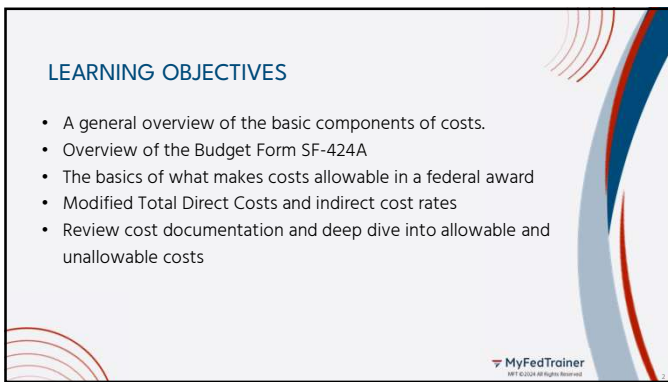




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COST BASICS

The cost principles in 2 CFR Part 200 Subpart E have two main purposes:

1. Give uniform approach for cost determination.
2. Provide mechanism for federal awards to bear their “fair share” of indirect costs.



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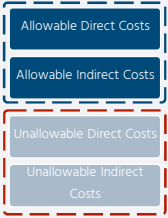
COST BASICS CONTINUED

There are two main types of allowable costs for federal awards:

1. Allowable direct costs
2. Allowable indirect costs

BUT you must also track unallowable costs to:


- Ensure they aren't charged to the federal award, in error
- Fairly allocate indirect costs to both the federal award and other non-federal programs



5

DIRECT COST DEFINITION

§ 200.413: Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a federal award or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.



6

COMPOSITION OF DIRECT COSTS

01

Direct costs can be **allowable**, such as goods and services necessary to support a federally sponsored program.

02


Direct costs can be **unallowable**, such as supporting a non-federally sponsored program.

03

Direct costs can also be **specifically prohibited** by the federal cost principles, like alcoholic beverages.

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EXAMPLES OF DIRECT COSTS

The primary types of direct costs include:

- Personnel
- Materials and supplies
- Equipment
- Training costs
- Travel costs

When personnel are directly charged to the award, their costs are generally direct costs too.

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COMPOSITION OF INDIRECT COSTS

01


Costs which are incurred for joint or common objectives that can't be readily identified with a particular final cost "objective" such as a project or program.

02

Indirect costs can be allowable, like the accounting department or unallowable like wine at the Board of Directors meeting dinner.

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EXAMPLES OF INDIRECT COSTS

Examples of indirect costs listed in the 2 CFR Part 200 cost principles:

- General administrative expenses
- Personnel administration costs
- Director's Office salaries
- Facilities costs - (all or part?)
- Accounting costs

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PART 2: ALLOWABILITY



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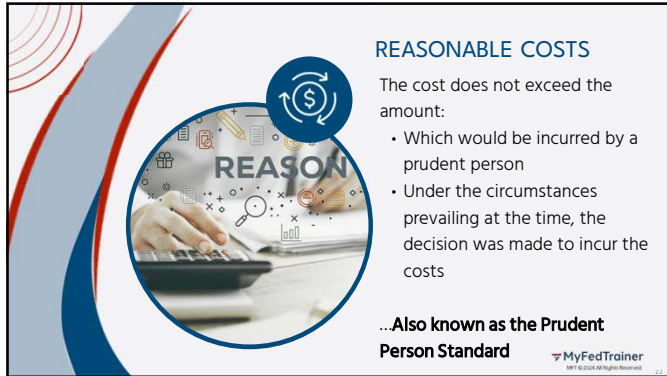
ALLOWABILITY BASICS (§ 200.403-404)

For costs to be allowable, they must be:

1. Reasonable, necessary, and allocable
2. Not limited or excluded by federal cost principles or the federal award
3. Treated consistently, with policies applied uniformly to both federally financed and other activities
4. Adequately documented
5. Within approved budget period
6. Not also included in cost sharing

