



Federal Grant Cost Allowability

Presented by Bob Lloyd

September 26, 2024





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The EDD CoP is made possible through an award from the U.S. Economic Development Administration, U.S. Department of Commerce (ED22HDQ3070106). The statements, findings, conclusions, and recommendations are those of the participants, trainers, and authors and do not necessarily reflect the views of the U.S. Economic Development Administration or the U.S. Department of Commerce.



Bob Lloyd



Bob Lloyd is a respected authority on policies and practices affecting the award, administration and oversight of federal grants, contracts and subawards. He has nearly 40 years of experience in federal award implementation. Prior to starting his management consulting practice, he served as the executive director of the Grants Management Advisory Service and held staff positions in two large federally funded organizations. He has been a consultant, trainer or advisor to award and audit units in sixteen federal award-making departments and agencies, and to recipient and subrecipient organizations and their professional advisors. He is the principal author of *A Guide to OMB Grant Reform* and several other reference works on federal grants management and audits.



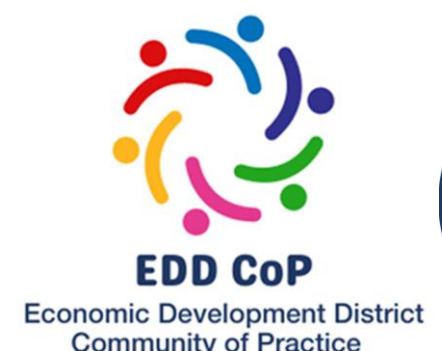
NADO Federal Grants Management Webinar Series

- **September 11: Single Audit Readiness and Survival**
- **September 26: Federal Grant Cost Allowability 101**
- **October 2: Indirect Cost Recovery for RDO's**
- **October 9: Procuring Goods & Services with Federal Funds**

OMB's Uniform Guidance

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

- **Title 2, Code of Federal Regulations, Part 200 (2 CFR 200)**
- **Original adoption: Effective December 26, 2014**
 - **Combined OMB Cost Circulars Applicable to Different Performers**
- **Revision: Effective November 12, 2020**
- **Revision: Effective October 1, 2024**
 - **Based on Review and Comment Process**
 - **Request for Information: February 9, 2023**
 - **Proposed Revisions: October 5, 2023**



A Few Things to Know about OMB

- **Their Audience: Federal Agencies**
- **Their Approach to the Current Revision**
 - **Selective Acceptance of Comments (89 FR 30046 et seq.)**
 - **"Outside of Scope"**
 - **"Not Necessary"**
 - **Will Consider "Later"**
- **Required Full Implementation (10/1/24)**
- **Transition Policy**
 - **OMB Memorandum 24-11 (4/4/24)**
 - **COFFA Instruction (8/15/24)**

Federal Cost Principles

- **Currently Applicable to Federal Awards Received by Various Types of Performers**
 - **State, Local and Tribal Governments (2 CFR 200, Subpart E)**
 - **Institutions of Higher Education (2 CFR 200, Subpart E)**
 - **Nonprofit Organizations (2 CFR 200, Subpart E)**
 - **Hospitals (2 CFR 200, Appendix IX)**
 - **Commercial Organizations (48 CFR 31)**

- **Federal Awards (Grants, Cooperative Agreements, and Contracts)**

- **Rules for Determining:**
 - **What Costs Can Be Charged to Federal Awards**
 - **What Costs Cannot Be Charged to Federal Awards**
 - **How Costs Are to Be Documented**

Used Early & Often in Federal Grant Awards

- **Determination of Award Instrument—Decision by Awarding Agency Concerning Cost Type if Fixed Amount Award**
- **Application—Requirement for Inclusion of Allowable Costs Only in Submission**
- **Cost Analysis of Grant Budget (Necessary, Reasonable, Allocable Cost)**
- **Award Agreement—Approved Budget**
 - **Unique Approach for Fixed Amount Awards (2 CFR 200.201(b))**
- **Expenditure of Funds—Determination of Allowability by Awardee**
- **Financial Reporting—Certification and Submission of Claims**
- **Monitoring, Closeout, Audit—Acceptance of Claims by Awarding Agency**

How the Principles Find Their Way to You

- **Federal Agency Regulatory Adoption of 2 CFR 200, Subpart E**
- **Federal Awarding Agency Inclusion of 2 CFR 200, Subpart E in Primary Award Agreement (2 CFR 200.211)**
- **Pass-through Entity “Flow-through” of Requirements Imposed by Federal Awarding Agency into Subaward Agreement (2 CFR 200.332(a))**
- **References**
 - **2 CFR 200, Subpart E**
 - **2 CFR 200.400-476**

Key Basic Concepts Retained

➤ Policy Guidance

- **Recipient and Subrecipient Responsibility for Employing Sound Management Practices**
- **Recipient and Subrecipient Autonomy Related to Organizational Structure, Staffing and Management**
- **Recipient and Subrecipient Prerogatives Related to Charging Practices (Direct vs. Indirect)**
- **No Profit in Federal Assistance Awards (Distinct from Acquisition or Procurement Awards)**

➤ Total Recovery under a Federal Award

- **Allowable Direct Costs *Plus* Allocable Allowable Indirect Costs *Minus* Applicable Credits**



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Direct vs Indirect Costs

- **Terms of "Accounting Convenience"**
- **Direct Costs**
 - **Identified "specifically" with an award**
 - **Assigned "relatively easily with a high degree of accuracy"**
- **Indirect (F&A) Costs**
 - **Necessary for overall operations**
 - **Difficult to show benefit to specific awards "without effort disproportionate to the benefit received"**
- **Charging practice determined by recipient or subrecipient**

