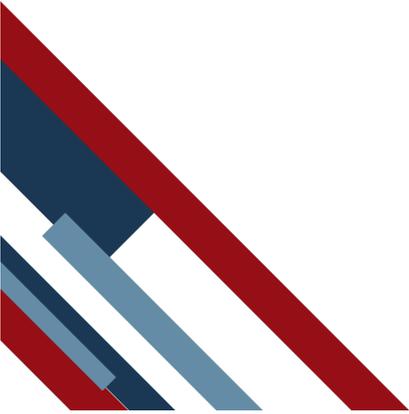




The Cost of Doing Federal Grants

Texas Association of Regional Councils

February 2026



MyFedTrainer

Learning Objectives

- A general overview of the basic components of grant costs
- Deepdive into 2 CFR 200 Subpart E and allowability of costs in federal awards
- Be able to review cost line items and determine allowability
- Understand direct vs. indirect cost rates and how to apply modified total direct costs
- The basics of cost documentation and best practices to minimize risk



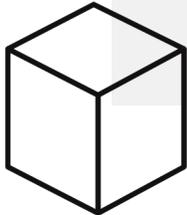
Part 1: Cost Definitions



Direct and Indirect Costs

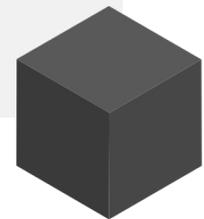
Direct costs are specifically identified with a particular project and require approval.

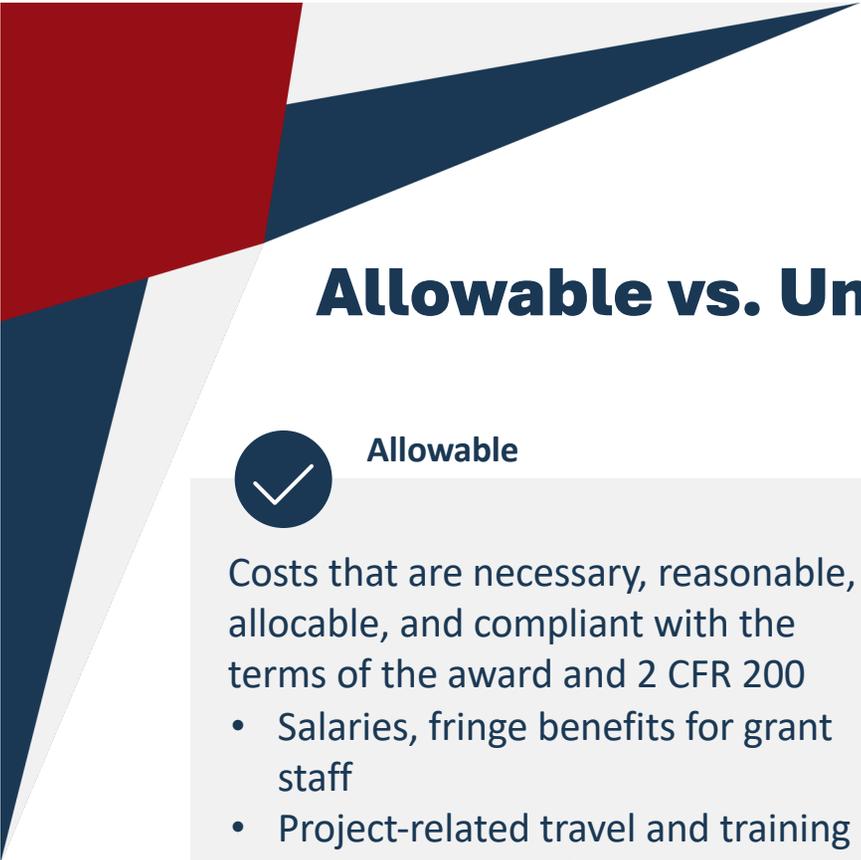
- Salaries and wages of project staff
- Travel for project-related activities



Indirect costs are incurred for common or joint objectives that cannot be specifically identified with a single grant

- Administrative and accounting services
- Office space, utilities





Allowable vs. Unallowable Costs



Allowable

Costs that are necessary, reasonable, allocable, and compliant with the terms of the award and 2 CFR 200

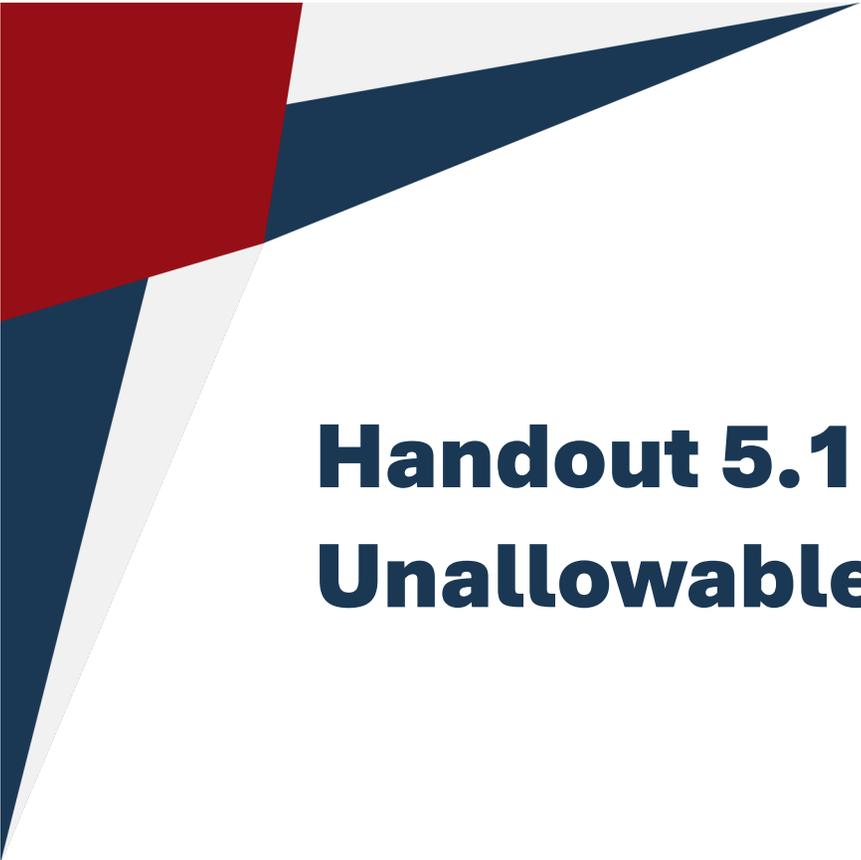
- Salaries, fringe benefits for grant staff
- Project-related travel and training
- Equipment benefiting the award
- Indirect costs, if approved



