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Understanding the Cost Principles and Grants Compliance

Rebecca Field, CPA, CISA, CRISC, CICA
Principal
Grant Compliance Services

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Presenter



Rebecca Field is a principal at CliftonLarsonAllen and leads the Grant Compliance Services team. She has fifteen years of public accounting experience. She specializes in grant compliance, including single audits, and has extensive knowledge in related regulations and requirements.

Rebecca also serves as a firm wide assurance resource where she oversees compliance with professional standards, provides technical assistance, and assists with training curriculum.

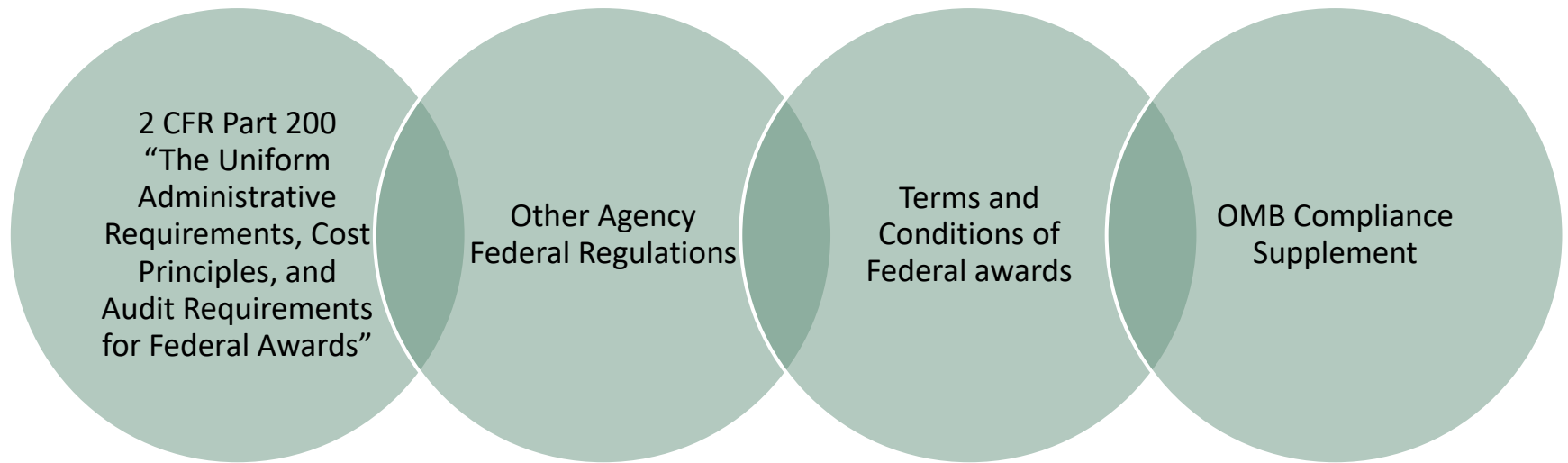


Agenda

Federal Grant Budget Compliance Requirements

- Direct vs. Indirect Costs
- Allowable Use of Funds-Direct Costs
 - Travel Charges
 - Time and Effort
- Indirect Costs
- Budget and Program Revisions
- Internal Controls

Sources of Grant Compliance Requirements



Uniform Guidance

Subpart A – Acronyms and Definitions

Subpart B – General Provisions

Subpart C - Pre Federal Award Requirements

Subpart D – Post Federal Award Requirements

Subpart E – Cost Principles

Subpart F – Audit Requirements



Direct vs. Indirect Costs

Cost Principles

Subpart E of Uniform Guidance-
Cost Principles applies to both
direct and indirect costs of a
federal program

Cost Principles

Direct Costs


- 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

Cost Principles

Indirect Costs

- costs incurred for a common or joint purpose benefitting more than one cost objective
- and not readily assignable to the cost objectives specifically benefitted

Direct and Indirect Costs



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

Identification with the Federal award - rather than the nature of the goods and services involved - is the determining factor in distinguishing direct from indirect costs of Federal awards

Direct and Indirect Costs

Typical examples of indirect (F&A) cost for many organizations may include

- administrative salaries and benefits
- information systems
- Rent



Each item of cost incurred for the same purpose must be treated consistently in like circumstances either as a direct or an indirect cost in order to avoid possible double-charging of Federal awards

Allowable Use of Funds – Direct Costs

§200.403 Factors affecting allowability of costs.

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

(a) Be **necessary and reasonable** for the performance of the Federal award and be **allocable** thereto under these principles.

