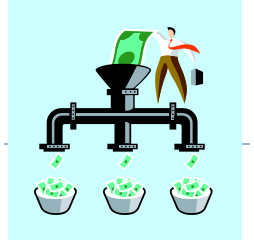

Allowable and Unallowable Costs:

A Closer Look at the Federal Cost Principles

NCLB Management Institute

June 8, 2011

Dr. Earin M. Martin

TEA Chief Grants Administrator

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Federal Cost Principles

- What are the Federal Cost Principles – where do they come from?
- 3 Sets of Federal Cost Principles
- Direct Costs vs. Indirect Costs
- Basic Guidelines for Allowable Costs
- Reasonable and Necessary Costs
- TEA Guidance pertaining to allowable costs and unallowable costs
- Practice

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Federal Cost Principles

- Federal Cost Principles – provide federal agencies and federal award recipients with a uniform approach to determining costs of federally funded programs (3 different sets of federal cost principles)
- Now codified in regulation – Title 2 of the CFR – take full force and effect of law
- Designed to provide that the Federal government bear its fair share of costs
- Expectation that organizations will administer Federal funds properly and in a manner consistent with the sound management practices that the organizations apply to their own revenues
- Provide for consistent treatment of costs
- All costs must be <u>reasonable</u> and <u>necessary</u> to carry out the grant program

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- All 3 sets also incorporated into 34 CFR 80.22. Allowable costs, for all federal grants

- OMB Circular A-87 is also incorporated in the Uniform Grant Management Standards (adopted by the Governor's Office) and applies to both state and federal grants

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3 Sets of Federal Cost Principles

- OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments
- http://www.whitehouse.gov/omb/circulars/a087/a087-all.html

- OMB Circular A-122, Cost Principles for Non-Profit Organizations
- http://www.whitehouse.gov/omb/circulars/a021/a021.html

- OMB Circular A-21, Cost Principles for Educational Institutions
- http://www.whitehouse.gov/omb/circulars/a122/a122.html

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OMB Circular A-87

- OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments

- Federal cost principles for:
  - (a) State governments, including any of the 50 states and state agencies, etc.
  - (b) Local governments, including school districts, special districts (ex: regional ESCs, councils of government), cities, counties, etc.
  - (c) Open enrollment charter schools operated by an LEA

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OMB Circular A-122

- OMB Circular A-122, Cost Principles for Nonprofit Organizations

- Federal cost principles for:
  - (a) Nonprofit organizations
  - (b) Open enrollment charter schools operated by a nonprofit organization

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OMB Circular A-21

- OMB Circular A-21, Cost Principles for Educational Institutions

- Federal cost principles for:
  - (a) Colleges and universities
  - (b) Open enrollment charter schools operated by a college or university

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Direct and Indirect Costs

- All costs charged to a grant are either DIRECT costs or INDIRECT costs
- All costs must be consistently classified from one grant program to another as either DIRECT or as INDIRECT in like circumstances

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Direct Costs

- Direct costs - can be identified specifically with a particular final cost objective –
- i.e., cost can be readily assigned to a particular cost objective with a high degree of accuracy
- Cost objective – a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred
- Single cost objective – Ex: a single grant program, or a single initiative/activity funded from several eligible funding sources. Ex: Parent Involvement initiative
- Multiple cost objectives – Ex: More than one grant program/activity

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Direct Costs

Typical direct costs chargeable to federal grants are:

(a) Salaries and benefits for employees who devote time to a specific grant program

(b) Purchased and contracted services for a specific grant program

(c) Cost of materials purchased for a specific grant program

(d) Equipment purchased for use in a specific grant program

(e) Travel costs associated with a specific grant program

Budgeted in your grant application by class/object code (6100 – 6600)

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Indirect Costs

- Costs that are incurred for common or joint purposes.
- Costs that benefit more than one cost objective (e.g., a federal award, state project, or activity), i.e., multiple cost objectives
- Costs that cannot be specifically identified with a particular grant program without effort disproportionate to the benefits received
- Usually Accounting, Budget, Human Resources, Purchasing, Building Maintenance, etc.

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Indirect Costs

- Must have approved indirect cost rate to charge indirect costs to grants
- Maximum 8% for federally funded grants, or your approved rate, whichever is less
- Maximum 15% for state-funded grants, or your approved rate, whichever is less

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Basic Guidelines

To be allowable under Federal awards, costs must meet the following general criteria:

- Be reasonable and necessary for proper and efficient performance and administration of Federal awards.
- Be allocable to Federal awards under the provisions of the Circular.
- Be authorized or not prohibited under State or local laws or regulations. (If state law or guidelines are more restrictive, must follow the more restrictive state law.)
- Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

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Basic Guidelines

- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

- 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.

- Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles (GAAP).

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Basic Guidelines

- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

- Be the net of all applicable credits (rebates, discounts, refunds).