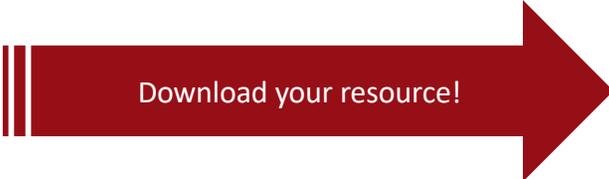
Unallowable

Costs that cannot be charged to the federal award either by regulation, statute, or award terms

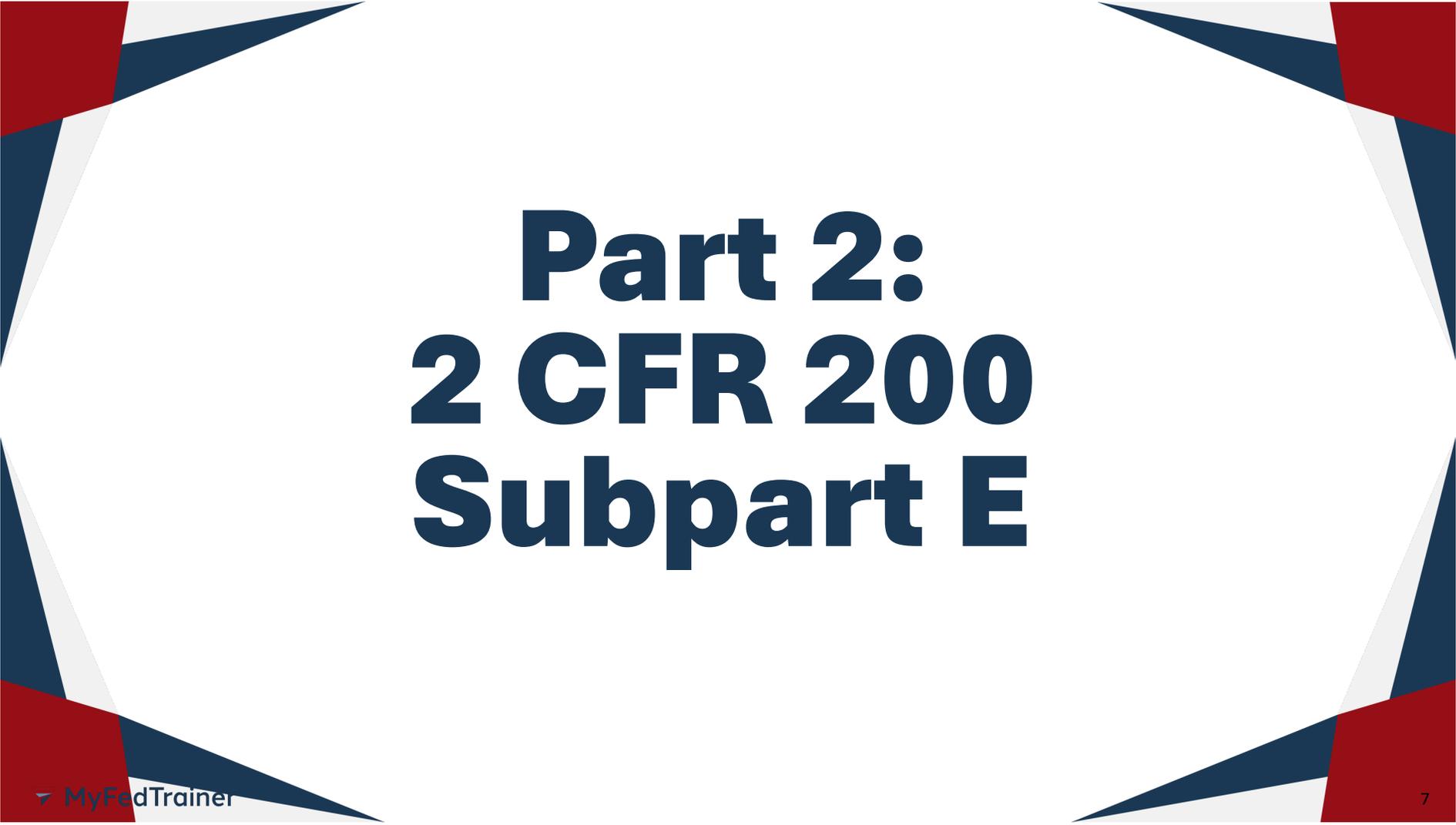
- Alcoholic beverages
- Lobbying or fundraising expenses
- Fines and penalties
- Entertainment costs (unless specifically authorized)



Handout 5.1: Allowable and Unallowable Costs



Download your resource!



Part 2: 2 CFR 200 Subpart E



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.

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:

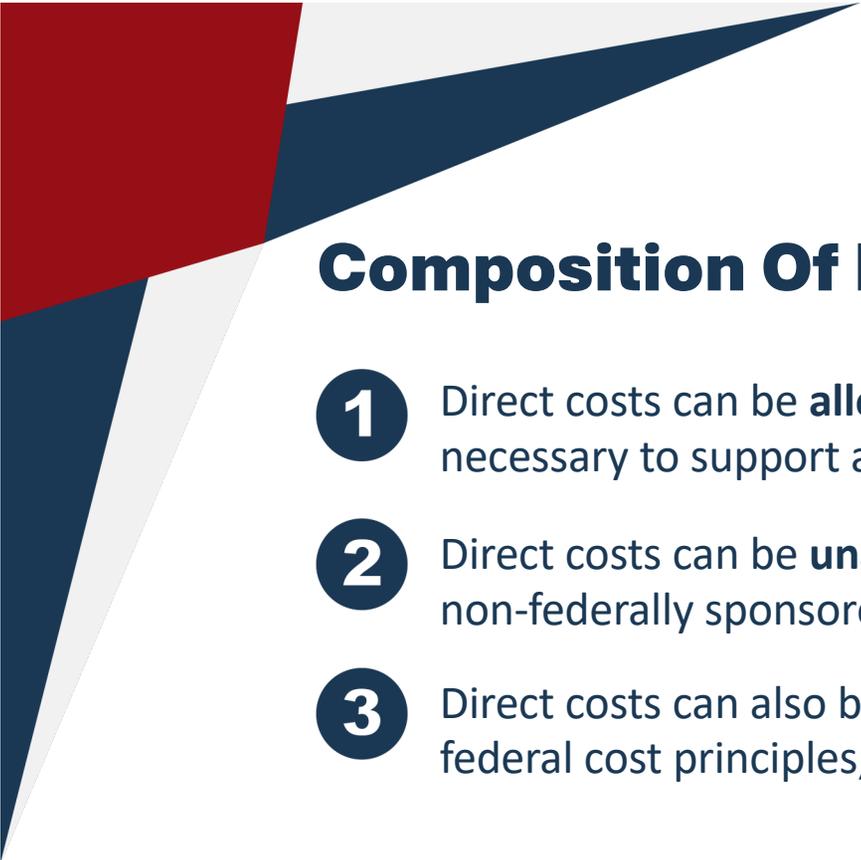
- Ensure they aren't charged to the federal award, in error
- Fairly allocate indirect costs to both the federal award and other non-federal programs



