

# Cost Principles – Selected Items of Cost

Carol A Kraus, CPA

Sean Berberet

Grant Accountability and Transparency Unit

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[OMB.GATA@Illinois.gov](mailto:OMB.GATA@Illinois.gov), or

Room 603 Stratton Building, 401 S. Spring Street  
Springfield, Illinois 62706

# Objectives for Selected Items of Cost

These sections (2 CFR 200.421 - .475) identify the allowability of certain items:

- Allowability applies to direct costs, indirect costs and matching funds
- Allowability of any costs not included in the select items should be based on the treatment provided for similar or related items of cost and the principles of allocability, reasonableness, and necessity (§200.420)

# Introduction

- Cost principles apply whether a cost is treated as direct or indirect
- Failure to mention a particular item of cost is not intended to imply that it is not allowable; rather, determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost

## 2 CFR 200.421 Advertising and public relations

### Allowable Advertising:

- Recruitment of personnel required for performance of the award
- Procurement of goods and services for the performance of the award
- Disposal of scrap or surplus acquired in the performance of award
- Program outreach and other specifics necessary to meet the requirements of the award

## 2 CFR 200.421 Advertising and public relations

- “Public relations” includes those activities dedicated to maintaining the image of the non-Federal entity or maintaining or promoting understanding and favorable relations with the public
- Allowable public relations costs are:
  - Costs specifically required by the award
  - Costs of necessary communications with the public and press pertaining to specific activities or accomplishments which result from award performance; or
  - 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, financial matters, etc.

## 2 CFR 200.421 Advertising and public relations

- Specifically unallowable advertising:
  - Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events
  - Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings
  - Costs of promotional items and memorabilia, including models, gifts, and souvenirs
  - Costs of advertising and public relations designed solely to promote the non-Federal entity

## 2 CFR 200.423 Alcoholic Beverages

- The cost of alcoholic beverages are unallowable!
  - This includes training conferences hospitality suite
  - Any other circumstance

## 2 CFR 200.425 Audit services

- A reasonably proportionate share of the costs of audits required by, and performed in accordance with, the Single Audit Act are **allowable as a Direct Cost**
- Costs associated with the following types of audits are now specifically designated as **unallowable**:
  - Audits not conducted in accordance with Single Audit requirements
  - Audits that fall below the Single Audit threshold
- Financial Statement Audits are an **allowable indirect cost**



## 2 CFR 200.425 Audit services

- Pass-through entities may also charge for the cost of **agreed-upon procedures** to monitor subrecipients exempt from the Single Audit Act as long as such procedures are:
  - Conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS);
  - Paid for and arranged by the pass-through entity; and
  - 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

## 2 CFR 200.426 Bad debts

- Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are **unallowable**

## 2 CFR 200.427 Bonding costs

- Bonding costs arise when
  - The awarding agency requires assurance against financial loss to itself or others by reason of the act or default of the non-Federal entity; or
  - The non-Federal entity requires similar assurance, including: bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds for employees and officials
- Costs of required bonding, pursuant to the terms and conditions of the award, are allowable
- Costs of required bonding in the general conduct of 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

## 2 CFR 200.428 Collections of improper payments

- Costs incurred by a non-Federal entity to recover improper payments are **allowable** as either direct or indirect costs, as appropriate
- Amounts collected may be used by the non-Federal entity in accordance with cash management standards set forth in 2 CFR 200.305 *Payment*

## 2 CFR 200.430 Compensation-personal service

- Includes all compensation paid currently or accrued by the organization during the period of the award. Compensation costs are **allowable** when:
  - Reasonable and necessary
  - Consistent / allocable
  - Adequately documented

## 2 CFR 200.430 Compensation-personal service

- Charges for employee compensation still must be based on records accurately reflecting work performed
- Records must meet the following standards:
  - Supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable and properly allocated;
  - Incorporated into the non-federal entity's official records;
  - Reasonably reflect the total activity for which the employee is compensated;
  - Encompass 100% of activities –those that are federally and state assisted and those that are not;
  - Comply with the established accounting practices and policies of the non-federal entity; and
  - Support the distribution of the employee's salary or wages among specific activities or cost objectives.

