Conquering Complex Cost Allowability Issues

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Presented by:
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Conquering Complex Cost Allowability Issues

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Materials/Disclaimer

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Subpart E. Cost Principles – General Provisions

§ 200.400 Policy Guide

The non-Federal entity:

- Is responsible for efficient & effective administration
- Is responsible for complying with agreements, objectives, and terms and conditions
- Is responsible for its form of organization and management techniques
- Has operations consistent with cost principles
- Applies accounting on a consistent basis
- NEW: May not earn or keep profit unless explicitly authorized

45 CFR 75.400
Subpart E. Cost Principles – General Provisions

§ 200.401 Application
These principles must be used in determining the allowable costs of work performed by the non-Federal entity under federal awards. 45 CFR 75.401

§ 200.402 Composition of costs
The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits. 45 CFR 75.402

Subpart E. Cost Principles – General Provisions

§ 200.403 Factors affecting allowability of costs
- Be necessary and reasonable
- Conform to limitations
- Be consistent with other organization activities
- Be treated consistently
- Be determined in accordance with generally accepted accounting principles, as appropriate
- Not be included as cost or match in any other federally funded program (current or prior)
- Be adequately documented

45 CFR 75.403
Subpart E. Cost Principles – General Provisions

§ 200.404 Reasonable Costs

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.

Guidelines for determining reasonable cost:

a) Whether the cost is ordinary and necessary for operation of the organization or the proper and efficient performance of the award

b) The restraints imposed by such factors as: sound business practices, arms length bargaining, federal state and other laws and regulations, and terms and conditions of the Federal award

c) Market prices for comparable goods or services for the geographic area

d) Whether the individuals concerned acted with prudence in the circumstances

e) Significant deviations from the established practices and policies regarding the incurrence of costs

45 CFR 75.404

Subpart E. Cost Principles – General Provisions

§ 200.405 Allocable Costs

(a) A cost is allocable to a particular Federal award or cost objective, if the goods or services involved are chargeable or assignable to that Federal award in accordance with the relative benefits received

(1) Is incurred specifically for the award;

(2) Benefits both the award and other work and can be distributed in proportions that may be approximated using reasonable methods and

(3) Is necessary to the overall operation of the organization and is assignable in part to the Federal award in accordance with the principles in this subpart

45 CFR 75.405
Subpart E. Cost Principles – General Provisions

§ 200.405 Allocable Costs (cont.)

(b) All activities which benefit from the non-Federal entity's indirect cost, including unallowable activities and donated services, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to an Federal award may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.

45 CFR 75.405

Subpart E. Cost Principles – General Provisions

§ 200.405 Allocable Costs (cont.)

(d) Direct cost allocation principles

If a cost benefits two or more projects or activities in proportions that can be easily determined, the cost should be allocated to the projects based on the proportional benefit.

If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated on any reasonable documented basis.

45 CFR 75.405
Subpart E. Cost Principles – General Provisions

§ 200.406 Applicable Credits
(a) Must be credited to the award as cost reduction or refund, depending on the credit
- Examples: purchase discounts, rebates, insurance refunds, etc.

NEW § 200.407 Prior Written Approval
Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. **In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of 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

(a) – (y) list of sections in 2 CFR Part 200 requiring prior approval

45 CFR 75.406

45 CFR 75.407
Subpart E. Cost Principles – General Provisions

NEW § 200.410 Collection of unallowable costs
Costs which are determined to be unallowable either as direct or indirect, must be refunded (including interest)

45 CFR 75.410

Subpart E. Cost Principles – General Provisions

§ 200.411 Adjustment of previously negotiated indirect (F&A) cost rates containing unallowable costs
If a negotiated indirect cost rate is determined to contain unallowable costs:

- The Federal government will require repayment including interest (NEW) of the unallowable costs charged to a past period
- For rates that are to be used currently or in the future unallowable costs will be removed and rates adjusted

45 CFR 75.411
Indirect vs. Direct

There are 2 ways to do cost allocation:

**Direct Costing Methods**
- Allocate costs based on relative benefit received
- Charge shared costs to programs based on an activity or non-monetary base

**Indirect Cost Rate**
- Used to allocate indirect costs
- Device for determining in a reasonable manner the proportion of indirect costs each program should bear; a ratio of indirect costs and a direct cost base
Subpart E. Cost Principles – Direct and Indirect

NEW § 200.412 Classification of costs

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system.