Allowable direct costs
Allowable indirect costs

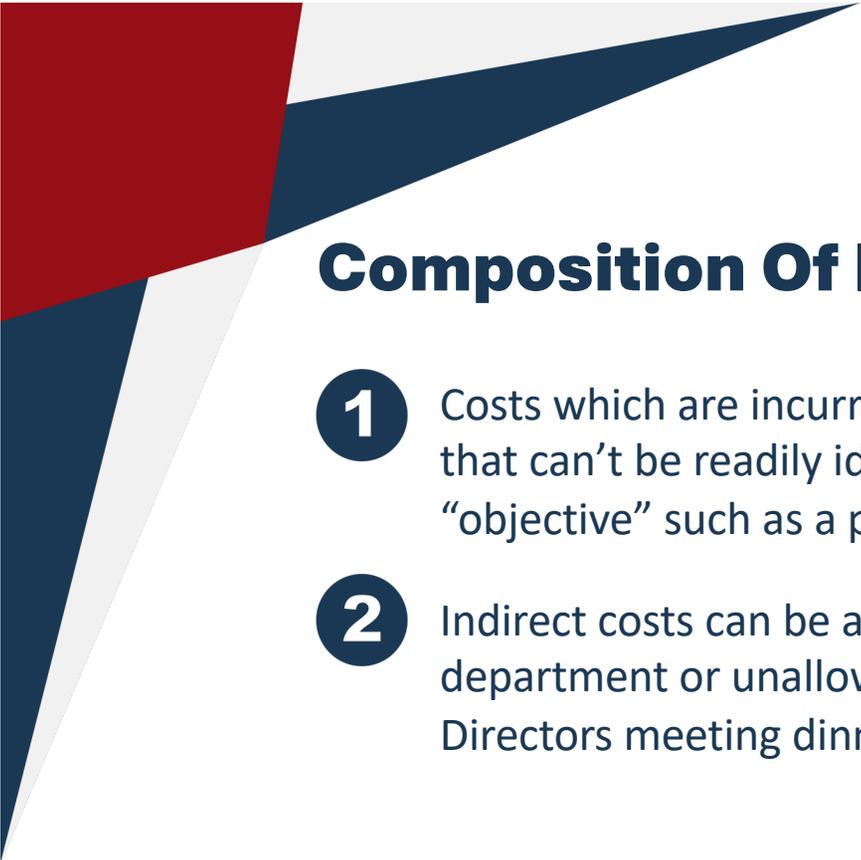


Unallowable direct costs
Unallowable indirect costs



Composition Of Direct Costs

- 1 Direct costs can be **allowable**, such as goods and services necessary to support a federally sponsored program.
- 2 Direct costs can be **unallowable**, such as supporting a non-federally sponsored program.
- 3 Direct costs can also be **specifically prohibited** by the federal cost principles, like alcoholic beverages.



Composition Of Indirect Costs

- 1** 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.
- 2** Indirect costs can be allowable, like the accounting department or unallowable like wine at the Board of Directors meeting dinner.



Four Costs Principles Test

To be charged to a federal grant, a cost must be:

Allowable Permitted under federal statutes and specific award terms.

Allocable The cost benefits the specific award in proportion to the amount charged.

Reasonable A prudent person would consider the cost necessary and not excessive under the circumstances.

Consistently Applied Costs are treated the same way across all funding sources (federal and non-federal).



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.



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

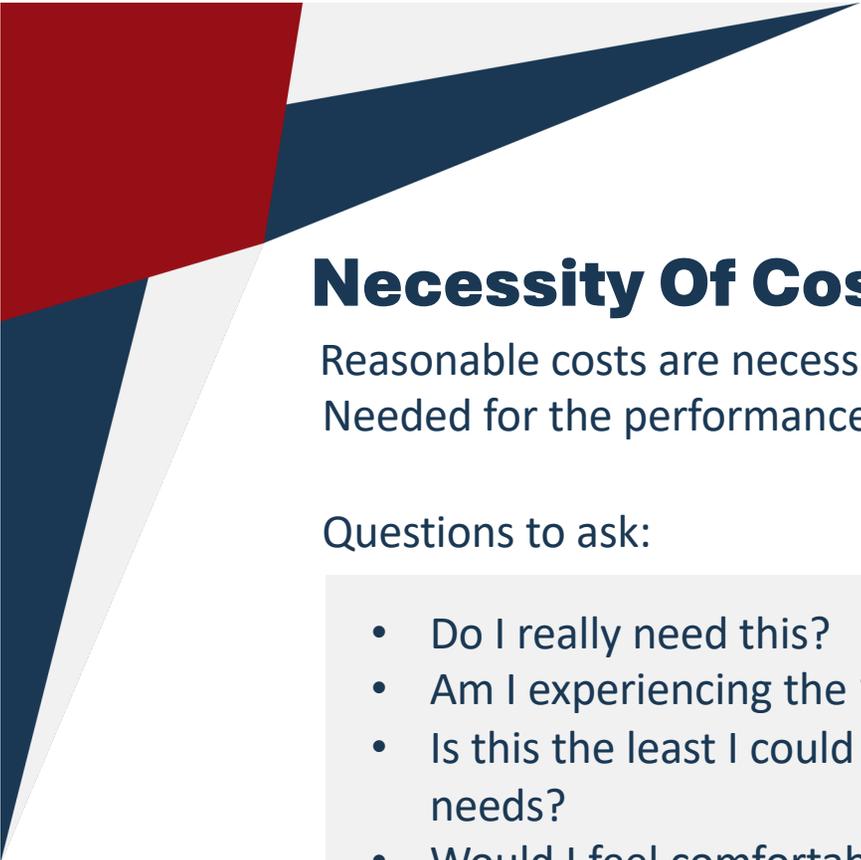
...Also known as the Prudent Person Standard



What's Reasonable?