§200.403 Factors affecting allowability of costs.

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

(d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.



§200.403 Factors affecting allowability of costs.

(e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.

(f) Not be included as a cost or used to meet cost sharing or matching requirements of any other

(g) Be adequately documented.

(h) Cost must be incurred during the approved budget period.

§200.404 Reasonable costs.

A cost is reasonable if, in its nature and 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 cost.

§200.404 Reasonable costs.

In determining reasonableness of a given cost, consideration must be given to:

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.

(b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, 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 considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.



§200.405 Allocable costs.

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

§200.405 Allocable costs.

- This standard is met if the cost:
 - (1) Is incurred specifically for the Federal award;
 - (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

Costs

The costs of certain activities are not allowable as charges to Federal awards

Allowable and unallowable costs are specific to each federal program

Subpart E of the Uniform Guidance lists out general provisions for selected items of cost

Selected Items of Cost

Advertising and public relations.

Advisory councils.

Alcoholic beverages.

Alumni/ae activities.

Audit services.

Bad debts.

Bonding costs.

Collections of improper payments.

Commencement and convocation costs.

Compensation—personal services.

Compensation—fringe benefits.

Conferences.

Contingency provisions.

Contributions and donations.

Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.

Depreciation.

Employee health and welfare costs.

Entertainment costs.

Equipment and other capital expenditures.

Exchange rates.

Fines, penalties, damages and other settlements.

Fund raising and investment management costs.

Gains and losses on disposition of depreciable assets.

General costs of government.



Selected Items of Cost

Goods or services for personal use.

Idle facilities and idle capacity.

Insurance and indemnification.

Intellectual property.

Interest.

Lobbying.

Losses on other awards or contracts.

Maintenance and repair costs.

Materials and supplies costs, including costs of computing devices.

Memberships, subscriptions, and professional activity costs.

Organization costs.

Participant support costs.

Plant and security costs.

Pre-award costs.

Professional service costs.

Proposal costs

Publication and printing costs.

Rearrangement and reconversion costs.

Recruiting costs.

Relocation costs of employees.

Rental costs of real property and equipment.

Scholarships and student aid costs.

Selling and marketing costs.

Specialized service facilities.

Student activity costs.

Taxes (including Value Added Tax).

Telecommunication costs and video surveillance costs

Termination costs.

Training and education costs

Transportation costs.

Travel costs.

Trustees.



Unallowable Costs – No Exceptions

- Alcoholic Beverages (§200.423)
- Bad Debts (§200.426)
- Contributions and donations (§200.434)
 - Unallowable (made by non-Federal entity); not reimbursable, but value may be used as cost sharing or matching (made to non-Federal entity)
- Goods or services for personal use (§200.445)
 - Unallowable (goods/services); allowable (housing) with restrictions
- Lobbying (§200.434)
- Losses on other awards or contracts (§200.451)

Unallowable Costs – With Exceptions

- Contingency provisions (§200.433)
 - It is permissible for contingency amounts other than those below to be explicitly included in budget estimates, to the extent they are necessary to improve the precision of those estimates.
 - Amounts for major project scope changes, unforeseen risks, or extraordinary events may not be included
- Entertainment costs (§200.438)
 - Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable,
 - except when costs have a programmatic purpose and
 - are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency

Unallowable Costs – With Exceptions

- Fines, penalties, damages and other settlements (§200.441)
 - Costs resulting from violations of, alleged violations of, or failure to comply with laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency
- Fund raising costs (§200.442)
 - 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 from the Federal awarding

Unallowable Costs – With Exceptions

- Investment management costs (§200.442)
 - Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable except when associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this part.
 - Costs related to the physical custody and control of monies and securities are allowable.
- Organization Costs (§200.455)
 - Costs such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselor in connection with establishment or reorganization of an organization, are unallowable except with prior approval of the Federal awarding agency.

Unallowable Costs – With Exceptions

- Selling and marketing costs (§200.467)
 - Costs of selling and marketing any products or services of the non-Federal entity (unless allowed under §200.421 Advertising and public relations.) are unallowable, except as direct costs, with prior approval by the Federal awarding agency when necessary for the performance of the Federal award.

