

Cost Principles - Federal & State Grants

Basic Considerations

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Introduction

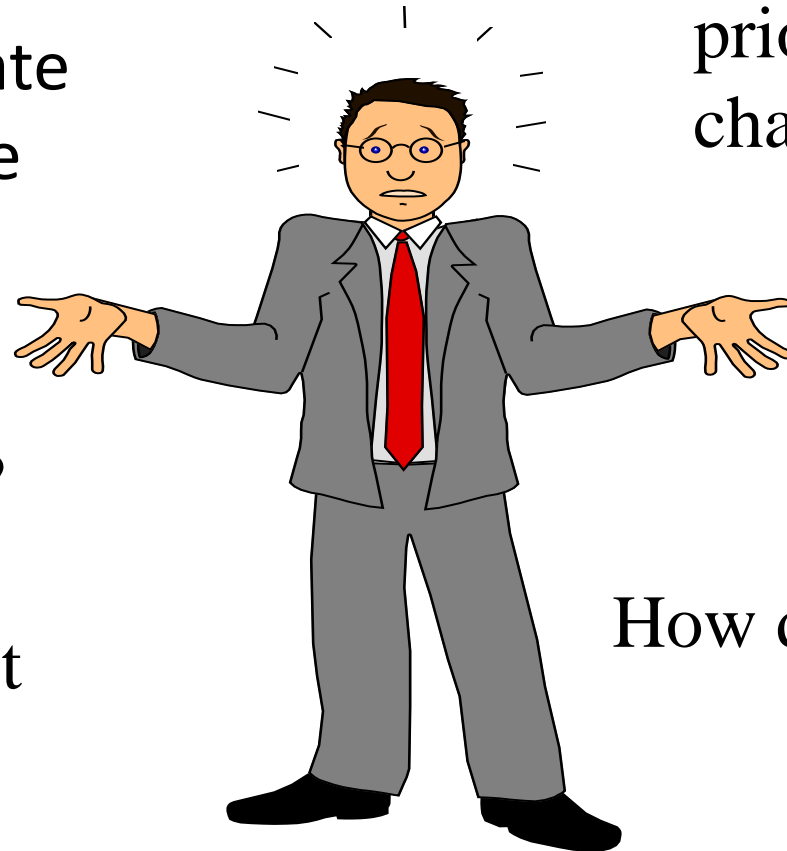
- General Provisions 2 CFR 200.400-.401
- Basic Considerations 2 CFR 200.402-.411
- Direct & Indirect (F&A) costs 2 CFR 200.412-.415

Why are Cost Principles Important?

What are the Federal and State requirements governing the funding received?

What are Reasonable Costs?

When do these cost principles apply?



When do I need prior approval to charge costs?

What are the fundamental premises?

How does this impact my organization?

2 CFR 200.400 Policy Guide

The application of these cost principles is based on the fundamental premises that non-federal entities:

- Are responsible for the efficient and effective administration of the State, Federal and Federal pass-through award through the application of sound management practices
- Assume responsibility for administering State and Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the award
- May not earn or keep any profit (increases in equity) resulting from State or Federal financial assistance, unless explicitly expressly authorized by the terms and conditions of the Federal award

2 CFR 200.400 Policy Guide

The application of these cost principles is based on the fundamental premises that:

- Where wide variations exist in the treatment of a given cost item by the non-federal entity, the reasonableness and equity of such treatments should be fully considered.
- In reviewing, negotiating and approving indirect cost proposals, the cognizant agency should generally assure that the non-federal entity is applying these cost accounting principles on a consistent basis during their review and negotiation of indirect cost proposals.

2 CFR 200.400 Policy Guide

This language sets the tone for revised cost principles and emphasizes the implementation of a framework to better mitigate the risk of waste, fraud, abuse and mismanagement



2 CFR 200.401 Application

- These principles must be used to determine the allowable costs work performed by the non-federal entity under State, Federal and Federal pass-through awards
- These principles must be used by the non-federal entity as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price

2 CFR 200.401 Application

The principles do not apply to:

- Arrangements under which state or federal financing is in the form of loans, scholarships, fellowships, traineeships, or other fixed amounts based on such items as education allowance or published tuition rates and fees
- Fixed amount awards
 - Subpart A — Acronyms and Definitions, § 200.45 Fixed amount awards
 - 2 CFR 200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts

Basic Considerations –

2 CFR 200.402 Composition of costs

- Total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits
$$(\text{Direct} + \text{Indirect}) - \text{Credits} = \underline{\text{Total Cost}}$$
- Direct Costs - Identified specifically with a particular final cost objective (e.g., specified award, service or direct activity)
- Indirect Costs - Incurred for common or joint objectives and cannot be readily identified with a particular final cost objective

2 CFR 200.403 Factors affecting Allowability of Costs

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

- Be necessary and reasonable for the performance of the award
- Allocable to the award under cost principles
- Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items
- Be consistent with policies and procedures that apply uniformly to both state and federally-financed and other organizational activities