“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



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

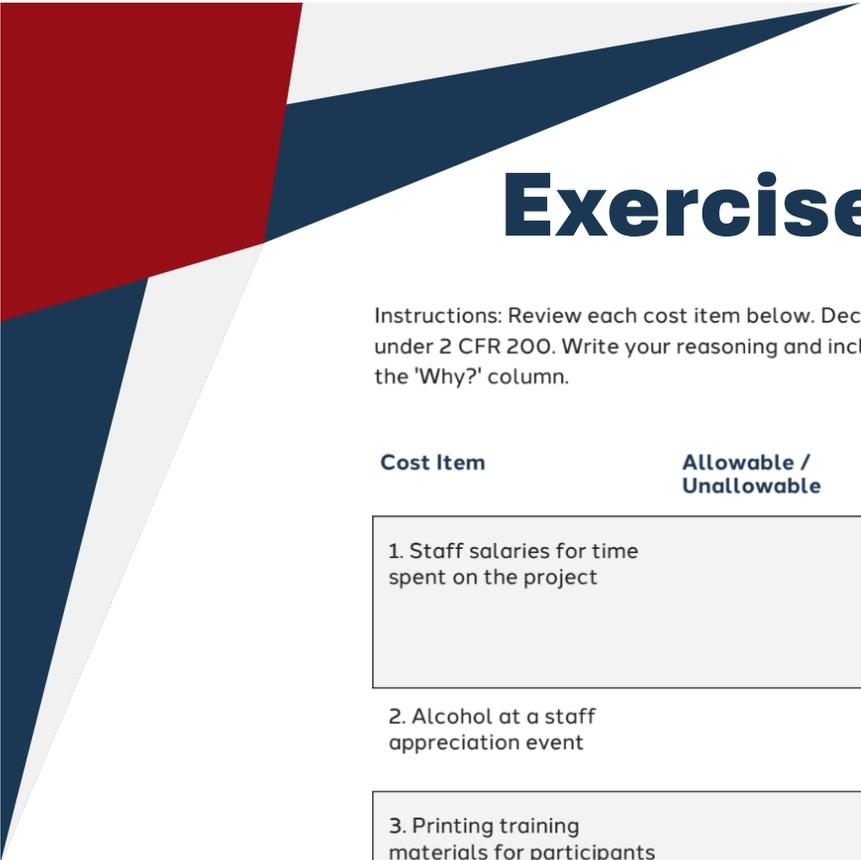
Limitations

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”

<https://www.gpo.gov/fdsys/granule/CFR-2014-title2-vol1/CFR-2014-title2-vol1-sec200-420>

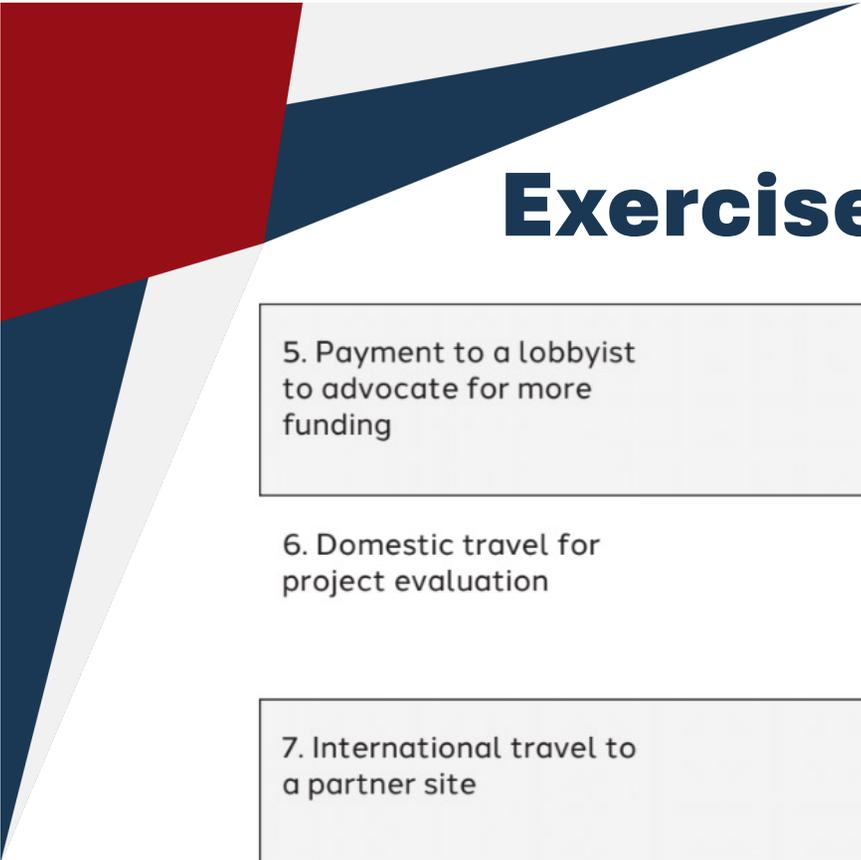
Section 200.420 - Considerations for selected items of cost.	PDF XML More
Section 200.421 - Advertising and public relations.	PDF XML More
Section 200.422 - Advisory councils.	PDF XML More
Section 200.423 - Alcoholic beverages.	PDF XML More
Section 200.424 - Alumni/ae activities.	PDF XML More
Section 200.425 - Audit services.	PDF XML More
Section 200.426 - Bad debts.	PDF XML More
Section 200.427 - Bonding costs.	PDF XML More
Section 200.428 - Collections of improper payments.	PDF XML More
Section 200.429 - Commencement and convocation costs.	PDF XML More
Section 200.430 - Compensation-personal services.	PDF XML More
Section 200.431 - Compensation-fringe benefits.	PDF XML More
Section 200.432 - Conferences.	PDF XML More
Section 200.433 - Contingency provisions.	PDF XML More
Section 200.434 - Contributions and donations.	PDF XML More
Section 200.435 - Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.	PDF XML More
Section 200.436 - Depreciation.	PDF XML More
Section 200.437 - Employee health and welfare costs.	PDF XML More
Section 200.438 - Entertainment costs.	PDF XML More
Section 200.439 - Equipment and other capital expenditures.	PDF XML More
Section 200.440 - Exchange rates.	PDF XML More
Section 200.441 - Fines, penalties, damages and other settlements.	PDF XML More
Section 200.442 - Fund raising and investment management costs.	PDF XML More
Section 200.443 - Gains and losses on disposition of depreciable assets.	PDF XML More
Section 200.444 - General costs of government.	PDF XML More
Section 200.445 - Goods or services for personal use.	PDF XML More
Section 200.446 - Idle facilities and idle capacity.	PDF XML More
Section 200.447 - Insurance and indemnification.	PDF XML More
Section 200.448 - Intellectual property.	PDF XML More



Exercise 5

Instructions: Review each cost item below. Decide whether it is Allowable or Unallowable under 2 CFR 200. Write your reasoning and include the 2 CFR 200 section reference in the 'Why?' column.