Allowable with restrictions

Transportation costs

Equipment and other capital expenditures

Collection of improper payments

Training and education costs

Rearrangement and reconversion costs

Plant and security costs

Participant support costs

Pre-award costs

Advertising and public relations costs

Advisory councils

Audit services

Compensation – fringe benefits

Conferences

Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements

Materials and supplies costs, including computing devices

Professional service costs

Proposal costs

Publication and printing costs

Bonding costs

Employee health and welfare costs

Exchange Rates

Gains and losses on disposition of depreciable assets

Insurance and indemnification

Intellectual property

Interest

Recruiting costs

Relocation costs of employees

Rental costs of real property and equipment

Specialized service facilities

Termination costs

Travel costs

Trustees

Maintenance and repair costs

Taxes (including Value Added Tax)

Compensation for personal services

Memberships, subscriptions, and professional activity costs

Telecommunication and surveillance costs

Depreciation



§200.474 Travel Costs

- Expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-Federal entity.
- Such 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 to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies.

§200.474 Travel Costs

- Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, must be considered reasonable and otherwise allowable only to the extent such costs do not exceed charges normally allowed in regular operations as the result of a written travel policy.
- In addition, if these costs are charged directly to the Federal award, documentation must justify that participation of the individual is necessary to the Federal award; and the costs are reasonable and consistent with the established travel policy.

§200.474 Travel Costs

- Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines are unallowable except when such accommodations would require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in additional costs that would offset the transportation savings; or offer accommodations not reasonably adequate for the traveler's medical needs.
- Organizations must justify and document these conditions on a case-by-case basis in order for the use of first-class or business-class airfare to be allowable in such cases.

§200.474 Foreign Travel Costs – Fly America Act

- The Fly America Act requires that Federal travelers and others performing U.S Government -financed air travel must use U.S. flag air carriers, to the extent that service by such carriers is available.
- Foreign air carriers may be used only in specific instances, such as when a U.S. flag air carrier is unavailable, or use of U.S. flag air carrier service will not accomplish the agency's mission.

§200.474 Foreign Travel Costs – Fly America Act

- One exception to the requirement to fly U.S. flag carriers is transportation provided under a bilateral or multilateral air transport agreement (“Open Skies Agreements”), to which the United States Government and the government of a foreign country are parties, and which the Department of Transportation has determined meets the requirements of the Fly America Act.
- “Open Skies Agreements” can be found on GSA website
- <http://www.gsa.gov/portal/content/103191>

Time and Effort Reporting

Uniform guidance allows for alternatives to the previous reporting requirements

Guidance is less prescriptive on documentation and places more emphasis on internal control

Changes made by OMB aimed at reducing the administrative burden of documenting time and effort

Time and Effort Reporting

Charges must be **based on records that accurately reflect the work performed** and must:

Be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable and properly allocated

Reasonably reflect the total activity for which the employee is compensated

Comply with the established accounting policies and practices of the non-federal entity

Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award



Time and Effort Reporting

- Ensure that the amount charged to the federal grant can trace back to payroll records for proportionate amount of total worked.
- i.e. if employee works a 50 hour work week, with 10 hours spent on the grant:
 - 20% of payroll charges for that week can be charged
 - not 10 hr. x hourly rate based on 40hrs a week / 2080 a year

Time and Effort Reporting - alternatives



Budget estimates may be used for interim accounting purposes, provided that:

System for estimating must produce “reasonable approximations” of activity actually performed

Significant changes in work activity (as defined in written policies) are identified and entered into records timely

Must be a process to review the charges made based on budget and adjustments after the fact so that “the final amount charged to the Federal award is accurate, allowable, and properly allocated”

Time and Effort Reporting



When records do not meet the standards, federal government may require personnel activity reports, including prescribed certifications, or equivalent documentation

Need to determine what is appropriate for your employees working on federal awards – not all individuals working on federal grants have the same situation

Prior Written Approval

Prior Written Approval - Section 200.407

- provides one place for non-federal entities to consult regarding the circumstances under which they should seek prior approval from the federal awarding agency

Prior Written Approval - Section 200.407

(a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);

(b) §200.306 Cost sharing or matching;

(c) §200.307 Program income;

(d) §200.308 Revision of budget and program plans;

(e) §200.311 Real property;

(f) §200.313 Equipment;

(g) §200.332 Fixed amount subawards;

(h) §200.413 Direct costs, paragraph (c);

(i) §200.430 Compensation—personal services, paragraph (h);

(j) §200.431 Compensation—fringe benefits;

(k) §200.438 Entertainment costs;

(l) §200.439 Equipment and other capital expenditures;

(m) §200.440 Exchange rates;

(n) §200.441 Fines, penalties, damages and other settlements;

(o) §200.442 Fund raising and investment management costs;

(p) §200.445 Goods or services for personal use;

(q) §200.447 Insurance and indemnification;

(r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);

(s) §200.455 Organization costs;

(t) §200.456 Participant support costs;

(u) §200.458 Pre-award costs;

(v) §200.462 Rearrangement and reconversion costs;

(w) §200.467 Selling and marketing costs;

(x) §200.470 Taxes (including Value Added Tax); and

(y) §200.474 Travel costs.



