



Cost Principles & Selected Items of Cost

The Four Main Cost Principles

- OMB A-21 Educational Institutions
- OMB A-87 State/Local Governments and Indian Tribes
- OMB A-122 Non-profit Organizations
- 48 CFR 31 Contract Cost Principles and Procedures dealing with Commercial Organizations

A – 21 Structure

- Section A – General principles
- Section B – Definitions
- Section C – Basic Considerations
- Section D – Direct Costs
- Section E/F – F&A/Indirect Costs
- Section G – Determination and Application of F&A/Indirect Cost Rates
- Section H – Simplified Method for Small Institutions
- Section J – General Provisions for Selected Items of Cost

A – 87 Structure

- Attachment A: General Principles for Determining Allowable Costs
- Attachment B: Selected Items of Cost
- Attachment C: State/Local-Wide Central Service Cost Allocation Plan
- Attachment D: Public Assistance Cost Allocation Plans
- Attachment E: State and Local Indirect Cost Rate Proposals

A – 122 Structure

- Attachment A: General Principles
- Attachment B: Selected Items of Cost
- Attachment C: Non-Profit Organizations Not Subject to This Circular

Federal Cost Principles

- Purpose – provides that the Federal government bears its fair share of costs except where restricted or prohibited by law
 - Reasonable & Necessary
 - “Prudent Person Rule”
 - Allocable
 - Clearly benefit program
 - Both direct & indirect costs

General Principles

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. Some considerations might be:

- Effect on Federal program dollars
- Prudence under the circumstances
- Deviations from established practices

General Principles

Allocable Costs

- A cost is allocable to a particular cost objective in accordance with the relative **benefits received**
- An allocable cost benefits a cost objective -- either directly, or indirectly (continued)

General Principles

When is a cost allocable?

1. When a cost is incurred directly for the purposes of a specific grant/contract;
2. When the cost benefits a grant/contract and other cost objectives and it can be distributed among objectives in reasonable proportion to the **benefits received**; or
3. When a cost is necessary to the overall operation of an organization although a direct relationship to any particular cost objective cannot be shown

Factors Affecting Allowability of Costs

- Authorized or not prohibited
- Consistent with the Federal Rules & Circulars
- Consistent treatment
 - Across time & program lines
 - Direct & indirect
- Not used as match
 - Unless specifically authorized
- Documented
 - Traceable to source documentation
- Consistent with GAAP
 - Accounting standards & treatment
- Conform to limitations/exclusions contained in the cost principles
- Net of applicable credits

Selected Items of Cost

- 3 types of costs
 - Allowable
 - Unallowable
 - Allowable with conditions
 - ❖ e.g., prior approval
- If cost not treated -
 - Principles of necessary and reasonable apply

Costs Allowable With Conditions

- What are conditions??
 - Prior approval
 - Direct cost only
 - Indirect cost only
 - Specific support needed

Approval Conditions

- If prior approval requirement exists
 - Needed BEFORE incurring cost
 - Must be requested in writing
 - Must be approved
 - May exist in grant agreement
- Seek approval from state or, if a direct grant recipient, from the Federal agency

General Principles

Composition of Total Costs

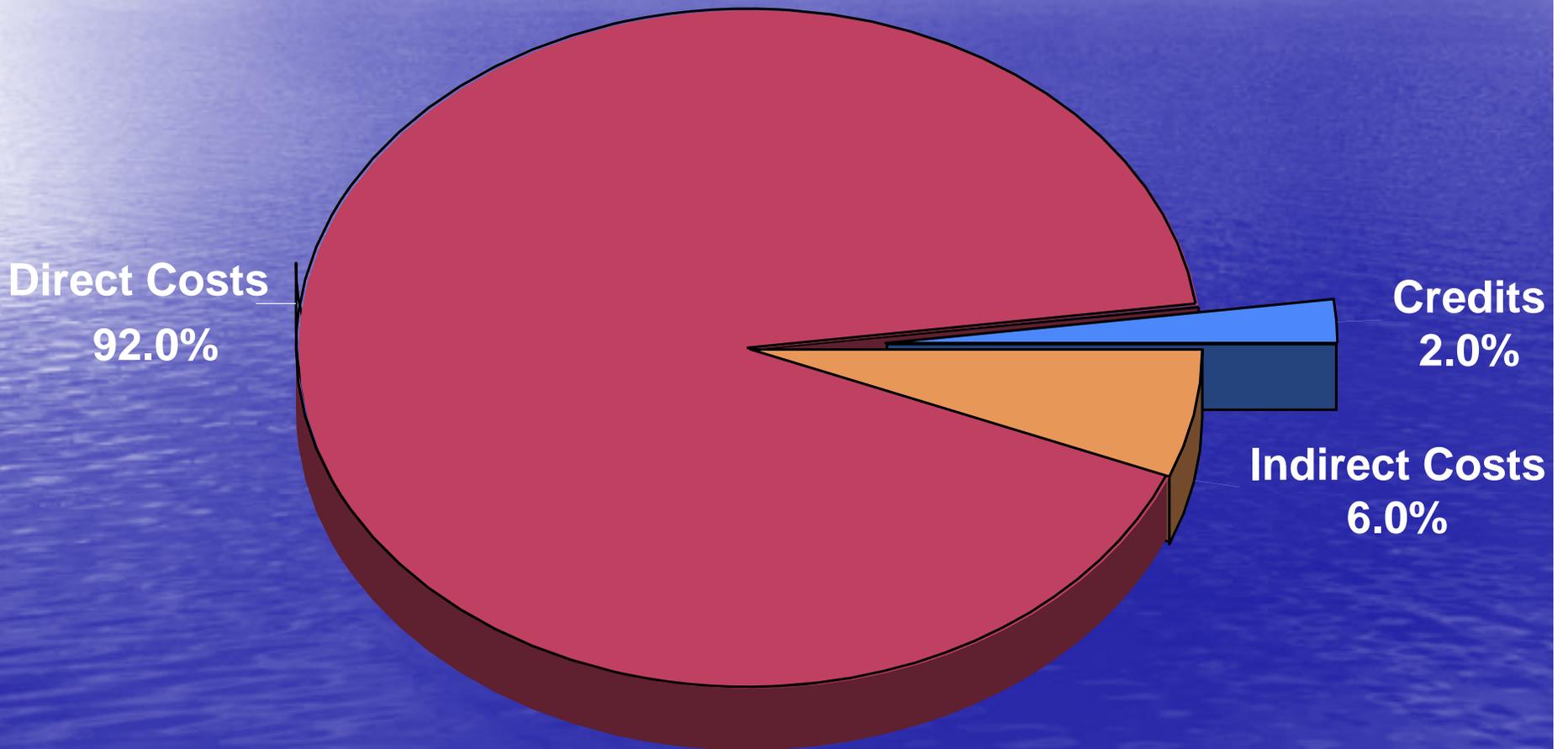
The total cost of any grant program is composed of the

ALLOWABLE DIRECT and

ALLOCABLE INDIRECT COSTS less

APPLICABLE CREDITS

Graphic of Total Costs



General Principles

Applicable Credits

Receipt or negative expenditure types of transactions which operate to offset or reduce expense items that are allocable to grants or contracts as direct or indirect costs

Examples include:

- Purchase discounts, refunds, rebates or allowances
- Sales of scrap or incidental services
- Adjustments of overpayments or erroneous charges

General Principles

What are direct costs?