Cost Item	Allowable / Unallowable	Why? Include the Citation
1. Staff salaries for time spent on the project		
2. Alcohol at a staff appreciation event		
3. Printing training materials for participants		
4. Purchase of a new laptop for project staff		

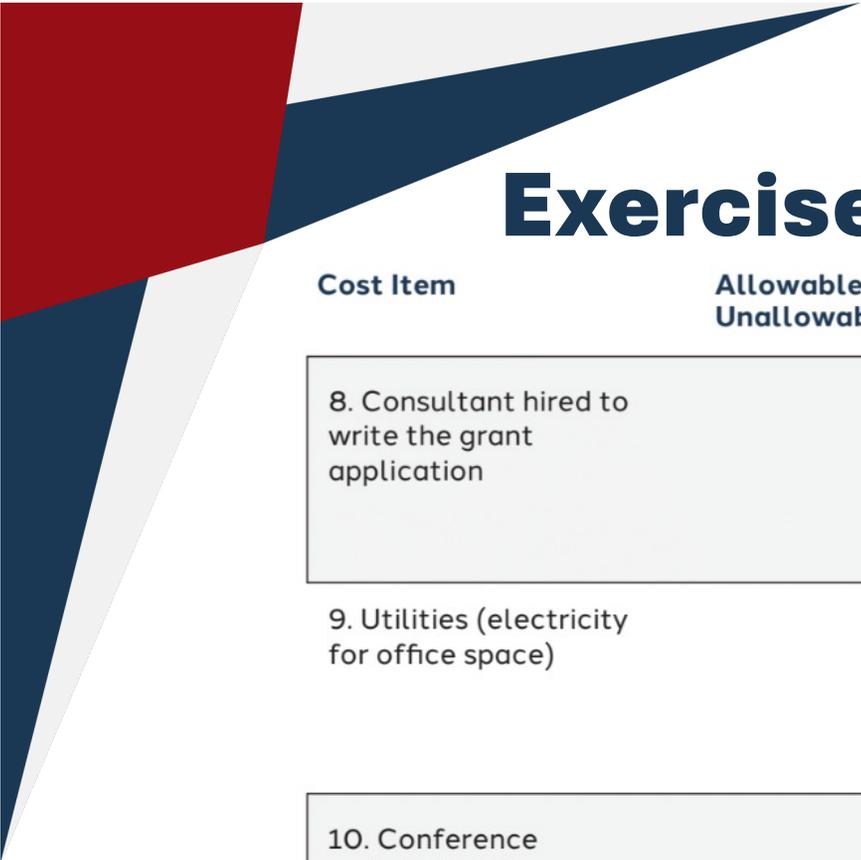


Exercise 5

5. Payment to a lobbyist to advocate for more funding

6. Domestic travel for project evaluation

7. International travel to a partner site



Exercise 5

Cost Item

**Allowable /
Unallowable**

Why? Include the Citation

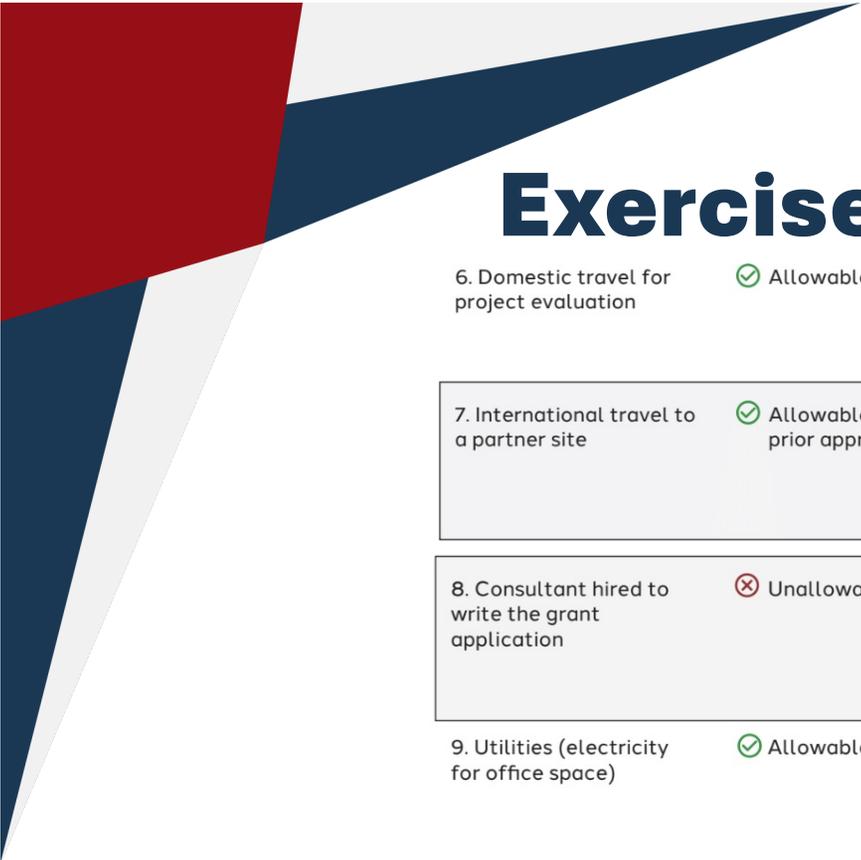
8. Consultant hired to write the grant application