It is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost.

45 CFR 75.412

Considerations…Allocate first – Request Second!

• What about grants that disallow some costs or limit the amount of administrative costs you can charge?

• You are required to charge all programs fairly and to follow your plan
  – Therefore, invoice funding sources according to grant requirements, but charge all costs according to your plan
  – Then record other revenue or move expenses to offset unallowed costs
Considerations…

- Include program managers in cost allocation decisions. They must understand how cost allocation works and how their grants will be affected.

Subpart E. Cost Principles – Direct

§ 200.413 Direct Costs

(a) Direct costs are those that can be easily and accurately assigned to a specific award.

45 CFR 75.413
Subpart E. Cost Principles – Direct

§ 200.413 Direct Costs

(c) **NEW** Salaries of administrative and clerical staff should normally be treated as indirect. Direct charge only if all of the following are met:

1. Administrative or clerical services are integral to the project,
2. Individuals involved can be specifically identified with the project,
3. Such costs are explicitly included in the budget or have prior written approval, and
4. The costs are not also recovered as indirect.

45 CFR 75.413

Direct Allocation Plans

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Bases for Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td># of transactions processed</td>
</tr>
<tr>
<td>Facilities lease management</td>
<td># of leases</td>
</tr>
<tr>
<td>Legal services</td>
<td>Direct hours</td>
</tr>
<tr>
<td>Mail</td>
<td># of documents handled</td>
</tr>
<tr>
<td>Office space use and related services</td>
<td>Square feet of space</td>
</tr>
<tr>
<td>(heat, light, janitorial)</td>
<td># of employees</td>
</tr>
<tr>
<td>Payroll services</td>
<td># of transactions processed</td>
</tr>
<tr>
<td>Procurement services</td>
<td># of phones</td>
</tr>
<tr>
<td>Telephones</td>
<td></td>
</tr>
</tbody>
</table>
### Direct Allocation Plans

Identify the costs to be allocated and measures of activity that will fairly allocate the costs

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Bases for Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared vehicle</td>
<td># of miles driven</td>
</tr>
<tr>
<td>Food preparation</td>
<td># of meals served</td>
</tr>
<tr>
<td>Building and maintenance</td>
<td># of square feet</td>
</tr>
</tbody>
</table>

### Cost Allocation Summary

Close counts – you will never get it right

The goal of cost allocation is fairness. Each funding source should bear its fair share of allocated costs

Don’t spend $2 to allocate $1
Indirect Costs

Subpart E. Cost Principles – Indirect

§ 200.414 Indirect Costs
(c) Negotiated rate must be accepted by all Federal agencies
(d) Pass-through entities are subject to the requirements in § 200.331
(e) Appendix IV Cost allocation plans for nonprofits; Appendix V & VI Cost allocation plans for units of government

45 CFR 75.414
Subpart E. Cost Principles – Indirect

§ 200.414 Indirect Costs (cont.)

(f) **NEW** Any non-Federal entity that has never negotiated an IDCR may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely

45 CFR 75.414

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How is a 10% rate different

- A 10% rate is a flat rate charged without regard to actual indirect expenses
- A standard indirect rate is based on actual expenses
- No approval required to obtain a 10% rate
- An entity can lose or potentially make money on a 10% rate
- You do not have to prove costs
- Must be consistently used once elected until the entity chooses to negotiate for a rate
Subpart E. Cost Principles – Indirect

§ 200.414 Indirect Costs (cont.)