- Those costs that can be readily identified with a particular cost objective. Examples: (program specific)
 - Salaries
 - Space
 - Supplies
 - Communications

General Principles

What are indirect costs?



- Those costs which are not readily identifiable with a particular cost objective. Examples:
 - Salaries
 - Space
 - Supplies
 - Communications

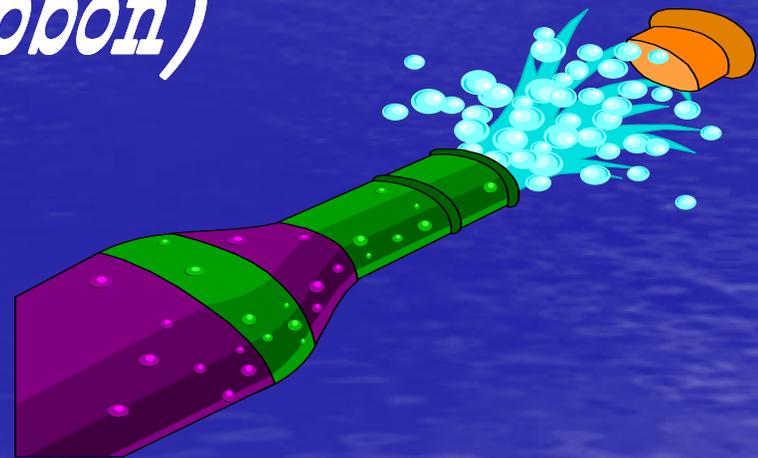
General Principles

What is an Indirect Cost Rate?

The ratio, expressed as a percentage, of an indirect cost pool and some direct cost base. Some might say it's:

PBR (Pabst Blue Ribbon)

$\text{Pool/Base}=\text{Rate}$





OMB Circular A- 87

Attachment B

Selected Items of Cost

Attachment B identifies 43 categories of cost and provides guidance on the allowability of each as a cost to Government grants/contracts



Unique Items of Cost

- A – 21
 - Alumni activities – unallowable
 - Commencement & Convocation - unallowable
 - Deans of faculty & graduate schools – allowable
 - Scholarships & Student Aid – allowable w/conditions
 - Student activities – unallowable

Unique Items of Cost

- A – 122
 - Participant Support – allowable w/prior approval
 - Relocation – allowable w/restrictions
 - Page Charges in Professional Journals – allowable w/conditions
 - [A-21 & A-87 include under Publication & Printing]
 - Organization costs – unallowable

1. Advertising & Public Relations Costs

- Allowable Advertising
 - Recruitment of Personnel
 - Procurement of Goods & Services
 - Disposal of Scrap or Surplus
 - Specific Award purposes (continued)



Advertising & Public Relations Costs (continued)

- Allowable Public Relations
 - Costs are specifically required by award
 - Costs of communicating with the press pertaining to accomplishments which resulted from the performance of an award
 - Cost of keeping the public informed on matters of public concern . . . such as notices of contract/grant awards . . . etc.
(continued)

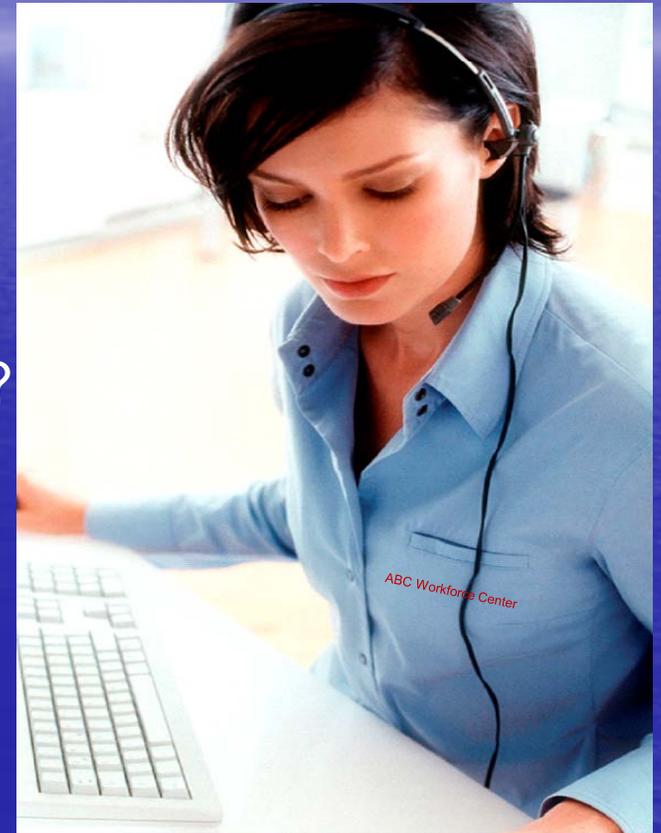
Buying Shirts?

What is the purpose or intended use?
Office Uniform?

Job Fair give away?

What justification have you maintained?

How did you select provider?
Did you get price quotes?
Is the purchase reasonable?



Advertising & Public Relations Costs (continued)

- Specifically unallowable:
 - Costs of meetings or other events related to other activities of the entity including:
 - Displays, demonstrations and exhibits
 - Meeting rooms, hospitality suites, and other facilities if used in connection with shows or special events
 - Compensation of employees or cost of services relating to displaying exhibits, making demonstrations and providing briefings (continued)

Advertising & Public Relations Costs (continued)

- Specifically unallowable:
 - Costs of promotional items, memorabilia, **gifts** and souvenirs
 - Costs of advertising and public relations designed solely to promote the organization



2. Advisory Councils

- Allowable:
 - Where authorized as a direct cost
 - Where allocable as an indirect cost



3. Alcoholic Beverages

Costs of alcoholic beverages
are unallowable!