9. Utilities (electricity for office space)

10. Conference registration for professional development

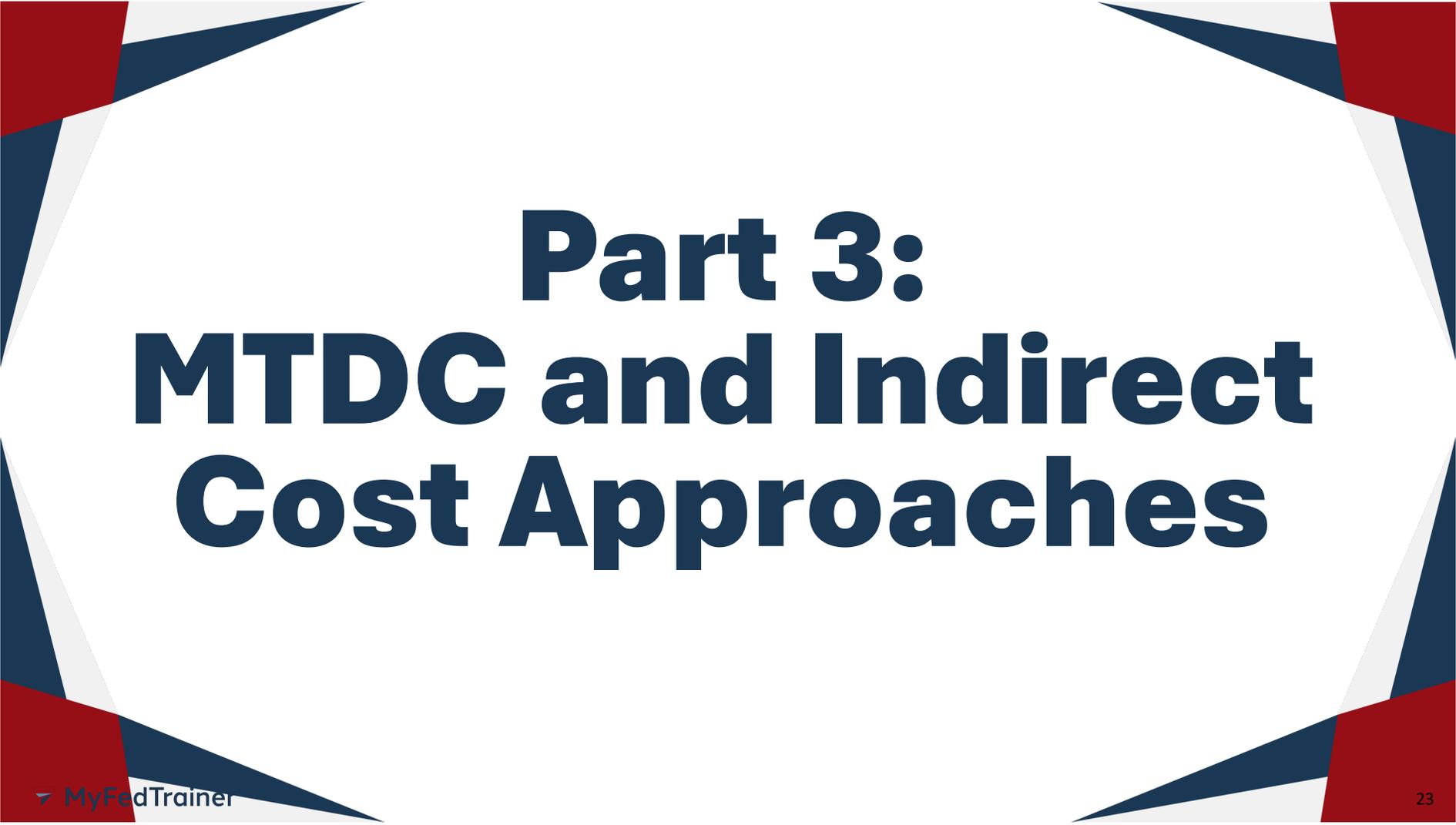
Exercise 5- Answers

Cost Item	Allowable / Unallowable	Why? Include the Citation
1. Staff salaries for time spent on the project	✔ Allowable	You can use grant funds to directly pay staff for the time they actually spend working on the project. The pay must be fair, match what they normally earn, and their time must be tracked accurately (2 CFR §200.430).
2. Alcohol at a staff appreciation event	✘ Unallowable	Alcohol is never an allowable cost under a federal grant—no matter the reason or event. This is an absolute rule in 2 CFR §200.423.
3. Printing training materials for participants	✔ Allowable	It is acceptable to use grant funds to print materials, handouts, or guides that are needed for your project or training participants. (2 CFR §200.453).
4. Purchase of a new laptop for project staff	✔ Allowable with conditions	You can purchase a laptop with grant funds if it's necessary for project work, not for general office use. If it meets equipment threshold, it must be properly tracked. (2 CFR §§200.313, 200.439, 200.453).
5. Payment to a lobbyist to advocate for more funding	✘ Unallowable	Federal funds can't be used to influence laws, budgets, or funding decisions. Paying anyone to lobby for more money or policy changes is not allowed (2 CFR §200.450).

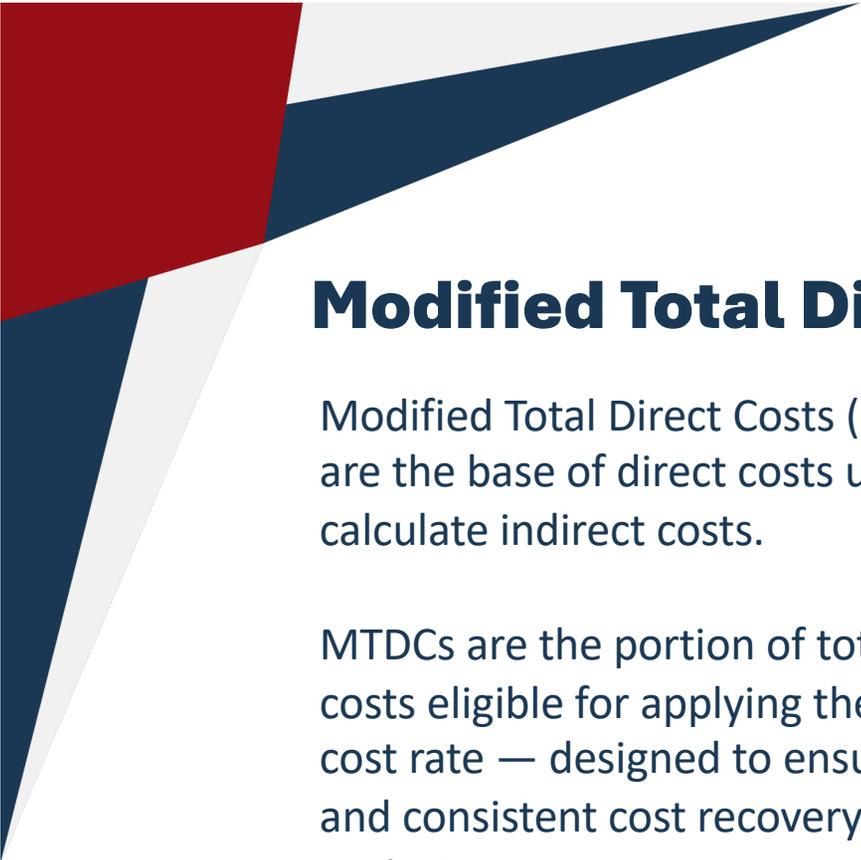


Exercise 5- Answers

6. Domestic travel for project evaluation	✔ Allowable	Travel within the U.S. is allowed if it directly supports your project. It has to follow your organization's travel policy and be reasonable in cost (2 CFR §200.475).
7. International travel to a partner site	✔ Allowable with prior approval	Travel outside the U.S. can be covered if it's necessary for the project, but you must get written approval from your funding agency before spending the money (2 CFR §200.475(a)).
8. Consultant hired to write the grant application	✘ Unallowable	You can't use federal grant funds to pay someone to write a new grant proposal. Those costs are only allowed if they relate to renewing or continuing your current award (2 CFR §200.460).
9. Utilities (electricity for office space)	✔ Allowable	Utility costs like electricity, water, or internet are generally allowed. If they directly support the project (like a dedicated project office), they can be charged directly; otherwise, they're part of your indirect costs (2 CFR §200.452).
10. Conference registration for professional development	✔ Allowable (if project-related)	You can use grant funds for conference fees if the event helps staff learn skills or share information that benefits the project. The costs must be reasonable and tied to the project's purpose (2 CFR §200.432).



Part 3: MTDC and Indirect Cost Approaches



Modified Total Direct Costs

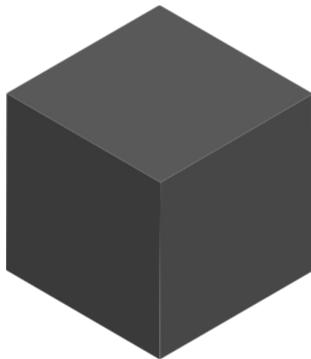
Modified Total Direct Costs (MTDC) are the base of direct costs used to calculate indirect costs.