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REASONABLE COSTS

The cost does not exceed the amount:

- Which would be incurred by a prudent person
- Under the circumstances prevailing at the time, the decision was made to incur the costs

...Also known as the Prudent Person Standard

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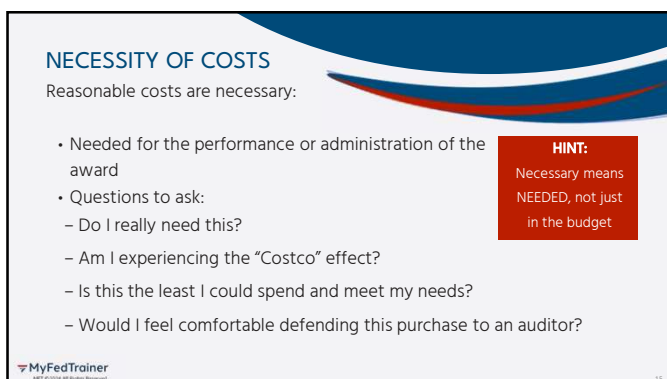
WHAT'S REASONABLE?

Other "reasonable" considerations include determining if costs:

- Are consistent with generally accepted sound business practices and "arms-length" bargaining
- Approximate market prices for comparable goods or services
- Do not represent a significant deviation from standard policies

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NECESSITY OF COSTS

Reasonable costs are necessary:

- Needed for the performance or administration of the award
- Questions to ask:
 - Do I really need this?
 - Am I experiencing the "Costco" effect?
 - Is this the least I could spend and meet my needs?
 - Would I feel comfortable defending this purchase to an auditor?

HINT:
Necessary means
NEEDED, not just
in the budget

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ALLOCABLE COSTS

- Can be allocated in accordance with the relative benefits received by the project, grant, contract, or other activity
- Costs must be treated consistently with other costs incurred for the same purpose in like circumstances


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LIMITATIONS

For costs to be allowable they can't be limited or excluded by the federal cost principles

- 2 CFR Part 200.420-476 "Selected Items of Cost" lists specific costs with guidelines on allowability
- Also watch for "supplanting"



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SUPPLANTING

- Most government programs can prohibit recipients of federal funds from supplanting (replacing) legally required state, local, tribal, or agency funding with federal funds.
- Existing funds for a project and its activities may not be displaced by federal funds and reallocated for other organizational expenses.
- Federal agencies encourage supplementing—that is, adding or building upon what is available in state, local, tribal, and agency funds - sometimes the distinction can be a little blurred.

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SUPPLEMENTING EXAMPLE

Example: Proposal to legally supplement existing programs with federal funds.

Schools receiving Title I funding are required to use this funding for designated Title I staff, programs, supplies, etc.

These funds cannot be supplanted by funding through the state or other federal grants, as the costs will be disallowed.

Careful record keeping is needed.

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CONSISTENCY

Questions to ask about "consistency"

- Are the policies of the organization uniformly applied to both federally financed and other activities?
- Are costs treated consistently as direct or indirect costs?
- Do you apply policies consistently across the employee class, such as FT or PT?
- Do you have special benefits or exclusions for people working on federal awards?

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ADEQUATE DOCUMENTATION

Examples of adequate source documentation would include receipts that detail:

- **What** were the funds were spent on
- **When** spending occurred
- **When** authorization occurred
- **Who** made the purchase
- **Who** authorized the purchase
- **Where** to charge

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NO COST RECLASSING

Can't allocate costs between federal awards:

- To get around funding deficiencies
- To avoid restrictions placed by terms of award or laws and regulations

Can't create cost sharing from other federal funding



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PART 3: MTDC AND INDIRECT COSTS




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23

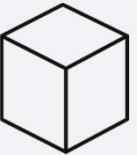
DIRECT AND INDIRECT COSTS

Imagine your costs are represented by two different boxes.

