

# Conquering Complex Cost Allowability Issues



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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

# 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

# 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

# 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



# 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

# 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

# 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.



# Subpart E. Cost Principles – General Provisions

## **NEW** § 200.407 Prior Written Approval

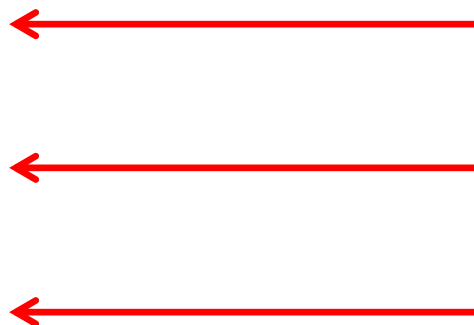
Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. **In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval** of the cost. The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

# 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)



# 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

# Selected Items of Cost Quiz

	Allowable	Prior Written Approval	Unallowable
1. Flowers for a hospitalized employee			
2. Single Audit fees for an organization that expended \$600,000 in Federal funds			
3. Annual membership dues for the Community Action Partnership			
4. 2% per year use allowance on a fully-depreciated building			
5. Cost of fund raising to purchase books for the Head Start program			

## § 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**



## §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

# 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

## §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

## § 200.425 Audit services

- Audits in accordance with Single Audit Act are allowable
- Single Audit costs are unallowable if the entity doesn't meet the Single Audit threshold of \$750,000 **NEW**
- 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

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

### **NEW** § 200.428 Collections of improper payments

Costs to recover improper payments are **allowable** as direct or indirect, as appropriate.

Amounts collected must be used in accordance with cash management standards (used before Federal funds).

# Selected Items of Cost Quiz

	Allowable	Prior Written Approval	Unallowable
6. Hiring a consultant to prepare a proposal for a new federal grant			
7. Cost of food at a conference for conference sponsor			
8. Legal fees to appeal a final Federal agency management decision disallowing costs			
9. Child care for an employee who travels to attend a conference required for his/her position			
10. Cost of employee clothing to be worn at work			

## § 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

# Subpart E. Cost Principles – Selected Items of Cost

## § 200.430 Compensation – personal services (cont.)

- (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



# 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

# 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

(v.) Comply with accounting policies

(vii) Support distribution to two or more activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

# 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

# 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)

# Subpart E. Cost Principles – Selected Items of Cost

## § 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.”

# Subpart E. Cost Principles – Selected Items of Cost

## § 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



## § 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.



# Subpart E. Cost Principles – Selected Items of Cost

## **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

# Selected Items of Cost Quiz

	Allowable	Prior Written Approval	Unallowable
11. Alteration of facilities for a specific federal award			
12. Home office workspace for an employee who lives 50 miles from your office			
13. Cost of maintaining the vacant home of a relocated employee for up to one year			
14. Sound proofing a conference room			
15. Employee gifts at staff celebration			

## **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)

# Subpart E. Cost Principles – Selected Items of Cost

## § 200.434 Contributions and donations

- (a) Unallowable from the non-Federal entity to entities
- (d) Services donated (in-kind) must be supported by the same methods used to support the allocability of employees



# Subpart E. Cost Principles – Selected Items of Cost

## § 200.434 Contributions and donations (cont.)

- (e) Value of donated services must be considered in determining the indirect cost rate if:
  - (1) Aggregate value is material; and
  - (2) Services are supported by a significant amount of indirect cost
  
- (g) (2) If donations are treated as indirect, indirect cost rates will separate the value of the donations so reimbursement will not be made (that is, donated indirect is not part of the indirect cost pool)

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

### **§ 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

## § 200.436 Depreciation

- (d)(4) **NEW** No depreciation allowed on assets that have outlived their useful lives
- No use allowance
- (d)(5) **NEW** If use allowance was taken on an asset not fully depreciated, you may convert to depreciation but total of both depreciation and use allowance may not exceed cost of the asset

# Subpart E. Cost Principles – Selected Items of Cost

## § 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





## § 200.438 Entertainment Costs

Costs of entertainment are unallowable, except:

When entertainment has a programmatic purpose and is authorized either in the approved budget or with prior written approval

## § 200.439 Equipment and other capital expenditures

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



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



## § 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

# Selected Items of Cost Quiz

	<b>Allowable</b>	<b>Prior Written Approval</b>	<b>Unallowable</b>
16. Cost for one hotel night when the reservation was not cancelled timely.			
17. Stop payment fees			
18. \$10,000 Cyber insurance deductible			
19. Property taxes			
20. Communication with a member of the state legislature to influence pending legislation			

# 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*

## § 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.



**CLOSED  
FOR  
MAINTENANCE**

# Subpart E. Cost Principles – Selected Items of Cost

## § 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





# 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.

# 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

# Subpart E. Cost Principles – Selected Items of Cost

## § 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

## § 200.465(4) Rental costs of real property and equipment (cont.)

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

## § 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

# 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

# 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





## § 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

# 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)

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