4. Audit costs and related services

- Allowable as direct or indirect based on the circumstances.
 - A-133 or Organization-wide – ordinarily indirect
 - Program specific – direct



5. Bad Debts

- Bad debts, including losses arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable



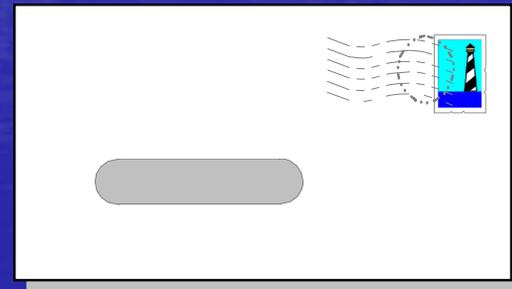
6. Bonding Costs

- Costs of bonding required as a result of the terms of the award are allowable
- General bonding costs of the organization are allowable to the extent they are reasonable and represent sound business practice



7. Communication Costs

Communication costs are allowable



8. Compensation for Personal Services

- Includes all compensation paid currently or accrued by the organization during the period of the award. Compensation costs are allowable when
 - Reasonable
 - Consistent/Allocable
 - Adequately documented(continued)



PL 109-234

- Applies to all ETA appropriated funds
 - All grants, contracts and interagency agreements
- Limits salary and bonus payments to individuals
- Implementation guidance in TEGl 5-06
 - 2008 Limit - \$172,200
 - 2009 Limit - \$177,000
 - 2010 Limit - \$179,700

Who Is Covered

- Individuals paid with ETA appropriated funds
- Direct recipients and all subrecipients
- Direct costs and costs paid through an Indirect Cost Rate
- Vendors are not subject to limitation

Who Is Subject to Limitations

- Covered individuals
 - Anyone receiving wages or bonus payments from recipients or subrecipients under awards funded by ETA appropriations
- Salaries paid at a specific rate
- Bonus payments paid to the individual
- Exclusions
 - Fringe benefits
 - Non-monetary compensation such as a car

Overtime, Extra-pay Shift, and Multi-shift Premiums

- Allowable only with prior approval of the awarding agency except 
 - When necessary to cope with emergencies, etc.
 - When employees are performing indirect functions, such as administration or maintenance
 - In the performance of tests, lab procedures, or other similar operations which cannot be reasonably interrupted
 - When lower overall cost to the Feds will result

Compensation for Personal Services (continued)



- Fringe benefits
 - Generally allowable
 - Authorized absences are allowable if costs are equitably distributed
 - Employer contributions are allowable when paid in accord with established written policies
 - Costs of insurance on key managerial employees is allowable to the extent that it represents additional compensation. These costs are unallowable if the organization is named as the beneficiary (continued)

Compensation for Personal Services (continued)

- Organization-furnished autos
 - Portion that relates to personal use by employees (including to and from work) is unallowable regardless whether reported as income
 - Costs are allowable as direct costs to sponsored award(s) when necessary for the performance and approved by the awarding agency



(continued)

Pension Plans

- 1) Costs of the organization's pension plan which are incurred in accordance with the established policies of the organization are allowable, provided:
 - (a) Policies meet test of reasonableness;
 - (b) Methods of cost allocation are not discriminatory;
 - (c) Cost assigned to each fiscal year is determined in accordance with GAAP; and
 - (d) Costs assigned to a FY are funded for all plan participants within six months after the end of that year.
- 2) Pension plan termination insurance premiums are allowable. Late payment charges are unallowable.
- 3) Excise taxes on fund deficiencies and other penalties are unallowable.

Compensation for Personal Services (continued)



- Incentive compensation
 - Incentive compensation to employees based on cost reductions, or efficient performance, suggestion awards, safety awards, etc. are allowable to the extent that:
 - Overall compensation is reasonable
 - Established plan
 - Consistent treatment (continued)



Severance Pay

- Severance pay is allowable only to the extent that in each case, it is required by
 - Law
 - Employer-employee agreement
 - Established policy that constitutes, in effect, an implied agreement on the organization's part
 - Circumstances of the particular employment
(continued)



Severance Pay (continued)

- Severance payments associated with normal turnover is allowable as an indirect cost
- Abnormal or mass severance shall be considered on a case-by-case basis as to Federal participation in the cost
- Cost for "golden parachute" packages which are in an amount in excess of normal severance pay are unallowable



Compensation for Personal Services (continued)



- Support of salaries and wages
 - Personnel Activity Reports(aka TD)



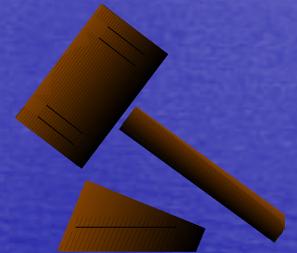
- Must reflect after-the-fact determination of activity
- Must account for total activity for which employee is compensated
- Must be signed by the employee or responsible supervisor
- Must be prepared at least monthly and coincide with one or more pay periods

9. Contingency Provisions

- 
- Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening are unallowable
 - Exceptions might be self-insurance, pension funds and reserves for normal severance pay

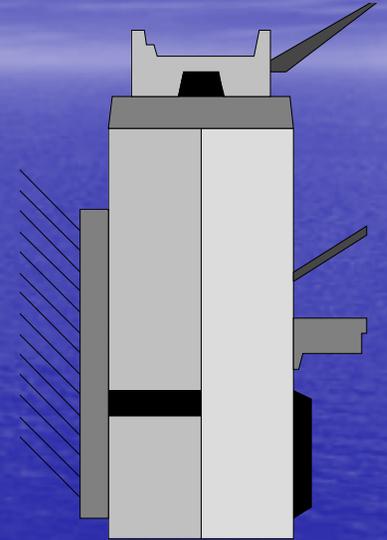
10. Defense & Prosecution of Criminal & Civil Proceedings, Claims, Appeals & Patent Infringement

- These types of cost are generally unallowable
- Legal expenses for
 - Administration of programs are allowable
 - Prosecution of claims against Federal Government are unallowable



11. Depreciation and Use Allowances

- Costs are allowable
- A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment)
- Computation of use allowance or depreciation shall be based on acquisition cost. Acquisition cost of a donated asset shall be the fair market value at the time of donation (continued)



Depreciation and Use Allowances (continued)

- Computation of use allowance or depreciation will exclude:
 - Cost of land
 - Any portion donated by Federal Government
 - Any matching portion
- Maximum use allowance
 - Buildings and improvements = 2% of acquisition cost
 - Equipment = 6 2/3% of acquisition cost

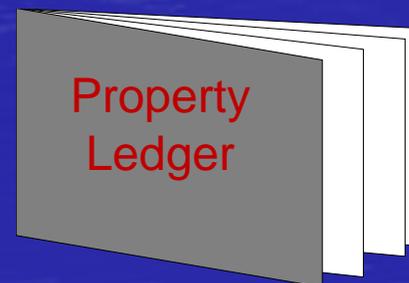


Depreciation and Use Allowances (continued)

- Where depreciation method is followed:
 - Use straight-line or _____
 - Document clear evidence that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life and use another depreciation method
 - “Componentization” of buildings is permitted for purposes of depreciation
(continued)