Indirect Costs



Direct Costs



- Direct costs are identified and require approval.
- If costs are identified as indirect, there may be more questions about what they are (because it's not as transparent).
- Best practice: A bigger distribution base means a lower indirect cost rate.


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MODIFIED TOTAL DIRECT COSTS (MTDC) AS A DISTRIBUTION BASE

Imagine your costs are represented by two different boxes:

Indirect Costs



Direct Costs



- MTDC is a portion of the total direct cost base
- MTDC excludes specific types of direct costs from the distribution base
- A larger MTDC distribution base will result in a lower indirect cost rate than only salaries (It's the math :-D)

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MTDC EXCLUSIONS

- Equipment and Capital expenditures
- Patient Care Charges
- Tuition remission
- Scholarships/Fellowships
- Equipment
- Rental Costs
- Participant support costs
- Portion of subawards over \$50,000 for the entire period of performance
- Other items as approved by the Cognizant Agency for Indirect Costs

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MTDC MODIFICATIONS DIRECT COSTS

Allowable Direct Costs

- Direct salaries and fringe benefits
- Direct materials and supplies
- Direct travel costs

Unallowable Direct Costs

Direct Costs Exclusions:

- Capital expenditures
- Equipment
- Participant support costs
- Portion of subawards over \$50,000 (*Sometimes contracts are also limited in the calculation)

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MTDC EXAMPLE BUDGET	
Total Direct Costs (from the program budget):	\$500,000
Salaries and Fringe:	\$250,000
Supplies:	\$50,000
Subawards: (only first \$50K allowed)	\$150,000
Capital Equipment:	\$75,000
Modified Total Direct Cost Calculation:	
\$525,000 - \$100,000 (Subawards) - \$75,000 (Equipment) = \$350,000	
\$350,000 is the MTDC to which the indirect cost rate would be applied	

28

EXAMPLE: INDIRECT COST RATE CALCULATION	
Using Modified Direct Total Costs (MDTC) as a base	
Exclusions {	Calculate the Base
	Total Direct Costs 3,250,000
	Equipment -150,000
	Subaward -1,000,000
	First 50,000 of subaward +50,000
	MDTC Base 2,150,000
	Apply Rate to the Base
	MDTC Base 2,150,000
	Indirect cost rate 15%
	Indirect Costs 322,500

29

HOW ARE INDIRECT COSTS CALCULATED?	
The indirect cost allocation method is typically selected at the time of the grant application.	
Options include the following rates:	
• Federally negotiated indirect rate agreement (NICRA)	
• De minimis rate of 15% of MTDC if there is not a NICRA in effect	
• No indirect cost recovery or a lower rate governed by statute	
For subrecipients without a NICRA, there is an additional option:	
• A negotiated indirect cost rate between the pass-through entity and the subrecipient	
• This is a subrecipient decision; PTE must negotiate	

30




COGNIZANT AGENCY FOR INDIRECT COST RATES

- Federal agency responsible for reviewing, negotiating, and approving cost allocation plans, and indirect cost rates on behalf of ALL federal agencies
- Usually, it's the federal agency with largest \$\$ value of awards
- Can be different than the cognizant agency for audits



31

PTE AND NICRAS

§ 200.332 Requirements for pass-through entities to determine rate.

01

Must accept subrecipient's federally approved NICRA.


**Statutory limits on NICRA still can apply.*

02

If no approved rate exists, the pass-through entity must determine the appropriate rate in collaboration with the subrecipient; choice to negotiate is subrecipient determined


03

Or use the 15% de minimis rate.