2 CFR 200.403 Factors affecting allowability of costs

- Be accorded consistent treatment
 - A cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the award as an indirect cost
- Be determined in accordance with generally accepted accounting principles (GAAP), except for State and local governments, as otherwise provided for in this part
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period
- Be adequately documented

2 CFR 200.306 Cost sharing or matching

Any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when the contributions meet all of the following criteria:

- Are verifiable from the non-Federal entity's records;
- Are not included as contributions for any **other state or federal award**;
- Are necessary and reasonable for accomplishment of project or program objectives;
- Are allowable under Subpart E—Cost Principles of this part;

2 CFR 200.306 Cost sharing or matching (cont.)

Any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when the contributions meet all of the following criteria:

- Are not paid by federal or state government under another award, except where the statute authorizing a program specifically provides that funds made available for such program can be applied to matching or cost sharing requirements of other programs;
- Are provided for in the approved budget when required by the awarding agency; and
- Conform to other provisions of this part, as applicable.

Cost Sharing or Matching – Unrecovered Indirect Costs

- Unrecovered indirect costs, including indirect costs on cost sharing or matching, may be included as cost sharing or matching if there is prior approval of the federal awarding agency
- Unrecovered indirect cost is the difference between the amount charged to the award and the amount which could have been charged to the award under the non-Federal entity's approved negotiated indirect cost rate

2 CFR 200.404 Reasonable Costs

In determining reasonableness of a given cost, consider:

- Is it recognized as **ordinary and necessary** for the operation of the organization or the proper and efficient performance of the award?
- Does it constitutes **sound business practice** (e.g., arms length bargaining) and conform to the restraints and requirements of federal and state laws and regulations, and the award terms and conditions?
- Is **prudence** exercised regarding responsibilities to the organization, its members, employees, clients, the public, and the federal government?
- Does it **not significantly deviate** from the organization's **established practices**?
- Market prices for comparable goods or services for the geographic area

2 CFR 200.405 Allocable costs

- A cost is allocable to a particular award or other cost objective if the goods or services are charged or assigned in accordance with relative benefits received
- This standard is met if the cost:
 - Is incurred specifically for the award
 - Benefits both the award and other work of the non-federal entity and can be proportionately distributed using reasonable methods
 - Is necessary to the overall operation of the non-federal entity and is assigned in part to the award following cost principles

2 CFR 200.405 Allocable costs (cont.)

- All activities which benefit from the non-federal entity's indirect (F&A) cost, including unallowable activities and donated services by a non-federal entity or third party will receive an appropriate allocation of indirect costs
- Any cost allocable to a particular grant may not be charged to other awards to overcome fund deficiencies, to avoid restrictions imposed by state or federal statutes, regulations, or terms and conditions of the awards, or for other reasons
 - Allocable costs cannot be shifted from one award to another to overcome deficiencies in the award, unless allowed by state or federal statute

2 CFR 200.405 (d) Direct Allocation Principles

- Direct cost allocation principles distributes costs benefiting more than one program on a reasonable and proportional basis
- The basis of the methodology is known as the Cost Driver
- Examples of Cost Drivers include:
 - Number of Full Time Equivalent (FTE) employees
 - Number of transactions processed
 - Square footage occupied
 - Salaries and wages of units supervised

Allocable Costs Summary

To be allocable, costs must:

- Align with benefits received;
- Be treated consistently with other costs incurred for the same purpose in like circumstances;
- Be incurred specifically for the award, or benefit both the award and other work; and
- Be reasonably distributed in proportion to the benefits received, or
- Be necessary to the overall operation of the organization and a direct relationship to any particular cost objective cannot be shown

2 CFR 200.406 Applicable credits

- Applicable credits - receipts or expenditure reductions that offset or reduce expense items allocable to the award as direct or indirect (F&A) costs
 - Examples: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges
 - To the extent the accrued credits or credits received by the non-federal entity relate to allowable costs, they must be applied to the award either as a cost reduction or cash refund, as appropriate

2 CFR 200.406 Applicable credits (cont.)

- In some instances, the amounts received from the State and Federal government to finance activities or service operations of the non-federal entity should be treated as applicable credits
- The concept of netting such credits (including amounts used to meet cost sharing or matching requirements) should be recognized in determining rates or amounts to be charged to the award

2 CFR 200.407 Prior written approval

Under any federal, federal pass-through or state award, the reasonableness and allocability of certain items of costs may be difficult to determine

- To avoid disallowance or dispute based on unreasonableness or nonallocability, the non-federal entity may seek prior written approval of the cognizant agency for indirect costs or the state and/or federal awarding agency in advance of the incurrence of special or unusual costs
- Prior written approval should include the timeframe or scope of the agreement and must include the name and title of the individual from the granting agency

2 CFR 200.407 Prior written approval – (cont.)

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);

2 CFR 200.407 Prior written approval - (cont.)

- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;

2 CFR 200.407 Prior written approval - (cont.)

- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs; and
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

2 CFR 200.408 Limitation on Cost Allowance

- Award may be subject to statutory requirements that limit the allowability of costs
- These limitation set the ceiling
 - If the limitation is more restrictive than the amount allowable under cost principles, the additional amount (the unrecoverable amount) cannot be charged to the award or to another award