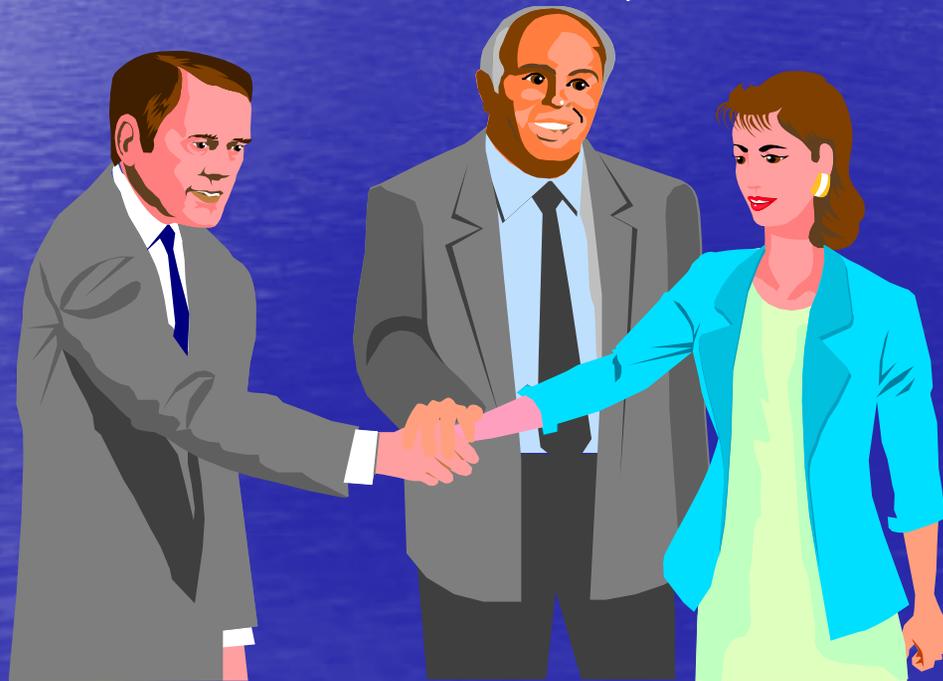
Depreciation and Use Allowances

- Adequate property records must be maintained under either method



12. Donations and Contributions

- The value of donated services, goods or space is not reimbursable either as a direct or indirect cost (continued)



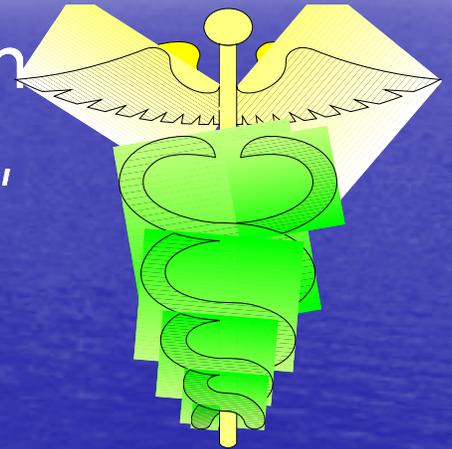
Contributions

Contributions and donations by the organization to others are unallowable



13. Employee Morale, Health & Welfare Costs & Credits

- Examples - In-house publications, health clinics/infirmaries, recreational activities, employee counseling services, etc.
- Costs are allowable if:
 - In accord with established practice
 - Reasonable
 - Equitably distributed to all activities
 - Offset by income earned



14. Entertainment Costs

Costs of amusement, diversion, social activities, ceremonials and costs relating to these activities such as **meals**, lodging, rentals, transportation and gratuities are **unallowable**.



15. Equipment & Other Capital Expenditures

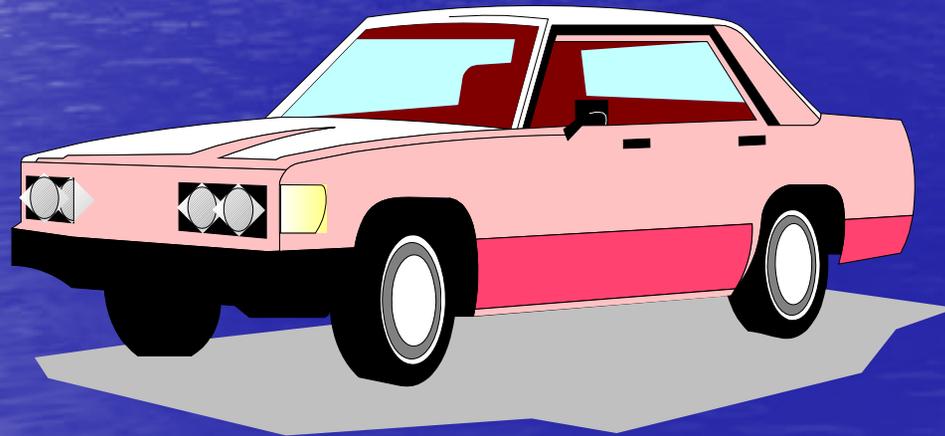
- Equipment - an article of non expendable, tangible personal property having a useful life of more than one year and an acquisition cost equal to or greater than the lesser of:
 - The organization's financial statement capitalization level or
 - \$5,000

(continued)



Equipment & Other Capital Expenditures (continued)

- Unallowable as indirect costs
- Prior approval from the awarding agency must be obtained to direct charge



16. Fines and Penalties

- Costs of failures to comply with Federal, state, or local laws are unallowable
- Allowable if incurred as a result of compliance with specific provisions of an award or instructions in writing from the awarding agency



17. Fund Raising and Investment Management Costs

- Fundraising and similar expenses incurred to solely to raise capital or obtain contributions are unallowable
- Costs of investment counsel & staff and similar expenses are unallowable
- Fundraising and investment activities shall be allocated an appropriate share of indirect costs



18. Gains and Losses on Depreciable Property

- Include profits or losses in the year in which they occur as offsets to appropriate depreciation
- The credit or charge will be the difference between the amount realized on the property and its undepreciated basis



