



*Delaware Emergency Management Agency*  
*State Homeland Security Grant Program*

**DE Information Bulletin**  
**No. 17 September 29, 2006**

TO: Delaware Homeland Security Grant Partners

FROM: James E. Turner, III  
Director

SUBJECT: Maintenance Contracts - Extended Warranty Costs - Service Contracts

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This Information Bulletin provides clarification on the use of maintenance contracts, extended warranty costs and service contracts within the State Homeland Security Grant Program (SHSGP).

Questions provided by Emergency Response Discipline representatives concerning maintenance contracts, extended warranty costs and service contracts were forwarded to the U.S. Department of Homeland Security, Office of Grants & Training (OGT). The following program definitions of each of the three components are provided for clarification of what is and is not allowable under the grant program:

**Maintenance Contracts**

The cost of an equipment maintenance agreement is an allowable expense for the period of time that covers the grant performance period. (Normally, the performance period is 24 months, from the grant award date.) Any portion of the contract cost that extends beyond the grant period is not eligible (may not be charged) to the grant. Example: a grant project period is two years and the maintenance agreement is for three years, only the cost associated with the first two years of the agreement would be allowable. The grantee or sub-grantee is required to pro-rate the cost of the agreement to cover only the grant project period.

Reference: "Financial Management Guide" from the United States Department of Homeland Security Preparedness Directorate, Office of Grants and Training, Office of Grant Operations.  
[http://www.dhs.gov/interweb/assetlibrary/Grants\\_FinancialManagementGuide.pdf](http://www.dhs.gov/interweb/assetlibrary/Grants_FinancialManagementGuide.pdf)

### **Warranty Costs (Extended)**

Warranty costs (extensions) on equipment providing extended coverage for parts, labor and repair, above and beyond the term of the original manufacturer's warranty, are allowable *if the cost of the warranty is included as part of the acquisition cost*. Acquisition cost is defined as the cost of the asset (i.e.; equipment, system, etc.) including the cost to put it in place. Acquisition cost for equipment, for example, 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.

Reference “Financial Management Guide” from the United States Department of Homeland Security Preparedness Directorate, Office of Grants and Training, Office of Grant Operations.

### **Service Contracts**

Service Contracts are treated as all other contracts and therefore, *may not be funded beyond the grant performance period*. A contract is defined as “a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to): awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and, bilateral contract modifications.”

Reference the Office of Management and Budget’s (OMB) Circular A-87, “Cost Principles”.  
[http://www.whitehouse.gov/omb/circulars/a087/a87\\_2004.pdf](http://www.whitehouse.gov/omb/circulars/a087/a87_2004.pdf)

This additional information and clarification is provided to assist our homeland security partners to better understand and use the provisions of maintenance contracts, extended warranty costs and service contracts available under the State Homeland Security Grant Program.

If you have any questions, please contact: Jen Mills at [Jennifer.Mills@state.de.us](mailto:Jennifer.Mills@state.de.us) or (302) 659-2235 or the DEMA Planner assigned to your Emergency Response Discipline.