- Be adequately documented.
  Documentation, Documentation, Documentation

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Reasonable and Necessary

- All costs must be reasonable and necessary to carry out the grant project

- Reasonable
  - what the current market will bear for comparable goods and services
  - in accordance with prudent business practice

- Necessary
  - Necessary to carry out the objectives of the grant project

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What does “Reasonable” Mean?

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.

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Determining Reasonableness

Consider:

- Whether the cost is of a type generally recognized as ordinary and necessary for the performance of the award.
- The restraints or requirements imposed by such factors as: sound business practices, arms length bargaining; Federal, State and other laws and regulations; and terms and conditions of the Federal award.
- "arms-length agreement" – an agreement under which one party does not control or have substantial influence over the other party

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Determining Reasonableness

- Current market prices for comparable goods or services.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee organization, its employees, the public at large, and the Federal government.
- No significant deviations from the established practices of the grantee which may unjustifiably increase the Federal award's cost.

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What are Allocable Costs?

- A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
  - Cost objective: a function, grant, contract, or other activity for which cost data are needed and for which costs are incurred . It is possible for some costs to benefit more than one program – multiple cost objectives – must prorate costs among programs

- A cost allocable to a particular Federal award or cost objective may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

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What Does “Necessary” Mean?

- A cost is necessary when it is vital or required in order to meet the objectives of the grant or for the grant to be successful.

- It is not “nice to have”.

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Selected Items of Cost

- Each set of cost principles contains a list of "Selected Items of Cost".
- Lists are very similar among the 3 sets of cost principles.
- However, within the items of cost, there are many similarities, but there are also some key differences.

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3 Different Kinds of Costs

- Costs that are allowable
- Costs that are allowable only with specific approval (specifically identified and budgeted in the grant application)
- Costs that are unallowable

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TEA Guidance Related to Allowable and Unallowable Costs

- SAS Instructions for Budget Schedules
- Part 1: General and Fiscal Guidelines and Part 2: Program Guidelines
- Grants Management Resources on TEA's website
http://www.tea.state.tx.us/index4.aspx?id=8339&menu_id=951
  - TEA Guidelines Related to Specific Costs
  - Side-by-Side of Federal Cost Principles
  - Links to all 3 sets of Federal Cost Principles
- FAQs: TEA Grants in General
http://ritter.tea.state.tx.us/opge/grantdev/faq.html

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Allowable Payroll Costs

- Compensation for Personal Services

- Allowable to the extent that:
  - compensation is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to federal and non-federal activities
  - salaries and wages are supported by time and effort reports

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Allowable Payroll Costs

- Compensation is considered reasonable to the extent:
  - it is consistent with that paid for similar work for non-grant funded employees

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Time and Effort

- School Districts, ESCs, Open Enrollment Charter Schools Operated by an LEA
  - T&E for employees working less than 100% on grant
  - 6-Month Certification for 100% – waived under EdFlex for many formula NCLB programs - must maintain signed and dated job description
  - Substitute System
- Open Enrollment Charter Schools Operated by a Nonprofit Organization
  - T&E 100% of the time – fully or partially funded – no 6-month certification available
  - Substitute System

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T&E Records

- Must:
  - reflect after-the-fact distribution of actual activity of each employee
  - account for 100% of an employee's time
  - be prepared at least monthly and coincide with one or more pay periods
  - be signed (and dated) by the employee
- Budget estimates may be used for interim accounting purposes but do not qualify as support for charges to grant – must compare actual to budgeted at least quarterly
- Substitute systems

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Components of T&E Records

- 3 components:
  - A description of the activity
  - The amount of time spent on that activity
  - The funding source to charge the activity to

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Let’s Have Some Fun

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- Can an awards banquet, ceremony, or celebration be paid for from grant funds?

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- The district is conducting an all-day cloistered training for staff or participants. Can grant funds be used to pay for lunches?

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- Can refreshments or breaks for training or staff meetings be paid for from grant funds?

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- Parental involvement at the campus level is poor. Refreshments or light snacks will be provided during the parental involvement meetings to encourage attendance at these meetings. Can these refreshments be paid for with grant funds?

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- Are salaries for superintendents allowable?

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- Are salaries for principals and assistant principals allowable?

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- Can grant funds be used to pay for construction costs?

- Even in schoolwide programs?

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- Can grant funds be used to pay for renovation/remodeling costs?

- Even in schoolwide programs?

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- We'd like to purchase some gifts to thank some volunteers who really helped us with our program. Is this allowable?

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- We'd like to purchase some "give-aways" for a conference we are sponsoring. Is this allowable?

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- We'd like to provide door prizes at a parent meeting. Is this allowable?

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- Our local travel policy allows reimbursement for mileage at 45 cents per mile. Is it allowable to reimburse grant-funded employees the full amount allowable (currently 51 cents per mile)?

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- We reimburse employees for the per diem for meals, regardless of how much they actually spend. Is this allowable?

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Resources

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