## 2 CFR 200.431 Compensation-fringe benefits

- The cost of fringe benefits is allowable provided the benefits are reasonable and required by law, employment agreement or an established policy
- The following criteria must be met for leave benefits (e.g., annual, FMLA, sick, holidays, court, military, administrative, etc.) to be **allowable**:
  - Benefits are provided for under established written leave policies;
  - Costs are equitably allocated to all related activities including federal awards; and
  - Accounting basis (cash or accrual) selected for costing each type is consistently followed:
    - Cash basis is recorded as a cost when used
    - Accrual basis is recorded as a cost when earned

## 2 CFR 200.431 Compensation-fringe benefits

- Costs of pension plans and post-retirement health plans may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies
- Pension plan costs are incurred in accordance with the established policies of the non-Federal entity are **allowable**, provided that:
  - Such policies meet the test of reasonableness.
  - The methods of cost allocation are not discriminatory.
  - For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP
  - The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year.



## 2 CFR 200.431 Compensation-Fringe Benefits

- 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**

## 2 CFR 200.432 Conferences

- Allowable conference costs paid as a sponsor or host of the conference may include rental of facilities, speakers' fees, costs of meals and refreshments, local transportation, and other items incidental to such conferences, unless restricted by the terms and conditions of the award
- As needed, the costs of identifying, but not providing, locally available dependent-care resources are **allowable**
- Conference hosts/sponsors must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary and managed in a manner that minimizes costs to the award

## 2 CFR 200.434 Contributions and Donations

- Costs of contributions and donations, including cash, property, and services, from the non-Federal entity to other entities, are **unallowable**
- The value of services and property donated to the non-Federal entity may not be charged to the Federal award either as a direct or indirect (F&A) cost
  - The value of donated services and property may be used to meet cost sharing or matching requirements (see §200.306 Cost sharing or matching)

## 2 CFR 200.434 Contributions and donations

- Services donated or volunteered to the non-Federal entity may be furnished by professional and technical personnel, consultants, and other skilled and unskilled labor
  - The value of these services may **not** be charged to the award either as a **direct or indirect** cost.
  - The value of donated services may be used to meet cost sharing or matching requirements in accordance with the provisions of 2 CFR 200.306 Cost sharing or matching
- Depreciation on donated assets is permitted as long as the donated property is not counted toward award cost sharing or matching requirements

## 2 CFR 200.436 Depreciation

- Depreciation on buildings or equipment furnished by the government or purchased through federal/state grants are **unallowable** expenses
- Depreciation on buildings or equipment furnished by the non-federal agency is an **allowable indirect cost only**
- The allocation for depreciation must be made in accordance with **Appendices IV through VIII**

## 2 CFR 200.438 Entertainment costs

- Costs of entertainment, including amusement, diversion, and social activities and any associated costs are **unallowable**

## 2 CFR 200.439 Equipment and other capital expenditures

- Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the awarding agency
- Capital expenditures for special purpose equipment are allowable as direct costs, when items with a unit cost of \$5,000 or more have the prior written approval of the awarding agency
- Equipment and other capital expenditures are unallowable as indirect costs

## 2 CFR 200.441 Fines, penalties, damages and other settlements

- Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are **unallowable**
- If these costs are incurred as a result of compliance with specific provisions of the award, or with prior written approval of the awarding agency they are **allowable**



## 2 CFR 200.442 Fundraising and investment management costs

- Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are **unallowable**
- Fund raising costs for the purposes of meeting the program objectives are **allowable** with prior written approval from the awarding agency
- Proposal costs are covered in 2 CFR 200.460 Proposal costs

## 2 CFR 200.442 Fundraising and investment management costs

- 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 participation is allowed
- Costs related to the physical custody and control of monies and securities are **allowable**
- Both allowable and unallowable fund raising and investment activities must be allocated as an appropriate share of indirect costs under the conditions described in 2 CFR 200.413 Direct costs

## 2 CFR 200.445 Goods or services for personal use

- Costs of goods or services for personal use of the non-Federal entity's employees are **unallowable** regardless of whether the cost is reported as taxable income to the employees
- Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances and personal living expenses are only allowable as direct costs regardless of whether reported as taxable income to the employees
  - To be allowable direct costs must be approved in advance by the awarding agency

## 2 CFR 200.446 Idle facilities and idle capacity

- Idle facilities and capacity are **unallowable** except to the extent that they:
  - Are necessary to meet fluctuations in workload
  - Were necessary but, due to unforeseen changes, are no longer necessary (under this exception, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year)
- Prior approval is required