(g) NEW Any non-Federal entity that has a current federally negotiated indirect cost rate may apply for a one-time extension of the rate in that agreement for a period of up to 4 years

• Must be approved by a cost negotiator
• If approved, may not request a rate review until the extension ends
• At end of extension, must apply for a new rate
• Subsequent one-time extensions (up to 4 years) are permitted if approved

45 CFR 75.414

Indirect Cost Rates

Negotiation and Approval of Rates

• Apply to the appropriate cognizant agency for indirect costs
  – The cognizant agency is usually the Federal agency from which an entity receives the largest amount of Federal funds
• Indirect cost rate proposal
  – Based on most recent audited financial statements adjusted for anticipated changes
  – Details of the indirect cost pool
  – Base
  – Calculation of the requested rate
### Exercise – Indirect Cost Pool

<table>
<thead>
<tr>
<th>Item</th>
<th>In the indirect cost pool</th>
<th>Not in the indirect cost pool</th>
<th>Need more information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary of the accounts payable clerk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of purchasing a vehicle to be used by Admin staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary of the Weatherization accountant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child care fees that were written off because the parent didn’t pay</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100% of the costs of the office of the Executive Director</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of preparing a proposal for a new grant which the Organization won</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on a program funded by a state grant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative costs in excess of 5% for the HUD program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Worker’s comp claim paid for a former Senior Services program employee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual single audit fee</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Indirect Cost Rates

Bases:
- **Modified Total Direct Costs (MTDC)**
  - Total direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel and subawards up to the first $25,000
  - Excludes equipment, capital expenditures, participant support costs, rental costs and the portion of each subaward in excess of $25,000
  - This is the required base for the 10% de minimis rate
- **Direct salaries and wages**
- **Direct salaries, wages and fringe benefits**

Indirect Cost Rates

General formula:
- Indirect cost pool ÷ Base = ICR

Costs in the indirect cost pool are:
- Allowable, and
- Benefit ALL programs
- NOT in the pool: capital expenditures, losses on awards, unallowable costs, and expenditures that benefit some but not all programs
Indirect Cost Rates

What are the **advantages** of an indirect cost rate agreement?

- Provides for one method to allocate almost all administrative costs
- Potentially can make budgeting easier – direct salaries might be easier to estimate than the number of transactions Finance will perform
- Rate and method are federally approved

Indirect Cost Rates

What are the **disadvantages** of an indirect cost rate agreement?

- Rate and method are federally approved – subject to individual cost negotiator preferences
- May lose some flexibility in how you determine the manner in which programs are charged for administrative costs
- May need to finalize and get approval for the rate every year
- Inconsistencies in charging the rate to nonfederal funding sources
### Indirect Cost Rates

#### Applying an Indirect Cost Rate

**Grant period**
07/01/14 - 06/30/15

**Calendar Year Ended**

<table>
<thead>
<tr>
<th>Direct cost base</th>
<th>12/31/2014</th>
<th>12/31/2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400,000</td>
<td>$500,000</td>
<td>$900,000</td>
<td></td>
</tr>
</tbody>
</table>

**Indirect cost rates**
10.0% 15.0%

**Indirect costs**
$40,000  $75,000  $115,000

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### Head Start Administrative Limits

**Revenue:**

- **Grant revenue**: 800,000
- **In-kind**: 200,000

**Total revenue**: 1,000,000

**Expenses:**

- **Salaries**: 500,000
- **Fringe benefits**: 100,000
- **In-kind**: 200,000
- **Other expenses**: 100,000

**Total expenses before indirect**: 900,000

**Net revenue before allocations**: 100,000

**Share of Indirect Cost Pool**

<table>
<thead>
<tr>
<th>Total Costs</th>
<th>15% admin limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(total Exp + indirect)</td>
<td>(total costs x 15%)</td>
</tr>
</tbody>
</table>

**10% de minimis rate**

<table>
<thead>
<tr>
<th>Total Costs</th>
<th>15% admin limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>90,000</td>
<td>148,500</td>
</tr>
</tbody>
</table>

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### HUD HOME Administrative Limit

**Revenue:**

- Grant revenue: $800,000

**Expenses:**

- Salaries: $500,000
- Fringe benefits: $100,000
- Other expenses: $100,000

Total expenses before indirect: $700,000
Net revenue before allocations: $100,000

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**Share of Indirect Cost Pool**

<table>
<thead>
<tr>
<th>Total Costs</th>
<th>5% admin limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(total Exp + indirect)</td>
<td>(total costs x 5%)</td>
</tr>
<tr>
<td>10% de minimis rate</td>
<td>38,500</td>
</tr>
</tbody>
</table>