The General Tests of Allowability

- ✓ **Necessary**
- ✓ **Reasonable**
- ✓ **Allocable**
- ✓ **Conform to (Properly Imposed) Limitations**
- ✓ **Consistent with Organizational Policies Uniformly Applied to All Activities**
- ✓ **Consistently Treated (Direct vs. Indirect)**

The General Tests of Allowability

- **Determined in Accordance with Generally Accepted Accounting Principles (GAAP)**
 - **Some Exceptions for Governmental Units**
- **Not Charged Elsewhere**
- **Incurred Within the Budget Period**
 - **Exception for Closeout Costs**
- **Adequately Documented**

Reasonable Costs

- **“Prudent Person” Test**

- **Factors Affecting “Reasonableness”**
 - **Ordinary and Necessary Expense**
 - **Use of Sound Business Practices**
 - **Incurred by Arm’s Length Bargaining**
 - **Adherence to Federal , State, Local, Tribal and Other Laws and Regulations**
 - **Facts and Circumstances**
 - **Unjustified Deviations or Exceptions**

- **What’s Missing?**
 - **Practices of the Federal Government**

Allocable Costs

- **Costs Incurred Exclusively for the Federal Award**
- **Costs Incurred to Benefit the Federal Award and Other Activities of the Recipient or Subrecipient That Can Be Distributed in Reasonable Proportion to the Benefit Received (Common Costs)**
- **Costs Necessary for Overall Operations But For Which a Direct Beneficial Relationship is Difficult to Show Without Disproportionate Effort (Indirect Costs)**
- **Heard Often: "Close Enough for Government Work"**

Your Grant or Subgrant Budget

- **“The approved budget for the Federal award summarizes the financial aspects of the project or program as approved during the Federal award process.” (2 CFR 200.308(a))**

- **Recipient Responsibilities**
 - **Exercise Budgetary Control (2 CFR 200.302(b)(5))**
 - **Determine Cost Allowability (2 CFR 200.302(b)(7))**
 - **Dealing with the “Unbudgeted” Costs**
 - **Report Budget Deviations (2 CFR 200.308(b))**
 - **Request Certain Prior Approvals (2 CFR 200.308 (c) and (f); 2 CFR 200.407)**

The “Selected Items of Cost”

- **2 CFR 200.421-476**
- **55 Items Selected**
- **Rationale**
 - **Commonly Encountered**
 - **Specifically Disallowed**
 - **Relevant to a Particular Class of Award Performers**

Cost Principle Interpretation 101

➤ 2 CFR 200.420

- **"Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather determination as to allowability in each case should be based on the treatment provided for similar or related items of cost..."**
- **"Criteria outlined in [2 CFR 200.403], *Factors affecting allowability of costs* must be applied in determining allowability."**
- **Bases for Allowability**
 - **Explicit Mention in 2 CFR 200.421-476 (*Selected Items of Cost*)**
 - **Principles Applicable to Similar or Related Item**
 - **Treatment in Other Cost Principles**
 - **Reliance on the General Tests of Allowability**

A Close Look at the “Selected Items”

➤ Allowability Distinctions

❖ Allowable

❖ Allowable Under Certain Circumstances

- Allowable with Prior Approval
- Allowable with Approval

❖ Unallowable

Some Understandable Cost Groupings

- **Likely Expenditure by Most Awardees**
 - **Object Class/Budget Categories listed on the SF 424A**
 - **Personnel**
 - **Fringe Benefits**
 - **Travel**
 - **Equipment**
 - **Supplies**
 - **Contractual**
 - **Construction**
 - **Other**

Other Cost Groupings

- **Similar Expenditure Purpose**
 - **Facility Related Costs**
 - **Human Resources**
- **Similar Allocability**
 - **Certain Performers (Governments, IHE's, NPO's)**
- **Unallowable**
 - **No Benefit to Federal Award**
 - **Indicative of Poor Management**

Cost Policy Impact of 2024 Changes

- **Allowability of Close-out Costs (2 CFR 200.403(h))**
- **Prior Approval Definition (2 CFR 200.1)**
 - **Four Elements**
 - **Inclusion of Costs Requiring Prior Approval in the Approved Budget or Award (2 CFR 200.308(a))**
 - **Pass-through Entity Authority**
 - **Waiver Authority**
- **Reduction in Number of Prior Approval Actions (2 CFR 200.407)**
 - **Elimination of "Advance Understanding"**
 - **"...under certain circumstances..."**
 - **Equipment Definition**
 - **Acquisition (2 CFR 200.439)**
 - **Disposition (2 CFR 200.313)**

Selected Item Edits

- **89 FR 30094-30100**
- **Recruitment of Program Participants (2 CFR 200.421)**
- **Conferences (2 CFR 200.432)**
- **Awards Performed Overseas**
 - **Severance Pay for Foreign Nationals (2 CFR 200.431)**
 - **Exchange Rates (2 CFR 200.440)**

Indirect Cost Recovery Issues

- **Required Acceptance of Federal NICRA's**
- **Increase in *De Minimis* Indirect Cost Rate to 15% of MTDC**
 - **Silence on Transition**
- **Forced Imposition of *De Minimis* Rate**
 - **"Recipients and subrecipients have a right to negotiate a rate (89 FR 30093)**
- **OMB Role in Indirect Cost Disputes Between Recipients and Cognizant Agencies**

A Few Final Suggestions & Cautions

- **There is no effective substitute for a “deep dive” while everyone is on a “learning curve.”**
- **Use the “lingo” of the cost principles document when communicating with awarding agencies**
 - **“In accordance with...”**
- **Consider awarding agency motivations**
 - **Cost savings**
 - **“Horror story” avoidance**
- **Beware of audit vulnerabilities**
 - **Risk factors (2 CFR 200.519)**
 - **Newness ands changed conditions**



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