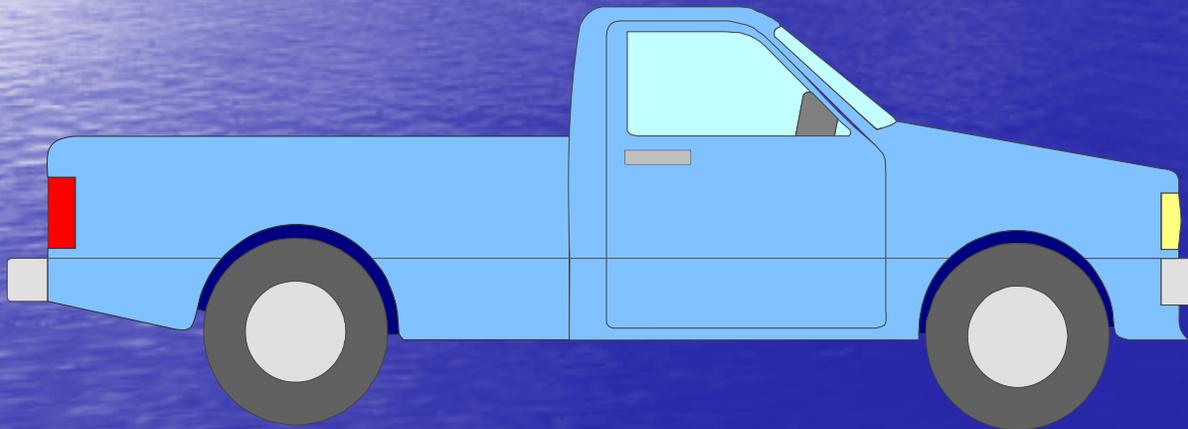
19. General Government Expenses

- General government costs are unallowable
 - Office of Governor or Chief Executive
 - State legislature, county board, city council ...
 - Judiciary branch of government unit
 - General government services
 - Police or Sheriff Department
 - Fire Department



20. Goods or Services for Personal Use

Unallowable regardless of whether the
cost is reported as taxable income



**Federal
Marshal
IRS**

21. Idle Facilities and Idle Capacity



- Unallowable except to the extent that
 - They are necessary to meet fluctuations in workload or
 - Were necessary at one point and because of unforeseen changes are no longer necessary (under this exception, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year)

22. Insurance and Indemnification

- Insurance required or approved pursuant to an award is allowable
- Insurance carried by the organization in general conduct of business is allowable subject to the following limitations
 - Reasonable coverage
 - Other miscellaneous items

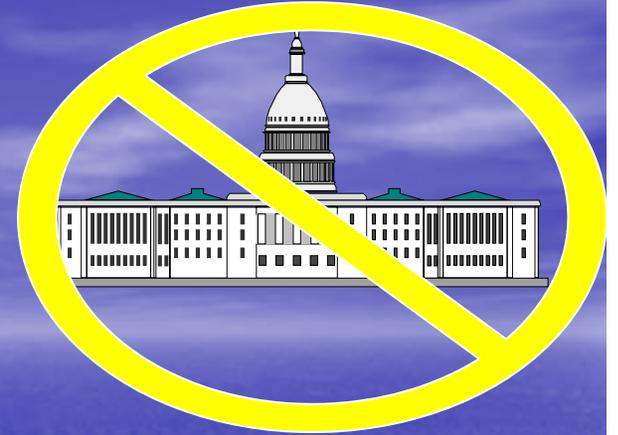


23. Interest

Costs incurred for interest on borrowed capital or temporary use of a government unit's own funds are unallowable.



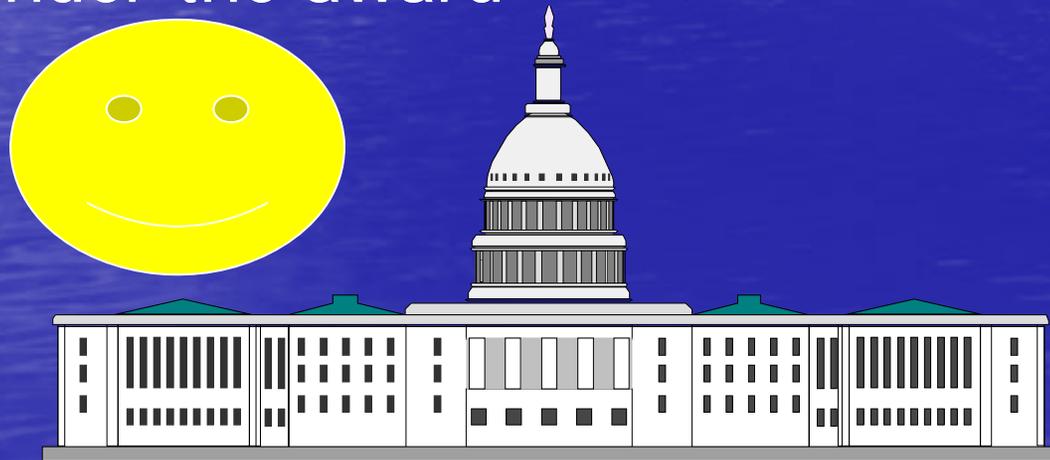
24. Lobbying



- Unallowable
 - Attempts to influence election outcomes
 - Contributing to political causes
 - Attempts to influence Federal or State legislation through virtually any communicative device
 - Legislative liaison activities when performed in support of unallowable lobbying (continued)

Lobbying (continued)

- Allowable
 - Providing a technical presentation on a topic directly related to the performance of an award
 - Any activity specifically authorized by statute to be accomplished with funds under the award



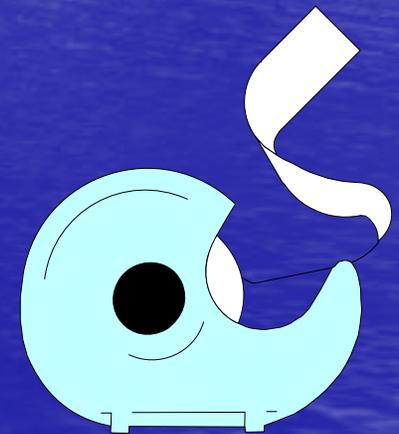
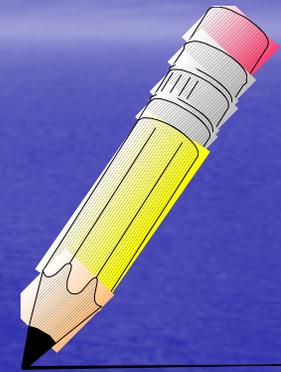
25. Maintenance and Repairs

- Costs necessary to keep buildings and equipment in efficient operating condition are allowable
- Costs which add to the permanent value or appreciably prolong the life of the asset shall be treated as capital expenditures



26. Materials and Supplies

- Costs are allowable
- Remember to charge the cost of materials and supplies at actual prices after deducting all cash discounts, trade discounts, etc.



Buying Pencils or Pens?