Indirect Costs

Indirect Costs

Costs originating in each department or agency carrying out federal awards but which cannot be identified with a specific cost objective

Indirect Costs

De Minimus Rate

Non-federal entities that have never had a negotiated indirect cost rate may use a de minimus rate of 10 percent of modified total direct costs

Must use consistently on all awards until rate is negotiated, which entity may do at any time



Indirect Costs

Federal agencies must accept negotiated indirect cost rates

Pass-through entities are required to honor an organization's negotiated indirect cost rate or negotiate a rate

Organization's that are receiving direct funding and do not have a negotiated rate may need to negotiate an indirect cost rate

Cognizant agency for indirect cost rates is the Federal agency with the largest value of direct federal awards (excluding pass-through awards)



Indirect Costs

Automatic Extension

Entities with an approved federally negotiated indirect cost rate can now apply for a one-time extension of up to four years without further negotiation

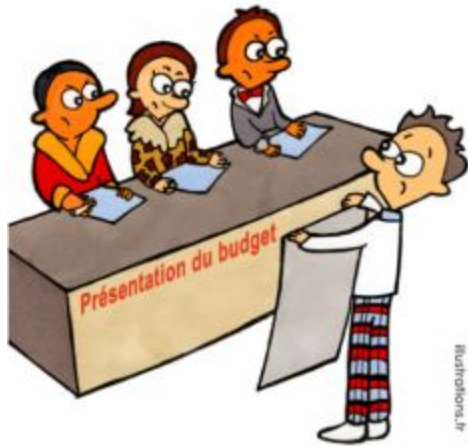
Can only use one-time extension if there have been no major changes to indirect costs and approval from the cognizant agency is received

If approved, entity may not request a review of the rate until extension period is up



Budget and Program Revisions

Revisions of Budget and Program Plan (200.308)



Organization needs to have a process in place to report deviations from

- Budget
- project scope
- or objective

to the federal awarding agency, as well as requesting prior approvals for budget and program plan revisions

Revisions of Budget and Program Plan: Non-Construction Awards:

Change in the scope or the objective of the program

Change in a key person specified

The inclusion of costs that require prior approval in accordance with Subpart E—Cost Principles