### Subrecipient – Indirect Cost Rates

- PTEs are responsible for approving indirect cost rates of subrecipients
- Approvals must be based on the UG cost principles
- The procedures followed in evaluating and approving the subrecipient’s indirect cost proposal should be documented and are subject to review
- Upon request, the Division of Cost Allocation (DCA) will provide technical assistance
### Selected Items of Cost Quiz

<table>
<thead>
<tr>
<th></th>
<th>Allowable</th>
<th>Prior Written Approval</th>
<th>Unallowable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Flowers for a hospitalized employee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Single Audit fees for an organization that expended $600,000 in Federal funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Annual membership dues for the Community Action Partnership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>2% per year use allowance on a fully-depreciated building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Cost of fund raising to purchase books for the Head Start program</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Selected Items of Cost Quiz

<table>
<thead>
<tr>
<th></th>
<th>Allowable</th>
<th>Prior Written Approval</th>
<th>Unallowable</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Hiring a consultant to prepare a proposal for a new federal grant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Alteration of facilities for a specific federal award</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Home office workspace for an employee who lives 50 miles from your office</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Child care for an employee who travels to attend a conference required for his/her position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Cost of maintaining the vacant home of a relocated employee for up to 1 year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Subpart E. Cost Principles – Selected Items of Cost

§ 200.420 Considerations for selected items of cost.

- Cost principles apply to direct and indirect costs
- Failure to mention a particular cost does not imply allowable or unallowable. Its treatment should be based on that of similar items
- When there is a discrepancy between the principles in 2 CFR Part 200 and the provisions of a specific Federal award, the award governs

45 CFR 75.420
Subpart E. Cost Principles – Selected Items of Cost

§200.421 Advertising and Public Relations

• Advertising – magazines, newspapers, radio and television, direct mail, exhibits, electronic transmittals
• Allowable advertising:
  • Recruitment of personnel
  • Procurement of goods and services
  • Disposal of scrap or surplus material
  • Program outreach necessary for the award

45 CFR 75.421

Subpart E. Cost Principles – Selected Items of Cost

§200.421 Advertising and Public Relations (cont.)

• Public relations – community relations maintaining the image of the entity, promoting understanding by the community
• Allowable public relations:
  • Specifically required by the award
  • Communicating accomplishments of the award
  • Conducting general liaison such as funding opportunities

45 CFR 75.421
Subpart E. Cost Principles – Selected Items of Cost

§200.421 Advertising and Public Relations (cont.)

• Unallowable:
• Meetings and conventions, including displays, meeting rooms, salaries
• Promotional items and memorabilia
• Advertising and public relations designed solely to promote the entity

45 CFR 75.421

Subpart E. Cost Principles – Selected Items of Cost

§200.425 Audit services

• Audits in accordance with Single Audit Act are allowable
• (NEW) Single Audit costs are unallowable if the entity doesn’t meet the Single Audit threshold of $750,000
• Pass-through entity may charge an award for the cost of agreed-upon procedures to monitor subrecipients who are exempt from Single Audit Act
  – Limited in scope to activities allowed or unallowed, allowable costs, eligibility and reporting

45 CFR 75.425
§ 200.430 Compensation – personal services

(a) Compensation includes all remuneration paid currently or accrued and may not be limited to salaries and wages. Allowable if:

1. Reasonable for the services rendered
2. Adheres to entity’s written policies
3. Is supported by documentation based on these principles

45 CFR 75.430

(b) Must be reasonable – consistent with that paid for similar work, or comparable to that paid for similar work in the community

(d) Allowable compensation for certain employees is subject to a ceiling in accordance with statute

(f) Incentive pay for cost reduction, efficient performance, suggestion awards, etc. allowable if an agreement was in place before the work was performed

45 CFR 75.430
Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services (cont.)

(i) NEW Standards for Documentation of Personnel Services

(1) Records accurately reflect work performed

(i) Supported by a system of internal controls that assures charges are accurate, allowable and properly allocated

(ii) Part of official records of the entity

(iii) Reflect total activity

(iv) Include Federal and non-Federal activities

(v) Comply with accounting policies

(vii) Support distribution to two or more activities or cost objectives

45 CFR 75.430

Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services

(i) NEW Standards for Documentation of Personnel Services

(1) Records accurately reflect work performed (cont.)