GATA Requirements – Allowance Limitations

- GATA exception process must be used by the state awarding agency to document the allowance limitation at the award or program level
 - Provide the statutory limitation citation for the grant program
 - REMINDER: State Statute does not supersede a federal statute for a federal pass-through program
- When an exception is approved, state awarding agency must record the limitation in the CSFA, NOFO, NOSA, and the Uniform Grant Agreement (UGA)

Supplanting Versus Supplementing

- Supplementing – to “build upon” or “add to”
- Supplanting – to “replace” or “take the place of”
- Existing funds for a project may not be displaced by federal funds and reallocated to other non-federal entity expenses
- Conversely, federal agencies encourage supplementing – adding federal funds to what is available in state, local, or agency funds
 - Example: ISP Squad Cars

2 CFR 200.410 Collection of Unallowable Costs

- Payments for costs determined to be unallowable by the awarding agency, cognizant agency for indirect costs, or pass-through entity, either as direct or indirect costs, must be refunded (including interest)
- The state or federal agency that determined the costs are unallowable will provide collection instructions unless state or federal statute or regulation directs otherwise

2 CFR 200.411 Adjustment of negotiated indirect cost rates (containing unallowable costs)

- Negotiated indirect (F&A) cost rates based on a proposal later found to have included unallowable costs must be appropriately readjusted by the cognizant agency
 - These adjustments or refunds are designed to correct the proposal used to establish the rate and do not constitute a reopening of the rate negotiation
 - The adjustments or refunds will be made regardless of the type of rate negotiated

2 CFR 200.412 Classification of costs

- There is no universal rule for classifying costs as either direct or indirect (F&A) under every accounting system
 - Cost may be direct with respect to a specific service or function, but indirect with respect to federal award or other final cost objective
- To avoid possible double-charging, it is essential that each item of cost incurred for the same purpose be treated consistently (as either direct or indirect (F&A) costs) in like circumstances

2 CFR 200.413 Direct costs

- Direct costs are costs that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization)
- Costs identified specifically with awards are direct costs of the awards and should be assigned directly to the award
- Costs identified specifically with other final cost objectives of the organization are direct costs of *those* cost objectives
 - Cost should not be assigned to other awards, directly or indirectly, if they align with another specific, final cost objective

Examples of Direct Costs

- Salaries and benefits of employees providing services directly to clients under the grant
- Space – square footage used by direct staff or used in providing services for the grant
- Equipment used in providing services for the grant
- Communications – used by direct staff

2 CFR 200.413 Direct costs – Administrative costs as direct costs

- Administrative costs can be direct when they are directly tied to a cost objective:
 - Office supplies, postage, duplication cost
 - Rent, utilities
 - Administrative support (e.g., clerical)
 - Property insurance
 - General and facility costs that can be directly tied to a cost objective, and meets “reasonable and necessary” test of carrying out a program

2 CFR 200.414 Indirect costs

- Indirect costs are costs incurred for common or joint objectives and cannot be readily identified with a particular final cost objective
- After direct costs have been determined and assigned, indirect costs are allocated to benefiting cost objectives
- A cost may not be allocated as an indirect cost if other costs incurred for the same purpose, in like circumstances, have been assigned as direct cost
 - If you assign an administrative cost as direct, the proportionate share allocated as direct administrative must be excluded from the indirect portion

2 CFR 200.414 Indirect Costs - F & A

- Indirect Costs can be classified within two broad categories: “Facilities” and “Administration”
- “Facilities” includes:
 - Depreciation and use allowances on buildings, equipment and capital improvements
 - Interest on debt associated with certain buildings, equipment and capital improvements, and
 - Operations and maintenance expenses incurred for the administration, operation, maintenance, preservation, and protection of the organization’s physical plant

Examples of Indirect Costs – F & A

Facilities generally include operations and maintenance expenses including:

- Janitorial and utility services
- Repairs and upkeep of buildings, furniture and equipment
- Care of grounds
- Maintenance and operation of buildings and other facilities
- Security
- Property, liability and other insurance relating to property
- Space and capital leasing
- Facility planning and management
- Central receiving

Examples Indirect Costs – F & A (cont.)

- “Administration” includes
 - General administration and expenses incurred for the overall executive and administrative offices of the organization, and
 - Other expenses of a general nature which do not relate solely to any major function of the organization such as:
 - Director’s office
 - Office of finance
 - Business services
 - Budget and planning
 - Personnel
 - General counsel
 - Management information systems
 - All other types of expenditures not listed specifically under one of the subcategories of “Facilities”

2 CFR 200.415 Required Certifications

- To assure that expenditures and reports are proper and in accordance with the terms and conditions of the award, a required certification signed by an official authorized to legally bind the non-Federal entity is needed for:
 - Approved and revised project budgets
 - Annual and final fiscal reports
 - Vouchers requesting payment under the agreements
 - Indirect cost rate proposals
 - Unallowable cost exclusion
 - Lobbying
- All GATA uniform templates utilize the required certifications

Questions and Answers – GATU is Accessible

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