- Do you buy them with your organization's name?
 - What is your justification?
 - Is there a significant price difference?
 - Is price reasonable?
 - What is the intended use?
 - Staff writing instrument
 - Participant completion of application, assessment, test
 - Job Fair give away

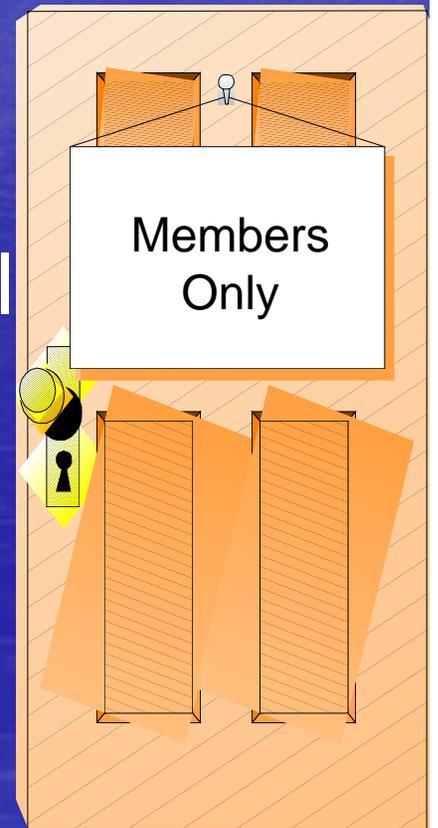


27. Meetings and Conferences

- Costs of meetings and conferences, the primary purpose of which is dissemination of technical material, are allowable including renting facilities, **meals**, speakers fees, etc.
 - Should be charged directly whenever possible

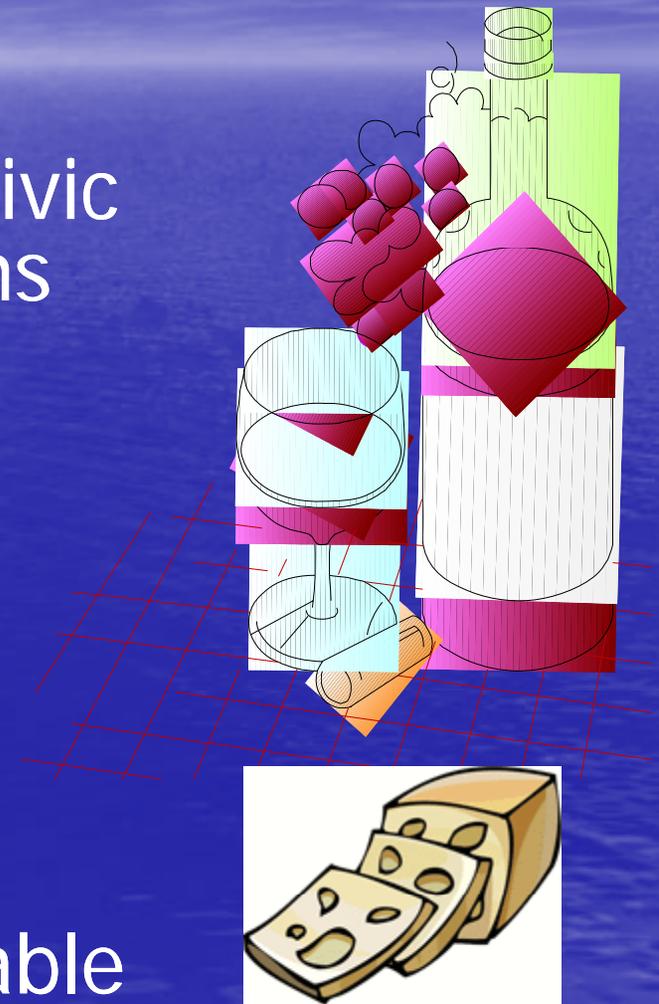
28. Memberships, Subscriptions and Professional Activity Costs

- Membership in business, technical and professional organizations are allowable
- Subscriptions to business, technical and professional periodicals are allowable



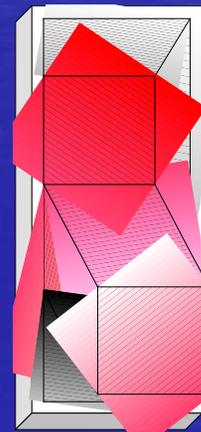
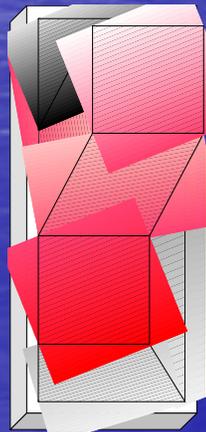
Memberships, Subscriptions and Professional Activity Costs (continued)

- Costs of memberships in civic or community organizations are allowable with prior approval by the cognizant Federal agency
- Memberships in country, social, or dining clubs are unallowable
- Memberships in lobbying organizations are unallowable



29. Patent Costs

Generally, if these types of costs are not required by the award, they are not allowable. (see section 29 for more info)

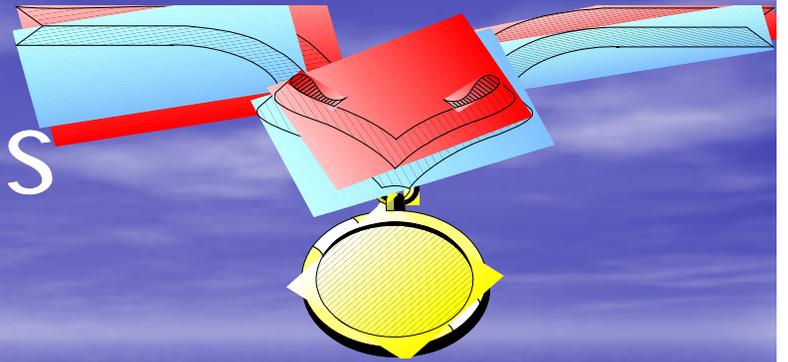


30. Plant and Homeland Security Costs

Necessary expenses incurred to comply with Federal security requirements to protect facilities, personnel and work products are allowable.



31. Pre-award Costs



- Pre-award costs are costs incurred prior to the effective date of the award directly pursuant to the negotiation of the award
- Pre-award costs are allowable only to the extent that they would have been allowable if incurred after the effective date of the award and only with the written approval of the awarding agency

32. Professional Service Costs

- Costs of professional and consultant services rendered by a particular profession or possess a special skill, and who are not officers or employees of the organization are allowable after considering the following factors
 - Nature and scope of services rendered
 - Necessity for contracting for the service
 - Past pattern of such costs (continued)



Professional Service Costs (continued)

- Impact of Federal awards on the organization's business
- Proportion of the organization's Federal to non-Federal work
- Whether the work can be done more economically by direct employment
- Qualifications of the individual or concern rendering the service
- Adequacy of the contractual agreement for the service



33. Proposal Costs

- Proposal costs should be treated as allowable indirect costs and allocated to all activities of the governmental entity
- Proposal costs may be charged as a direct cost only with the prior approval of the Federal awarding agency