(viii) Budget estimates alone cannot be used as support for charges but may be used for interim accounting purposes

(A) Must be reasonable approximations

(B) Significant changes must be entered in a timely manner

(C) Internal control system includes review of after-the-fact charges and adjustments made so the final amount charged is accurate, allowable and properly allocated

45 CFR 75.430
Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services

(i) NEW Standards for Documentation of Personnel Services (cont.)

(2) If records meet these standards, no additional documentation required

(3) Must comply with Dept. of Labor requirements for non-exempt

(4) Salaries and wages of employees used for in-kind must meet same requirements

(6) Cognizant agencies encouraged to approve alternative methods based on outcomes

45 CFR 75.430

Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services

(i) NEW Standards for Documentation of Personnel Services (cont.)

(7) Approved blended funding – may use a performance-based measure. Must be approved by all funding sources

– Examples of performance-based measures: child or client counts

(8) Entities who cannot meet these standards may be required by the Federal government to maintain personnel activity reports (PARs)

45 CFR 75.430
§ 200.430 Compensation – personal services (cont.)

“While many non-Federal entities may still find that existing procedures in place such as personal activity reports and similar documentation are the best method for them to meet the internal control requirements, this final guidance does not specifically require them.

The focus in this final guidance on overall internal controls mitigates the risk that a non-Federal entity or their auditor will focus solely on prescribed procedures such as reports, certifications, or certification time periods which alone may be ineffective in assuring full accountability.”

Source: Comments to the Regulations

§ 200.431 Compensation – fringe benefits

(a) Allowable if reasonable and required by law or entity policy

(b) (3) Leave accounting methods:
   (i) Cash basis – recognize when taken and paid
       – Payments for unused leave when an employee terminates are allowable in the year of payment
   (ii) Accrual basis – allowable costs are the lesser of the amount accrued or the amount funded

45 CFR 75.431
Subpart E. Cost Principles – Selected Items of Cost

§ 200.431 Compensation – fringe benefits (cont.)

(f) Automobiles
   Personal use of organization vehicles:
   – Unallowable as charges to Federal grants even if reported on a W-2

45 CFR 75.431

Subpart E. Cost Principles – Selected Items of Cost

§ 200.431 Compensation – fringe benefits (cont.)

(i) Severance Pay – allowable if required:
   a. By law;
   b. Employer-employee agreement;
   c. Established policy that constitutes an implied agreement; or
   d. Circumstances of the particular employment.
NEW § 200.432 Conferences

Definition: meeting, retreat, seminar, symposium, workshop or event to disseminate technical information beyond the non-Federal entity

Allowable costs (appropriate, reasonable and necessary) paid by the host:

- Facility
- Speaker fees
- Meals and refreshments
- Local transportation
- Cost of identifying but not providing dependent care resources

45 CFR 75.432

NEW § 200.433 Contingency provisions

(b) May be budgeted for foreseeable events (construction cost, IT systems)

(c) Payments to contingency reserves are unallowable (cannot draw funds unless you have incurred an actual expense for an event you have budgeted)

45 CFR 75.433
§ 200.435 Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements

In general, allowability of legal fees in defense of criminal, civil or administrative proceedings depends on the result:
- Fees are allowable:
  - With a result of a favorable outcome
  - If approved in a settlement with the federal government
  - Condition of the award

Otherwise unallowable, including appealing a federal agency decision

45 CFR 75.435

§ 200.437 Employee health and welfare costs

(a) Costs in accordance with documented policies for improvement of working conditions, employer-employee relations, health and performance are allowable
- NEW Costs for improvement of morale specifically excluded

45 CFR 75.437
Subpart E. Cost Principles – Selected Items of Cost

§ 200.439 Equipment and other capital expenditures

(b) Costs of equipment, buildings and land are allowable with prior written approval

Note: Because these regulations supersede other guidance, DHHS’ requirement for prior approval for equipment purchases of $25,000 or more will no longer apply.