## 2 CFR 200.447 Insurance and indemnification

- Key changes to the allowability of insurance costs mostly apply to nonprofits
- Contributions to a reserve for some self–insurance programs (including worker’s compensation, unemployment compensation and severance pay) are now **allowable** if certain conditions are met
- Insurance refunds, if received, must be credited against such costs in the year the refund is received

## 2 CFR 200.449 Interest

- Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are **unallowable**
- Financing costs (including interest) to acquire, construct, or replace capital assets are **allowable**, subject to prior approval

## 2 CFR 200.450 Lobbying

- Lobbying costs are generally **unallowable**, *with narrow exceptions* for non-profits
- 2 CFR 200 adds more detail to the treatment of lobbying costs

## 2 CFR 200.451 Losses on other awards or contracts

- Any cost excess over income under any other award or contract of any nature is **unallowable**
- Any cost excess over authorized funding levels transferred from any award or contract to another award or contract is **unallowable**



## 2 CFR 200.452 Maintenance and repair cost

- Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment (including 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**
- Reminder: Improvements to building and equipment that add value should be treated as capital expenditures

## 2 CFR 200.453 Materials and supplies costs, including costs of computing devices

- Costs incurred for materials, supplies, and fabricated parts necessary to carry out an award are **allowable**
- Computing devices are defined as machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories for printing, transmitting and receiving, or storing electronic information
- Computing devices costing less than \$5,000 that are essential and allocable, solely dedicated to the performance of an award, may be directly charged to an award

## 2 CFR 200.454 Memberships, subscriptions and professional activity costs

- The cost of membership in civic, business, technical, professional, and similar organizations is **allowable**
- The cost of books, and subscriptions to civic, business, technical, professional, and like organization periodicals is **allowable**
- Costs of membership in any country club or social or dining club or organization are **unallowable**
- Costs of membership in organizations whose primary purpose is lobbying are **unallowable**
  - See also 2 CFR 200.450 Lobbying

## 2 CFR 200.75 and .456 Participant support cost

- Participant support costs are 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
- These costs must now be accepted by agencies as **allowable** costs, but still require prior approval
- These costs must be ***excluded*** when calculating the Modified Total Direct Costs (MTDC) to determine the overall project's F&A costs

## 2 CFR 200.461 Publication and printing costs

- Costs of publication and printing costs (electronic and print media) are **allowable**
- If publication costs are not identifiable with a particular cost objective they should be allocated as indirect costs

## 2 CFR 200.463 Recruiting costs

- The following recruiting costs are allowable:
  - Cost of "help wanted" advertising;
  - Operating costs of an employment office;
  - Costs of operating an educational testing program, and
  - Travel expenses, including food and lodging, of employees while engaged in recruiting personnel

## 2 CFR 200.463 Relocation costs of employees

- Costs incident for a permanent change of duty assignment of an employee (for an indefinite period or for a stated period not less than 12 months)
  - Relocation costs are **allowable**, subject to many limitations
- Limits amount of time for which an award may be charged for costs of an employee's vacant home to a **maximum of six months**
  - Previously unlimited

## 2 CFR 200.465 Rental costs of real property and equipment

- Rental Costs including “sale and lease back” arrangements and “less than arm’s length” leases are **allowable** provided certain criteria is met
- Rental costs under capital leases are allowable up to the amount that would be allowed had the non-Federal entity purchased the property on the date the lease agreement was executed
  - GAAP must be used to determine whether a lease is a capital lease
- The rental of any property owned by any individuals or entities affiliated with the non-Federal entity for purposes such as home office workspace is **unallowable**



## 2 CFR 200.472 Training and education

- The costs of training and education provided for employee development is now allowable for nonprofits



## 2 CFR 200.474 Travel costs

- Travel costs may be charged on an actual cost basis, on a per diem basis, or a combination of the two
- Method(s) used for charging travel costs must be in accordance with an entity's written travel reimbursement policy
- To charge employee travel costs (including lodging, meals and incidentals), documentation must justify that:
  - Participation of the individual is necessary to the award; and
  - Costs are reasonable and consistent with the entity's established travel policy



# Thank You!

For further information contact  
[OMB.GATA@Illinois.gov](mailto:OMB.GATA@Illinois.gov)