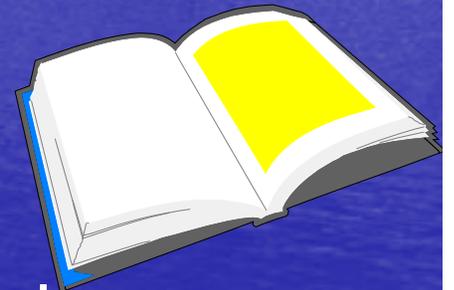
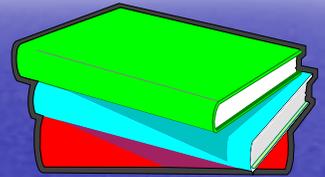
34. Publication & Printing Costs

- Generally allowable
- Allocate as indirect if not identifiable with a particular cost objective
- Also includes page charges in professional publications



Page Charges in Professional Journals

- Allowable as a necessary part of research costs, where
 - The papers report on work supported by the Federal government
 - The charges are impartially levied by the journal on all research papers whether supported by Federal funds or not



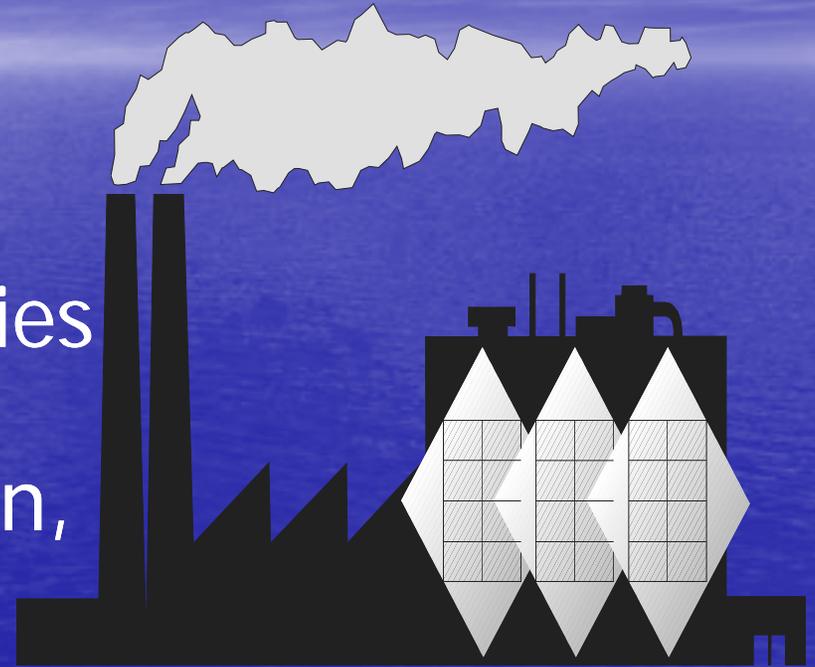
35. Rearrangement and Alteration Costs

- Allowable if ordinary or normal
- Special arrangements and alterations need prior approval of the awarding agency



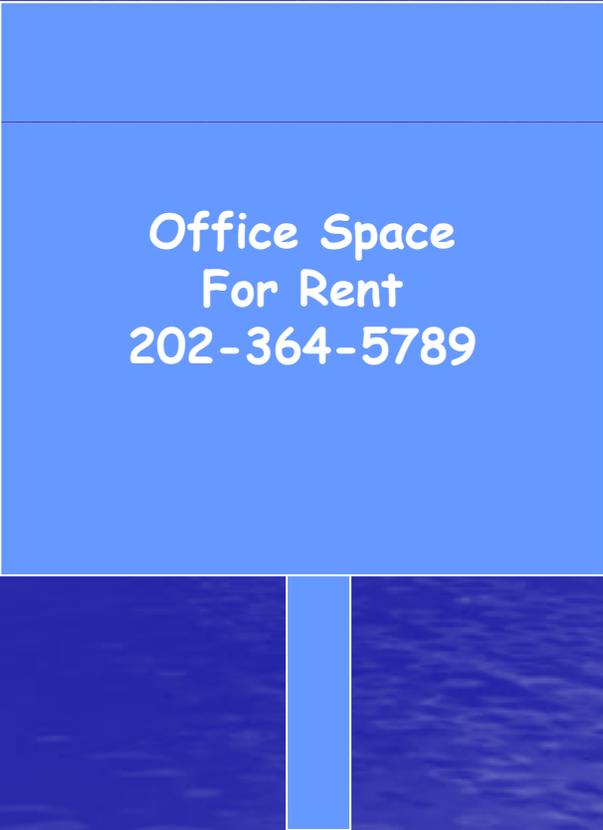
36. Reconversion Costs

- Cost incurred for restoration or rehabilitation of facilities to approximately the same original condition, less costs related to normal wear and tear, are allowable.



37. Rental Costs of Buildings and Equipment

- Rental costs are generally allowable if the rates are reasonable
- Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property (continued)



Office Space
For Rent
202-364-5789

Rental Costs (continued)

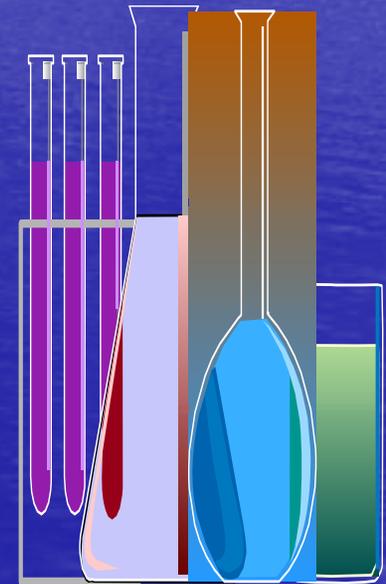
Rental costs under less-than-arms-length leases(those in which one party is able to control or substantially influence the actions of the other) are allowable only up to the amount that would be allowed had title to the property vested in the organization



