations              |  |  |
|---|--|--|
| Chapter 783 Supplement for State Grant Programs |  |  |
| Selected Cost Items                             | Federal Grant Program Considerations<br>Uniform Guidance |  |
| <b>Termination Costs<br/>(Continued)</b>        | 2 CFR § 200.472  | <p>(ii) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the state government or acquired or produced for the state award.</p> <p>(6) Claims under subawards, including the allocable portion of claims common to the state award and other work of the local government, are generally allowable. An appropriate share of the local government's indirect costs may be allocated to the amount of settlements with contractors and/or subrecipients, provided that the amount allocated is consistent with the requirements of the <u>Indirect Costs</u> section of TxGMS. These allocated indirect costs must exclude the same and similar costs claimed directly or indirectly as settlement expenses.</p> <p>(b) Closeout Costs. Administrative costs associated with the closeout activities of a state award are allowable. The local government may charge the state award during the closeout for the necessary administrative costs of that state award (for example, salaries of personnel preparing final reports, publication and printing costs, costs associated with the disposition of equipment and property, and related indirect costs). These costs may be incurred until the due date of the final report(s). If incurred, these costs must be liquidated prior to the due date of the final report(s) and charged to the final budget period of the award unless otherwise specified by the state agency.</p> |
| <b>Training and Education Costs</b>             | 2 CFR § 200.473  | The cost of training and education provided for employee development is allowable.   |
| <b>Transportation Costs</b>                     | 2 CFR § 200.474  | Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered, are allowable. When the costs can be readily identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items. When identification with the materials received cannot be readily made, the inbound transportation cost may be charged to the appropriate indirect cost accounts if the local government follows a consistent, equitable procedure in this respect. If reimbursable under the terms and conditions of the state award, outbound freight should be treated as a direct cost.   |

| State Grant Program Considerations              |                                      |  |
|---|--------------------------------------|--|
| Chapter 783 Supplement for State Grant Programs |                                      |  |
| Selected Cost Items                             | Federal Grant Program Considerations | Uniform Guidance   |
| Travel Costs                                    | 2 CFR § 200.475                      | <p>(a) General. Travel costs include the transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the local government. These costs may be charged on an actual cost basis, on a per diem or mileage basis, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip. The method used must be consistent with those normally allowed in like circumstances in the local government's other activities and is in accordance with local government's established written policies, and unless otherwise specified in the state award, the costs do not exceed the maximum per diem and subsistence rates prescribed by the State of Texas Travel Guidelines published by the Comptroller. Notwithstanding the provisions of <a href="#">General Costs of Government</a>, travel costs of officials covered by that section are allowable with the prior written approval of the state agency when they are specifically related to the state award.</p> <p>(b) Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, must be considered reasonable and otherwise allowable only to the extent such costs do not exceed charges normally allowed by the local government in its regular operations as the result of the local government's written policy. In addition, if these costs are charged directly to the state award documentation must justify that:</p> <ol style="list-style-type: none"> <li>(1) Participation of the individual is necessary for the state award; and</li> <li>(2) The costs are reasonable and consistent with the local government's established written policy.</li> </ol> <p>(c) Establishing rates and amounts. If the local government does not have a written policy regarding travel costs, the provisions of State of Texas Travel Guidelines published by the Comptroller will be used as guidance for local government travel under state awards.</p> <p>(d) Commercial air travel.</p> <ol style="list-style-type: none"> <li>(1) Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines are unallowable except when such accommodations would:             <ol style="list-style-type: none"> <li>(i) Require circuitous routing;</li> <li>(ii) Require travel during unreasonable hours;</li> <li>(iii) Excessively prolong travel;</li> <li>(iv) Result in additional costs that would offset the transportation savings; or</li> <li>(v) Offer accommodations not reasonably adequate for the traveler's medical needs. The local government must justify and document these conditions on a case-by-case basis in order for the use of first-class or business-class airfare to be allowable in such cases.</li> </ol> </li> <li>(2) Unless a pattern of avoidance is detected, the state government will generally not question a local government's determinations that customary standard airfare or other discount airfare is unavailable for specific trips if the local government can demonstrate that such airfare was not available in the specific case.</li> </ol> <p>(e) Air travel by other than commercial carrier. Travel costs by local government-owned, -leased, or -chartered aircraft include the cost of the lease, charter, operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. The portion of these costs that exceeds the cost of airfare, as provided for in paragraph (d) is unallowable.</p> |

| Selected Cost Items | Federal Grant Program Considerations    | State Grant Program Considerations  |
|---------------------|---|---|
| <b>Trustees</b>     | Uniform Guidance<br><br>2 CFR § 200.475 | Chapter 783 Supplement for State Grant Programs<br><br>Travel and subsistence costs of trustees (or directors) at IHEs and nonprofit organizations are not allowable unless authorized by state law. See <a href="#">Travel Costs</a> . |



## APPENDIX 8

### SAMPLE PERSONNEL ACTIVITY REPORT

Compensation – Fringe Benefits  
 Personnel Activity Report  
 [Month] [Year]  
 Employee Name: [Name]

| Project  | Actual Activities Performed | Activity for Which Employee was Compensated (% of Total Hours Worked) |
|--|-----------------------------|---|
| <b>[Grantor Agency Name] Contract/ Grant Nos. and Names</b>                    |                             |   |
| XXXXXXXXXX<br>[Contract Name]  |                             | X%  |
| XXXXXXXXXX<br>[Contract Name]  |                             | X %   |
| <b>Other Projects (Not Related to [Grantor Agency Name] Contracts/ Grants)</b> |                             | X %   |

The information listed above is true and correct. [Grantor Agency Name] may request additional information.