32

DE MINIMIS VS. NEGOTIATED RATES




De minimis


- 15% of Modified Total Direct Costs (MTDC)
- No indirect cost proposal required
- Available if you don't currently have a negotiated rate in effect
- Use indefinitely, and you don't have to actualize indirect costs



Negotiated Rate

- Submit a proposal for approval to your cognizant agency – May be subject to "actualization" of costs





33

DE MINIMIS DANGERS


- If you have a provisional rate you can't use the de minimis rate
- The 15% de minimis rate can't be substituted for a NICRA below 15%
- Modified Total Direct Cost (MTDC) is STILL the distribution base)
- NO documentation required




34

4 TYPES OF NEGOTIATED RATES


Negotiated rates start with an estimate of indirect costs and the distribution base costs:




Predetermined Rate
(no adjustment to actual indirect costs needed)



Fixed-Rate with Carry-Forward
(actualized costs adjusted in future period)



Provisional or "Billing" Rate
(actualized costs adjusted in past period)



Final Rate
(final actual rate replaces provisional rate after annual audit)

35

PART 4: COST DOCUMENTATION



36

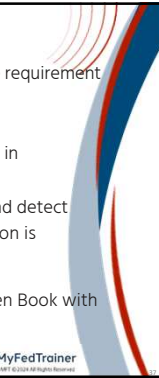
DOCUMENTATION BEST PRACTICES

§ 200.403 Factors affecting allowability of costs includes the requirement that the documentation is adequate, but is that enough?

- Auditors often cite the lack of adequate internal controls in questioning costs
- Implementing control activities that prevent problems and detect noncompliance can reduce the risk that the documentation is inadequate

The Compliance Supplement includes excerpts from the Green Book with illustrations and examples for control activities

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37


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CONTROL ACTIVITIES

Adequate documentation of control activities includes:

- Who did the control activity
- When the control activity, such as review, authorization, or monitoring was done

How are you documenting control activities?

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PROCUREMENT EXAMPLES

- Management creates and requires the use of standard forms and templates for purchase orders, contracts, requests for proposals/bids, cost/price analyses, bid evaluation, etc.
- Supervisors review and approve procurement and contracting decisions for compliance with federal and organizational policies.
- Management reviews applicable award agreements, contracts, budgets, to identify potential covered transactions.
- Standard forms are used to document verification that parties are not suspended or debarred

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CASH MANAGEMENT EXAMPLES

- Written policies/procedures exist outlining processes and activities for requesting advances/reimbursement.
- Subrecipients are monitored for cash management compliance.
- Cash flow statements/forecasts are prepared and reviewed to determine the immediate cash needs of the federal program.
(Advance method)
- Requests for reimbursement are reviewed/authorized prior to submission to ensure amounts have been paid with the organization's funds prior to the reimbursement request.
(Reimbursement)

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FINANCIAL REPORTING EXAMPLES

- Management reviews applicable award agreements or contracts for specific reporting requirements and establishes a reporting calendar for review and approval.
- Management periodically reviews the adherence to the reporting calendar.
- On a monthly basis, the grant supervisor reviews the budget vs. actual report investigating unusual or unexpected variances and documents results of follow-up work performed.

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42



43

COSTS: EMPLOYEES		
Cost	Allowable	Unallowable
Compensation (i.e. Salaries)	<ul style="list-style-type: none">Consistent with wages paid for similar work on the recipient's or subrecipient's other activitiesComparable to what is paid for similar work in the labor market within a specified geographic area <p>Special Conditions for State, Local, and Tribal Government Entities:</p> <ul style="list-style-type: none">In place of/or in addition to types of records described in guidanceMust be approved by the cognizant agency for indirect costIncludes a variety of methods	<p>Red Flags if the following are paid:</p> <ul style="list-style-type: none">Members of the recipient or subrecipient's organizationTrustees, Directors, OfficersOr change in compensation policy resulting in substantial increase if occurred concurrently with federal award increase
Fringe Benefits	<ul style="list-style-type: none">Cost of leave (PTO, vacation, family-related leave, sick, weather, etc.)Health and life insurancePensions and retirement plansUnemployment benefit plansMust be reasonable, required by law, labor agreement, or an established policy	<p>Unallowable severance such as "Golden Parachute" payments</p> <ul style="list-style-type: none">Payment in excess of normal severance payContingent on change in control or ownership <p>Life insurance limits for trustees, officers and other similarly responsible positions</p>