45 CFR 75.439

Subpart E. Cost Principles – Selected Items of Cost

§ 200.442 Fund raising and investment management costs

(a) Costs of fund raising including financial campaigns, solicitation of gifts, etc., are unallowable

NEW Fund raising costs for the purposes of meeting federal program objectives are allowable with prior written approval

45 CFR 75.442
Subpart E. Cost Principles – Selected Items of Cost

§ 200.447 Insurance and indemnification

(a) Costs of insurance required or approved and maintained pursuant to the Federal award are allowable

(c) Actual losses which could have been covered by permissible insurance are unallowable

45 CFR 75.447

Subpart E. Cost Principles – Selected Items of Cost

§ 200.449 Interest

(a) 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 certain conditions
• Some programs require prior approval for charging interest to grants

45 CFR 75.449
§ 200.452 Maintenance and repair costs

Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment which neither add to the permanent value of the property nor appreciably prolong its intended life are allowable.

45 CFR 75.452

§ 200.453 Materials and supplies costs, including computing devices

(a) Costs for materials and supplies necessary to carry out an award are allowable

(c) NEW Charging computing devices as direct costs is allowable for devices that are essential and allocable, but not solely dedicated to the performance of the award

45 CFR 75.453
Subpart E. Cost Principles – Selected Items of Cost

NEW § 200.460 Proposal costs

Proposal costs are the costs of preparing bids, proposals, or applications on potential Federal and non-Federal awards or projects.

Costs incurred in the current year of both successful and unsuccessful proposals normally should be treated as indirect (F&A) costs and allocated currently to all activities.

No proposal costs of past accounting periods will be allocable to the current period.

45 CFR 75.460

Subpart E. Cost Principles – Selected Items of Cost

§ 200.465 Rental costs of real property and equipment

(a) Rental costs are allowable to the extent that rates are reasonable. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

45 CFR 75.465
§ 200.465 Rental costs of real property and equipment (cont.)

(b) Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property.

(c) Rental costs under "less-than-arm's-length" leases are allowable only up to the amount that would be allowed had title to the property vested in the organization.

A less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.

45 CFR 75.465

§ 200.465 Rental costs of real property and equipment (cont.)

Such leases include, but are not limited to those between:

1. Divisions of the non-Federal entity;
2. The non-Federal entity under common control through common officers, directors, or members; and
3. The non-Federal entity and a director, trustee, officer, or key employee of the non-Federal entity or an immediate family member, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

45 CFR 75.465
Family members include one party with any of the following relationships to another party:

- (i) Spouse, and parents thereof;
- (ii) Children, and spouses thereof;
- (iii) Parents, and spouses thereof;
- (iv) Siblings, and spouses thereof;
- (v) Grandparents and grandchildren, and spouses thereof;
- (vi) NEW Domestic partners and parents thereof, including domestic partners of any individual in 2 through 5 of this definition; and
- (vii) NEW Any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship

45 CFR 75.465

§ 200.465 Rental costs of real property and equipment (cont.)

(5) Rental costs under capital leases are allowable only 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.

(6) NEW 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.

45 CFR 75.465
Subpart E. Cost Principles – Selected Items of Cost

§ 200.471 Termination costs

(a) Costs of items usable in other work not allowable

(d) Rental costs under unexpired leases are generally allowable if:
   (1) The amount is reasonable
   (2) Effort is made to terminate, assign or otherwise reduce the cost

(e) Settlement expense including accounting, legal, clerical or similar costs are generally allowable

45 CFR 75.471

Subpart E. Cost Principles – Selected Items of Cost

§ 200.474 Travel costs

(a) Costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied consistently

(b) NEW Documentation must justify:
   (1) Participation is necessary for the federal award; and
   (2) Costs are reasonable and consistent with entity policy

45 CFR 75.474
Subpart E. Cost Principles – Selected Items of Cost

§ 200.474 Travel costs (cont.)