\_\_\_\_\_  
Employee Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Supervisor



# APPENDIX 9

## Sample Request for Application Checklist

TxGMS does not require any particular method of grantee selection. Agencies should consult their counsel for help identifying a grantee selection method that complies with applicable law. This checklist is provided as a suggested reference for agencies using a request for applications or similar method. For further information on grantee selection, see Footnote 55 above and the accompanying text.

Opportunity/RFA Number \_\_\_\_\_

Authorized Official \_\_\_\_\_

Financial Officer \_\_\_\_\_

Project Director \_\_\_\_\_

| Request for Applications Documents   | N/A                      | Included                 |
|--|--------------------------|--------------------------|
| <b>Pre-Award Phase</b>   |                          |                          |
| Draft/Initial application documentation – All Parts/Attachments/Exhibits<br><input type="checkbox"/> Funding Opportunity Description <input type="checkbox"/> Award Information <input type="checkbox"/> Eligibility Information<br><input type="checkbox"/> Application and Submission Information <input type="checkbox"/> Evaluation Criteria <input type="checkbox"/> Application Review Information <input type="checkbox"/> Award Administration Information <input type="checkbox"/> Question/Agency Contacts <input type="checkbox"/> Supplementary Material | <input type="checkbox"/> | <input type="checkbox"/> |
| Stakeholder Meeting Documentation (e.g., Needs Assessment, Cost Estimate, Acquisition Plan)  | <input type="checkbox"/> | <input type="checkbox"/> |
| Reporting Requirement (including evidence of agency request and receipt of approval) –<br><input type="checkbox"/> LBB Reporting Requirement > \$50,000 <input type="checkbox"/> Publish on agency website > \$25,000  | <input type="checkbox"/> | <input type="checkbox"/> |
| Finalized Application (including all parts/attachments/exhibits)   | <input type="checkbox"/> | <input type="checkbox"/> |
| Internal Approval to Issue Request for Applications  | <input type="checkbox"/> | <input type="checkbox"/> |
| Request for Applications Announcement (eGrants, optional and if applicable)  | <input type="checkbox"/> | <input type="checkbox"/> |
| Pre-Application Conference Agenda and Sign-in Sheet (including dated eGrant printout) <input type="checkbox"/> Voluntary <input type="checkbox"/> Mandatory  | <input type="checkbox"/> | <input type="checkbox"/> |
| Copies of Questions from Potential Respondents (including proof of timely receipt)   | <input type="checkbox"/> | <input type="checkbox"/> |
| Question and Answer Document Issued  | <input type="checkbox"/> | <input type="checkbox"/> |
| Scoring Matrix finalized, if applicable  | <input type="checkbox"/> | <input type="checkbox"/> |
| Evaluation Committee Members selected, if applicable   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>Evaluation Documentation (If applicable)</b>  |                          |                          |
| <b>Copies of Responses</b>   |                          |                          |
| Initial Screening of Application   | <input type="checkbox"/> | <input type="checkbox"/> |
| Signed Non-Disclosure and Conflict of Interest Statement from each Evaluation Committee Member and, if applicable, Technical Advisor   | <input type="checkbox"/> | <input type="checkbox"/> |
| Evaluation Committee Meeting Documentation (including agenda, guidelines)  | <input type="checkbox"/> | <input type="checkbox"/> |
| Copy of Answers Received from Respondent(s) to Agency’s Clarification Questions  | <input type="checkbox"/> | <input type="checkbox"/> |
| Copy of Oral Presentation Agenda & Presentation Documents  | <input type="checkbox"/> | <input type="checkbox"/> |
| All Completed Evaluation Committee Member Score Sheets (score sheets from all scoring committee members for all scoring rounds) Scoring Round: <input type="checkbox"/> 1, <input type="checkbox"/> 2, <input type="checkbox"/> 3  | <input type="checkbox"/> | <input type="checkbox"/> |
| Master Evaluation Score Sheet (completed)  | <input type="checkbox"/> | <input type="checkbox"/> |
| Evaluation Review Process & Financial Review   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>Grant Award and Amendment Documentation</b>   |                          |                          |
| Pre-approval Award Database Check<br><input type="checkbox"/> Federal Database Check (SAM) <input type="checkbox"/> Tax ID Check <input type="checkbox"/> Debarment Check <input type="checkbox"/> Child Support Obligation  | <input type="checkbox"/> | <input type="checkbox"/> |
| Agency award notification to the applicant   | <input type="checkbox"/> | <input type="checkbox"/> |

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Texas Comptroller of Public Accounts  
Publication #96-1929  
October 2024