44

COSTS: EMPLOYEES		
Cost	Allowable	Unallowable
Automobiles	<ul style="list-style-type: none">May be allowable as direct cost if necessary and approved by funding agency	<ul style="list-style-type: none">Unallowable for personal use to and from work, even if reported by as taxable incomeIf part of indirect costs or fringe benefits
Housing	<ul style="list-style-type: none">If federal agency approves direct cost as expenditures required for award and approved by agency <p>Relocation costs are permitted if:</p> <ul style="list-style-type: none">Costs related to permanent change of duty assignmentNew or existing employee for period at least 12 monthsUnallowable if less than 12 months	<ul style="list-style-type: none">If expenses are incurred for recipient's or subrecipient's officers either indirect cost or fringe benefitIncludes current and past officers and employees
Other Employee Costs	<p>Employee Health and Welfare:</p> <ul style="list-style-type: none">Must be consistent with documented policiesFor improvement of working conditions, employer-employee relations, employee performanceAllocated across recipients and subrecipients	<p>Personal Use of Goods and Services:</p> <ul style="list-style-type: none">Unallowable cost to federal award even if cost is reported as taxable income to employee.Examples: Travel costs for family members, Personal use of office supplies and shipping or Electronics that are not used by the recipient or subrecipient

45

COSTS: TRAVEL

Cost	Allowable	Source Documentation
Travel	<p>Defined as:</p> <ul style="list-style-type: none">Costs for transportation, lodging, subsistence and related itemsFor employees on travel status for recipients and subrecipients conducting official business <p>Must adhere to specific rules:</p> <ul style="list-style-type: none">Reasonable charges consistent with the recipient's or subrecipient's written travel policyCommercial airfare must be coach or equivalent (with some exceptions) <p>Per Diem:</p> <ul style="list-style-type: none">Can be actual costs, per diem or combination method but...must use chosen method for entire trip, not on selected daysResult must be consistent with charges normally allowed in like circumstances for both Federal and non-Federal activities	<p>Other considerations for travel:</p> <ul style="list-style-type: none">What is paid the day of departure and return?What is paid if some meals are provided?What is paid if the person leaves and returns on the same day? <p>The Uniform Guidance is silent, so rely on organization's travel policy</p> <p>Access more information from GSA's Travel page: https://www.gsa.gov/travel</p>

46

COSTS: FACILITIES AND EQUIPMENT

Cost	Allowable	Unallowable
Equipment	<ul style="list-style-type: none">Equipment = lesser of the capitalization level or \$10,000Equipment purchased with federal funds are defined as:"Special Purpose" equipment is used for research, medical, scientific, or other technical activities"General Purpose" equipment not limited to "Special Purposes"	<ul style="list-style-type: none">Direct costs for "General Purpose" equipmentIndirect costs for "Special Purpose" equipmentGenerally unallowable as indirect costs because would use depreciation or use allowances to recoup costs
Rentals	<ul style="list-style-type: none">Very specific rules for rental and leasing costsRates must be reasonable compared to costs of comparable rentalsBe prepared to demonstrate that rent or lease costs don't exceed the cost "as if" the property was purchased	<ul style="list-style-type: none">Federal agencies often scrutinize to verify "arms-length" transactions
Repairs	<ul style="list-style-type: none">Determine if cost is a "repair" or an "improvement"Incurred for necessary maintenance, repair or upkeep	<ul style="list-style-type: none">Improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life must be treated as capital expenditures
Security	<ul style="list-style-type: none">Necessary and reasonable to protect facilities, personnel and work productsIncludes personnel wages, uniforms, consultants, and related items	