MTDCs are the portion of total direct costs eligible for applying the indirect cost rate — designed to ensure fair and consistent cost recovery across projects.

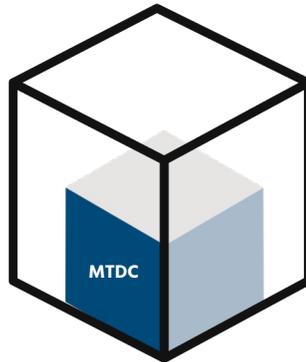
- Salaries and wages
- Fringe benefits
- Materials and supplies
- Services
- Travel
- The first \$50,000 of each subaward or subcontract (this amount can vary)

Modified Total Direct Costs As A Distribution Base

Indirect Costs



Direct Costs

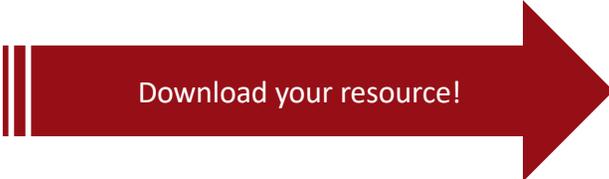


- MTDC is a portion of the total direct cost base
- MTDC excludes specific types of direct costs from the distribution base
- A larger MTDC distribution base will result in a lower indirect cost rate than only salaries (It's the math :-D)





Handout 5.2: Modified Total Direct Cost Deep Dive



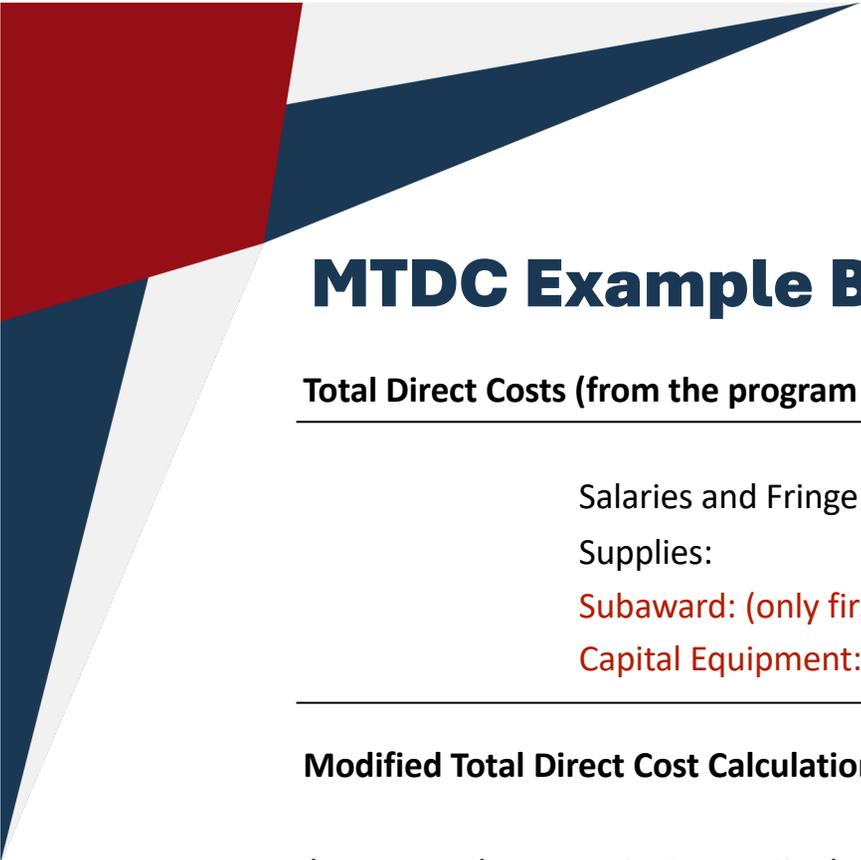
Download your resource!



MTDC Exclusions

MTDCs generally EXCLUDE:

- Capital expenditures
- Equipment (\geq \$10,000 per unit)
- Participant support costs
- Portion of subawards over \$50,000 (Sometimes contracts are also excluded) – Regardless of the period covered
- Other items determined by the awarding agency



MTDC Example Budget

Total Direct Costs (from the program budget):	\$525,000
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Salaries and Fringe:	\$250,000
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Supplies:	\$50,000
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Subaward: (only first \$50K allowed)	\$100,000
--------------------------------------	-----------

Capital Equipment:	\$75,000
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Modified Total Direct Cost Calculation:

\$525,000 - \$100,000 (Subaward) - \$75,000 (Equipment) = \$350,000

\$350,000 is the MTDC to which the indirect cost rate would be applied



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



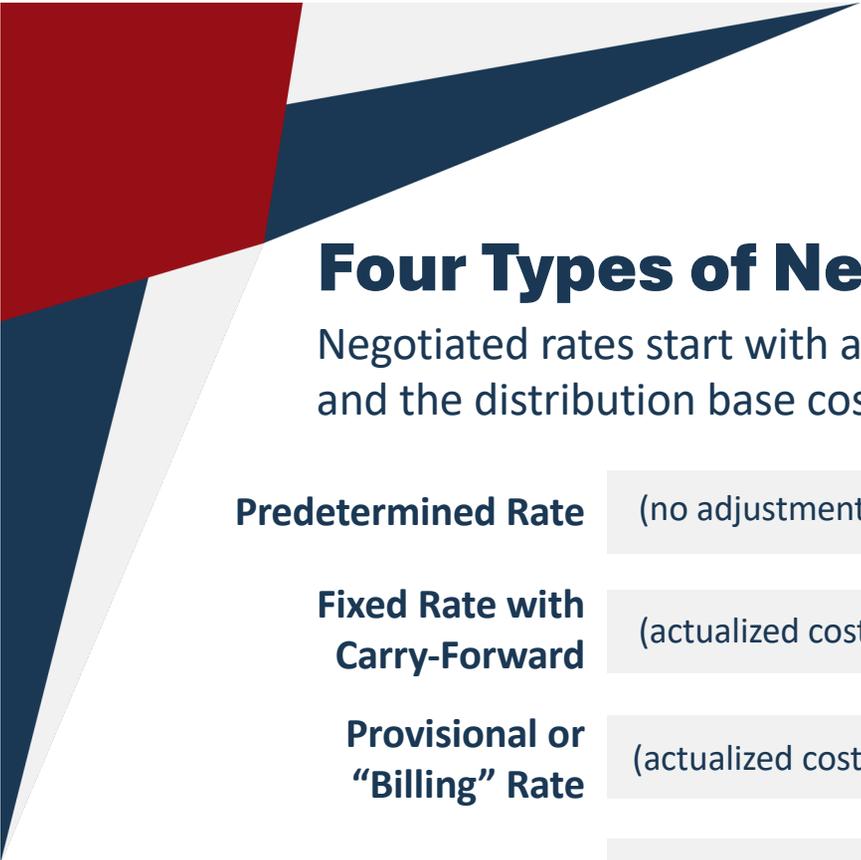
De Minimis Dangers

- 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



Negotiated Rates

- Proposal submitted for approval to your cognizant agency –
May be subject to “actualization” of costs
- Specific to each organization
- Rates can be applied provisionally then change until year over year; can make budget management more difficult