The transfer of funds budgeted for participant support costs

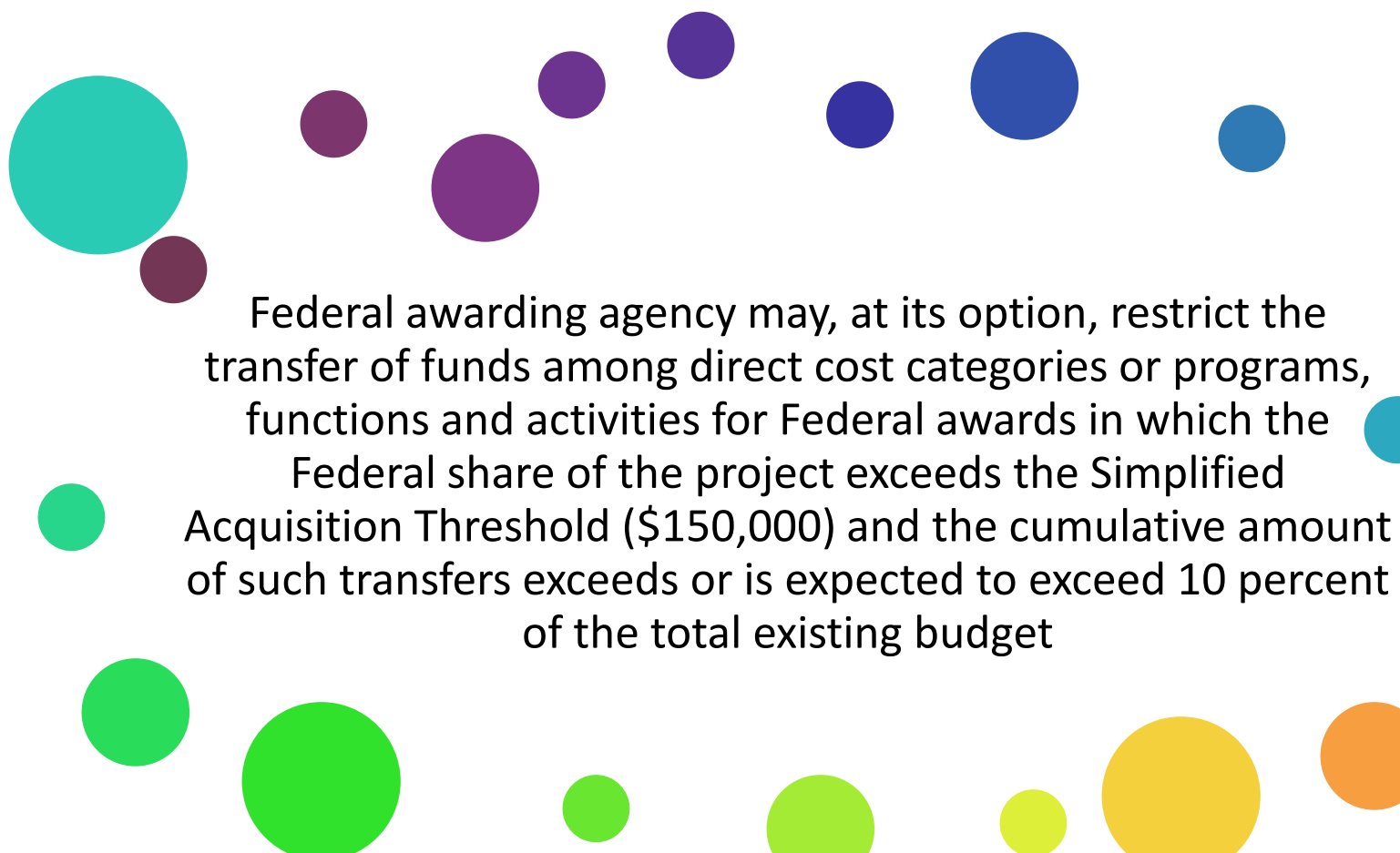
Unless described in the application and funded in the approved Federal awards, the subawarding, transferring or contracting out of any work under a Federal award.

Changes in the amount of approved cost-sharing or matching

Need arises for additional Federal funds to complete the project



Revisions of Budget and Program Plan: Non-Construction Awards:



Federal awarding agency may, at its option, restrict the transfer of funds among direct cost categories or programs, functions and activities for Federal awards in which the Federal share of the project exceeds the Simplified Acquisition Threshold (\$150,000) and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total existing budget

Example of Revisions of Program Plans

- The Grants Officer is the only person authorized award, amend, terminate a federal assistance award, and provide formal, required award approval including those outlined in 2 CFR 200.308 and 2 CFR 200.407. The recipient must contact the GO to request changes to the federal assistance award, terms and conditions including an extension, budget changes, or other requests requiring formal approval. Correspondence should be routed through the GOR.

Internal Controls around Allowable Costs

Internal Controls

Non-federal entities will need to exercise judgment in determining the most appropriate and cost effective internal control in a given circumstance

Internal Control Key Items

Segregation of Duties

Documentation

Internal Control Key Items

Reviewer/approver should be someone with knowledge of compliance requirements

Essentially would be able to catch non-compliance

Allowable Use of Funds/Period of Performance

- What policies and procedures in place to provide reasonable assurance that federal awards are expended only for
 - allowable activities
 - cost of goods and services charged to federal awards are allowable and in accordance with the specific cost principles
 - used only during the authorized period of availability/performance
 - only allowable salaries are charged to the federal program

Allowable Use of Funds/Period of Performance Example

- Allowable Use of Funds
 - Site coordinators purchase goods and services for grant purposes
 - Program Manager approves all purchases prior to being paid and recorded

Actual to Budget Comparisons

- Will want to ensure that actual expenses to detailed budget is compared regularly
- Any significant variances between actual and budgeted expenditures noted should be discussed and resolved prior to requesting payment.

Financial Management (200.302)

Financial management system must include records documenting compliance



Must allow for the preparation of required reports



Must allow for the tracing of funds to a level of expenditures to show that they have been used according to grant terms and conditions



Requires written procedures for determining the **allowability of costs**

CLA Grant Compliance Resource Center

<http://www.claconnect.com/resources/tools/resources-to-ease-the-burden-of-grant-compliance>



QUESTIONS?



Thank you!

Rebecca Field, CPA, CISA, CRISC, CICA

Principal, Grant Compliance Services

612-397-3053

rebecca.field@claconnect.com