47

COSTS: OTHER/MISCELLANEOUS

Cost	Allowable	Unallowable
Government	<p>Federally recognized Indian Tribal exception:</p> <ul style="list-style-type: none">Portion of salaries and expenses that are directly attributable to managing and operating Federal programs are allowableCan't supplant, only supplement	<ul style="list-style-type: none">Government services normally provided to the general public such as police and judiciaryUnless provided for as a direct costs under program statute or regulationOffice of Governor of State or Chief Executive of political subdivision or federally recognized Indian tribal governmentState Legislature, Tribal Council and other local governmental bodiesAdvisory Councils or Committees (unless specifically authorized)
Public Relations	<ul style="list-style-type: none">Specifically required by the awardCommunicating with public and press regarding activities, accomplishments or award performanceCommunication necessary to keep the public informed on matters of concernSuch as Notices of Awards, and financial matters	<p>Unallowable for meetings, conventions or other events promoting non-award activities of recipients and subrecipients:</p> <ul style="list-style-type: none">Costs of displays: exhibits, conventions, hospitality suites, and related personnelPromotional items:MemorabiliaGiftsModels and souvenirs

48

COSTS: OTHER/MISCELLANEOUS		
Cost	Allowable	Unallowable
Meetings and Conferences	<ul style="list-style-type: none">• If primary purpose = dissemination of technical information (not entertainment)• Includes meals, transportation, rental costs, speakers' fees and related costs	<ul style="list-style-type: none">• Watch for exclusions in award terms and conditions
Alcoholic Beverages	<ul style="list-style-type: none">• Research Purposes	<ul style="list-style-type: none">• Purchase for use of any kind outside of research designation
Lobbying	<ul style="list-style-type: none">• May be allowable if providing technical and factual presentation of information on a topic directly related to the performance of the award in response to documented request.	<ul style="list-style-type: none">• Includes contributions, endorsements, publicity, urging members of general public to write, march, call, and all similar activities• Extensive restrictions and disclosures

49

COSTS: OTHER/MISCELLANEOUS	
Cost	Allowable
Professional Services	<ul style="list-style-type: none">• Not paid to officers or employees• Charges are reasonable for services rendered• Not contingent upon recovering costs from the federal government <p>Questions to confirm relevant conditions to confirm allowability of contracting service:</p> <ul style="list-style-type: none">• Can the service be performed more economically by direct employment?• Are adequate contractual service agreements in place?• Have qualifications of individual and customary fees charged been confirmed?• Why is the service being contracted instead of being completed in house?
Advertising	<p>Conditionally allowable if required for recipients and subrecipients to perform award such as:</p> <ul style="list-style-type: none">• Recruitment of personnel• Procurement of goods and services• Disposal of scrap or surplus material (unless disposal costs are already determined)

50

COSTS: OTHER/MISCELLANEOUS	
Cost	Unallowable
Entertainment	<ul style="list-style-type: none">• Includes amusement, diversion and social activities• Related costs such as tickets, meals, lodging, transportation• Examples: sporting events and social rooms
Fines and Penalties	<p>Defined as costs resulting from violations and alleged violation of, or failure to comply with federal, state, tribal, local or foreign laws and regulations. Unallowable except when:</p> <ul style="list-style-type: none">• Result from complying with specific provisions of an award• Written instructions from awarding agency
Donations	<ul style="list-style-type: none">• Donations by recipient regardless of where donated• Donations to recipient are not reimbursable by federal award• May be able to use towards cost- share under specific conditions

51

SECTION REVIEW

- For costs to be allowable, they must be: reasonable, necessary and allocable.
- Modified total direct cost (MTDC) is a common distribution base for indirect costs, including the de minimis indirect cost rate. There are different methods for allocating indirect costs to the direct cost base.
- A 15% de minimis rate may be available to some organizations if there is no NICRA in place.
- There must be documentation in place to ensure costs adhere to 2 CFR 200.
- There are rules regarding the allowability of costs.

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