Four 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

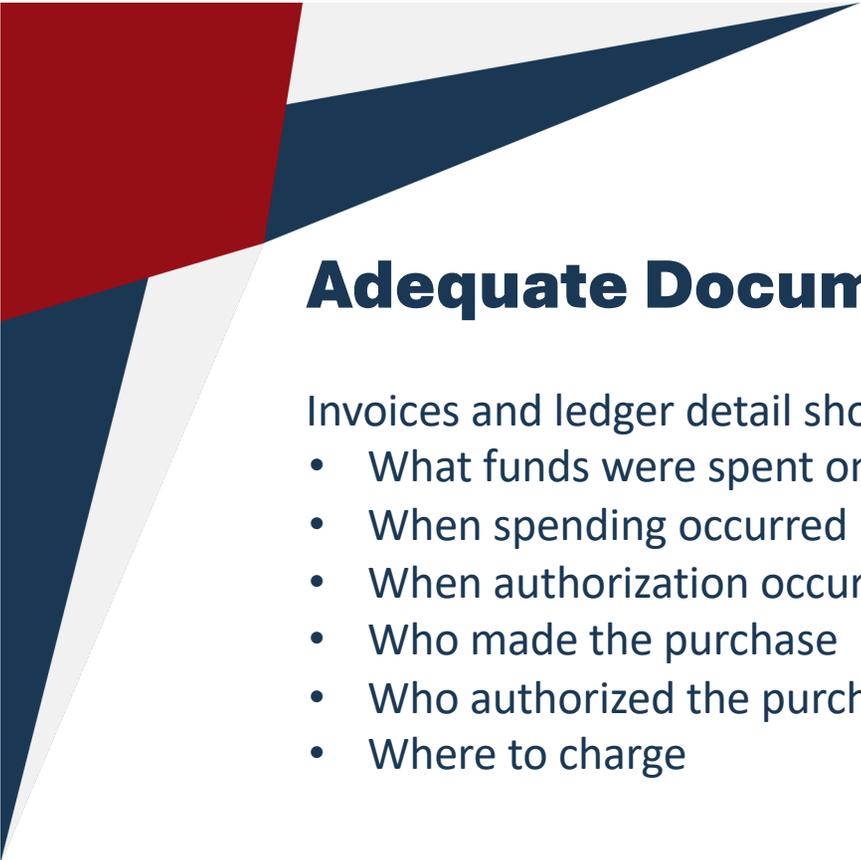
(actualized costs adjusted in past period)

Final Rate

(final actual rate replaces provisional rate after annual audit)



Part 4: Cost Documentation



Adequate Documentation

Invoices and ledger detail should clearly delineate:

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





Documentation Best Practices

§ 200.403 includes the requirement that cost documentation is adequate to show a cost is allowable, 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

And remember, IF IT ISN'T IN THE FILE, IT DIDN'T HAPPEN!



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?

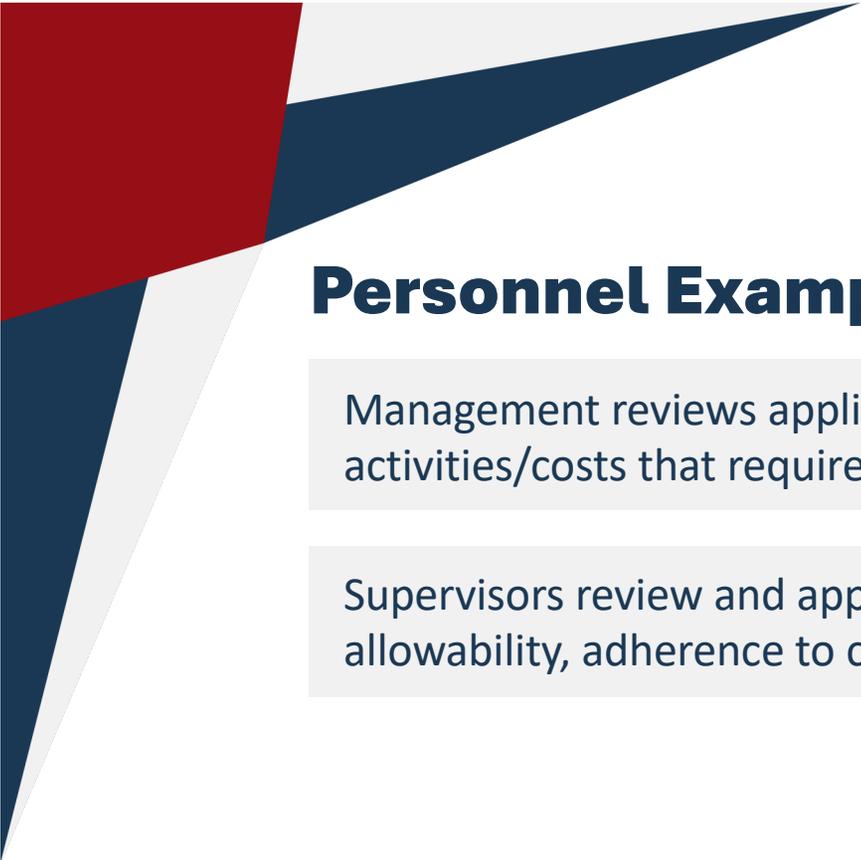


Procurement Examples

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.



Personnel Examples

Management reviews applicable fringe benefit rates, and those activities/costs that require pre-approval by the awarding agency.

Supervisors review and approve efforts of personnel, fringe benefits for allowability, adherence to cost principles, accuracy, and completeness.



Finance Examples

Written policies/procedures exist outlining processes and control activities for requesting advances/reimbursement.

Subrecipients are monitored for cash management compliance.

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 method).



Session Review

- ✔ Total award costs consist of two types of costs: allowable direct costs and indirect costs.
- ✔ For costs to be allowable, they must be: reasonable, necessary, allocable, and consistently applied and documented.
- ✔ MTDCs are a common distribution base for indirect costs.
- ✔ A 15% de minimis rate may be available to some organizations if there is no NICRA in place.
- ✔ Adequate cost documentation is required to ensure cost allowability
Just because a cost is not included in 2 CFR 200, does not mean it is allowable



Questions