(c) (1) **NEW** Temporary dependent care costs resulting from travel to conferences are allowable provided that:

(i) Costs are a direct result of travel;

(ii) Costs are consistent with the travel policy; and

(iii) Costs are temporary during the travel period

45 CFR 75.474

Subpart E. Cost Principles – Selected Items of Cost

§ 200.474 Travel costs (cont.)

(e) Commercial airfare:

(1) Costs in excess of the basic least expensive unrestricted class are unallowable except when they would:

(i) Require circuitous routing;

(ii) Require travel during unreasonable hours;

(iii) Excessively prolong travel;

(iv) Result in additional costs; or

(v) Not be adequate for traveler’s medical needs (medical needs must be documented)

45 CFR 75.474
General

Basics

✓ Reasonable and necessary
✓ In accordance with an approved application and component plans
✓ Disclosed sources in your application
✓ No different than costs charged to the Federal share

45 CFR Part 75.2: Definitions

“Cost sharing or matching means the portion of project costs not paid by Federal funds (unless otherwise authorized by Federal statute).”

“This may include the value of allowable third party in-kind contributions, as well as expenditures by the recipient. See also Sec. 75.306.”
45 CFR Part 75.2: Definitions

“Third-party in-kind contributions means the value of non-cash contributions (i.e., property or services) that:

“(1) Benefit a federally assisted project or program; and
“(2) Are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award.”

45 CFR Part 75.306(b)(1-4): Cost Sharing/Matching

**YES** Verifiable from the entity’s records

**YES** Not included as contributions to any other Federal award

**YES** Necessary and reasonable for accomplishment of project/program objectives

**YES** Allowable under Subpart E (cost principles)
**45 CFR Part 75.306(b)(5-7): Cost Sharing/Matching**

**YES** Not paid by Federal Government under another Federal award, unless authorized by Federal statute (*2 exceptions*)

**YES** Provided for in the approved component plan/budget

**YES** Confirm to other provisions of this part, as applicable

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**Exception**

Federal funds from other programs are allowable match for an ACF program. These determinations are based on specific requirements of ACF programs and language in applicable statutes. Specifically:

1. Bureau of Indian Affairs – Indian Self-Determination and Education Assistance Act (P.L. 93-638, as amended). The Act authorizes the use of funds for matching purposes as long as the identified use is specifically related to the approved grant activities.

2. Development Act of 1974, P.L. 93-383 may count as allowable match for a Head Start program for renovation of a building. The determination is dependent on whether or not the Head Start grant is included as part of the “Community Development Program,” as required by the Housing and Community Development Act.
Unrecovered Indirect Costs

✓ Unrecovered indirect costs may be included as part of cost sharing or matching only with prior approval

✓ Unrecovered indirect cost means the difference between the amount charged to the Federal award and the amount which could have been charged to the Federal award under the approved negotiated indirect cost rate

(45 CFR Part 75.306(c) Cost Sharing or Matching)

3rd Party Furnished Volunteers

✓ Counted if service is an integral & necessary part of an approved project or program

✓ Rates consistent with similar work in the recipient’s organization

✓ Not found in the recipient’s organization, rates shall be consistent with those paid for similar work in the labor market

✓ Fringe benefits consistent with those paid that are reasonable, allowable and allocable may be included in the valuation

(45 CFR Part 75.306(e) & (f) Cost Sharing or Matching)
Space = Appraisals

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

(45 CFR Part 75.306(j)(3) Cost Sharing or Matching)

**NOTE:**
“...independent appraiser (e.g., certified real property appraiser or GSA representative)”

NOT a real estate agent

Fund raising

- 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 Federal program objectives are allowable with prior written approval

(45 CFR Part 75.442 Fundraising/Investment Management Costs)
45 CFR Part 1302.94 – Volunteers

“(a) A program must ensure regular volunteers have been screened for appropriate communicable diseases in accordance with state, tribal or local laws. In the absence of state, tribal or local law, the Health Services Advisory Committee must be consulted regarding the need for such screenings.

“(b) A program must ensure children are never left alone with volunteers.”

Ask yourself...

Would your agency pay out of Federal funds for those items that you are claiming as non-Federal share?

Would you pay the amount in cash that you are claiming as non-Federal share?
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Human Resource
Technology
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