N. Fluence

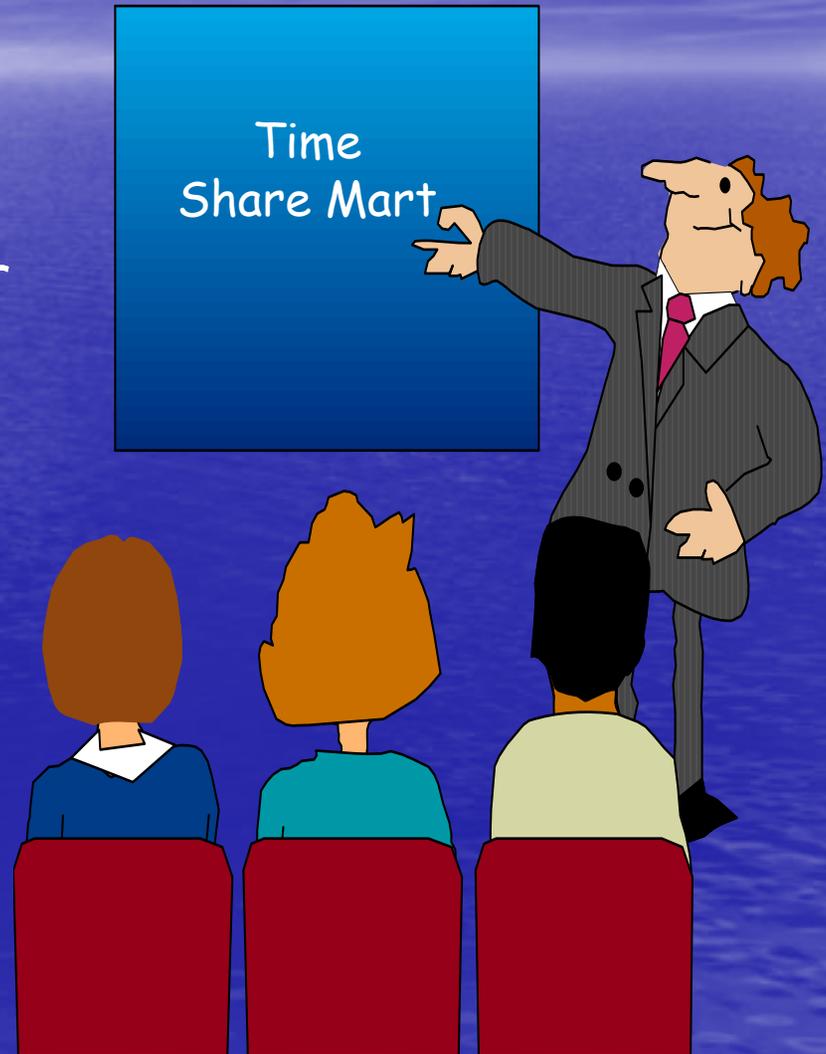
38. Royalties and Other Costs for use of Patents

- Generally, costs necessary for proper performance of the award are allowable unless patent or copyright
 - Can be used for free by the Federal government
 - Has been adjudicated as invalid
 - Is considered unenforceable
 - Has expired



39. Selling and Marketing

- Costs of selling and marketing products or services of the organization are unallowable



40. Taxes



- Taxes are generally allowable except for
 - Self-assessed taxes that disproportionately affect Federal programs
 - Taxes from which exemptions are available
 - Special assessments on land which represent capital improvements and
 - Federal income taxes
- Applicable credits(offsets to taxes) must be taken where appropriate

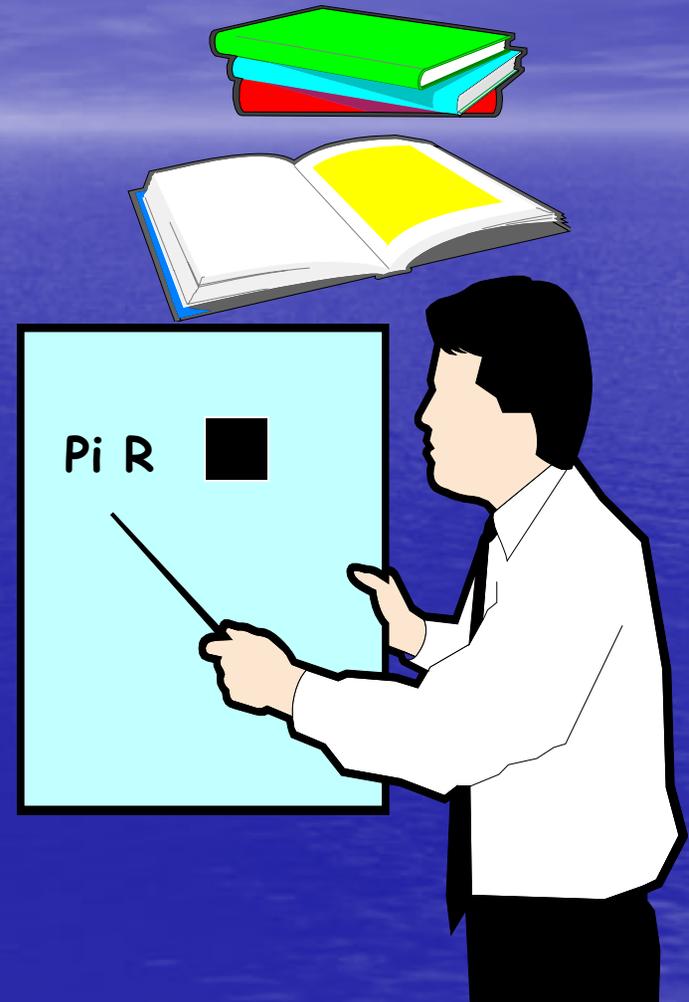
41. Termination Costs

- Termination of awards generally give rise to costs which would not have arisen had the award not been terminated
- Reasonable and customary costs of terminating an award are generally allowable
- See A-87, Section 41, for more specifics

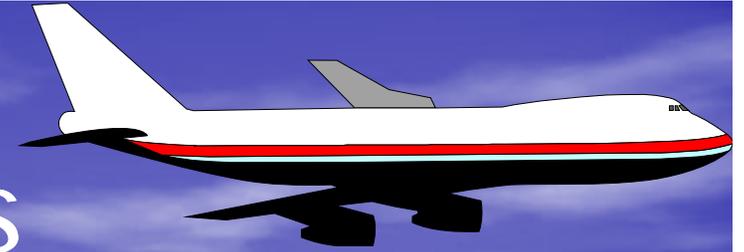


42. Training Costs

- Generally, training and education costs related to employee development, such as, workshops, textbooks, classes, etc. are allowable



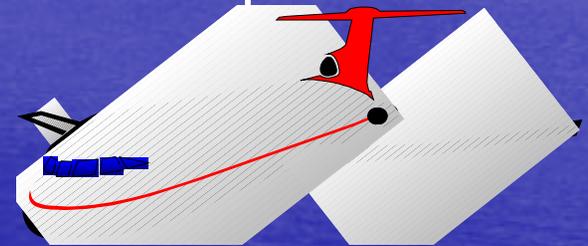
51. Travel Costs



- Expenses for transportation, lodging, subsistence, and related items incurred by employees on official business are allowable
- Such costs may be charged on an actual basis, per diem or mileage basis or a combination, but must be consistent with those normally allowed by the organization
(continued)

Travel (continued)

- The difference between first class and less than first class air accommodations is unallowable except when the lesser would
 - Require circuitous routing
 - Require travel during unreasonable hours
 - Greatly increase the duration of the flight
 - Result in additional costs offsetting the savings
 - Not meet the medical needs of the traveler



Foreign Travel



- Only allowable with prior approval of awarding agency
- Each separate foreign trip must have prior awarding agency approval
- Foreign = outside of Canada, Mexico, the United States and its territories and possessions

WHEW!!

Questions??

