Uniform Guidance: Cost Principles

Why This Session Is Needed

Changes to many Cost Principles and Selected Items of Cost
Impact of changes on current operations
Required systems updates

Lesson Overview & Module Objectives

- Identify applicability to recipients and sub-recipients
- Describe the DOL exceptions and major changes
- Identify additions and deletions
- Apply requirements to the determination of allowable costs
Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by circling the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

- I am fully aware of the structure of the revised Cost Principles.
- I understand the significant changes to Subpart E.
- I know the applicability of DOL exceptions to specific sections.
- I am knowledgeable regarding the Selected Items of Cost.
- I understand the various requirements for prior approval as described in the Selected Items of Cost.

General Cost Principles

- Identify applicability to recipients and sub-recipients

Factors Affecting Allowability:

- Necessary and reasonable
- Adequately documented
- Not used for cost sharing or matching funds
- In accordance with GAAP
- Conform with federal law, guidelines and grant terms
- Accorded consistent treatment
- Consistent with policies and procedures
- Legal under state and local law
Necessary and Reasonable
(1 of 2)

**200.404 Reasonable cost** does not exceed what would be incurred by a prudent person under prevailing circumstances when decision was made to incur the cost.

A foundation for allowable costs

- Necessary for the performance or administration of the grant
- Follow sound business practices
- Fair market prices
- Act with prudence
- No significant deviation from established prices

Practical aspects of necessary
- Is this item or service needed to meet grant goals? Is this the minimum amount I need to spend to meet my need?

Practical aspects of reasonable
- Do I have the capacity to use what I am purchasing?
- Did I pay a fair rate?
- If I were asked to defend this purchase, would I be comfortable?

Adequately Documented

- Amount of funds and how funds are used
- Total cost of the project
- Percentage of costs provided by other sources
- Records that show compliance/performance
- Other records to facilitate an effective audit
- Allocations benefit to the grant
Additional Standards

- Applicable Credits
- Composition of Costs
- Prior Written Approval
- Special Considerations

Program Regulations

Program regulations may have prohibited costs

- SCSEP 2 CFR 641
- WIA 20 CFR 667.260-268
- WIA 20 CFR 668.340-350

See the Selected Items of Cost for details

Program Limitations

- Salaries & Bonus Limitations TEGL 5-06
- Public Service Employment Programs
- SESA Real Property
- Legal expenses for prosecution of claims, ALJ audit appeals or civil actions
WIOA Limitations

WIOA – Section 181(e) Prohibits use of funds for:
- Employment-Generating activities
- Revolving loan funds
- Business capitalization
- Economic development
- Foreign travel

Applicability

- Must be used to determine allowable costs
  - Work performed by non-Federal entity under Federal award
- Used as guide in pricing of fixed-price contracts and subcontracts

Exceptions

- Fixed amount awards
- Loans, scholarships, fellowships, etc
- Awards to Hospitals

Status Check

Are the statements true or false?

- The cost principles are the criteria for charging costs to a Federal award
- The standards for documentation include performance information
- Salary and bonus restrictions no longer apply with the new Principles
Learning objectives for this section

• Describe the DOL exceptions and major changes

Significant Changes

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Prior Written Approval

Grant Officer is the only authorized official to provide written approval (2900.12)

Request for approval must be submitted not less than 30 days before requested action occurs (2900.16)

Significant changes in the Cost Principles have added prior written approval requirements (200.407)

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Prior Approval Applicability

As a discretionary (non-formula) Grantee

• Must obtain prior ETA approval in the same way as other direct recipients of discretionary grant funds

As the State Formula Grantee

• For approval of State and Local Workforce Investment Area (LWIA) costs

• Prior approval authority is delegated to the Governor

• No additional ETA approval is required
**Applicability**

- Recipients, sub-recipients, pass-through entities
- States and local governments
- Institutions of Higher Education (IHE)
- Non-profit organizations
- For-profit or commercial entities
- Indian tribes
- Foreign organizations and foreign public entities

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**Cost Allocation and Indirect Costs**

- DOL clarification at 2900.17
  - Adjustments or refunds and effect on IDC rates
- 200.413—Discussion of Direct Costs
- 200.418 – Distinctions
- Use of Appendices

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**De Minimis Rates**

<table>
<thead>
<tr>
<th>Type of Indirect Cost Rate discussed at 200.616(e)</th>
<th>Covered in Indirect Cost Module</th>
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</thead>
<tbody>
<tr>
<td>Has costs classified as indirect costs</td>
<td>Entity never received or does not currently have a negotiated indirect cost rate</td>
</tr>
<tr>
<td>Entity eligible to receive rate</td>
<td>May charge an indirect cost rate of 10% of modified total direct costs (MTDC)</td>
</tr>
</tbody>
</table>
Learning objectives for this section

- Identify additions and deletions
- Apply requirements the determination of allowable costs

Types of Costs

<table>
<thead>
<tr>
<th>Allowable</th>
<th>Unallowable</th>
<th>Allowable with conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Training Costs</td>
<td>• Entertainment</td>
<td>• Personnel</td>
</tr>
<tr>
<td>• Collection of Improper Payments</td>
<td>• Fines and Penalties</td>
<td>• Donations</td>
</tr>
<tr>
<td>• Health and Welfare</td>
<td>• Bad Debts</td>
<td>• Interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• (Most Costs)</td>
</tr>
</tbody>
</table>

Advisory Councils
2 CFR 200.422

- Unauthorized by statute
- Authorized by Federal agency
- As an indirect cost where allocable
**Advertising**

2 CFR 200.421

- Costs of media including electronic media
- Incorporates “Communication Costs”

- Recruitment of Personnel
- Procurement of goods and services

- Advertising and Public Relations are distinct types of cost

**Public Relations**

2 CFR 200.421

Allowable

- Communication Costs
- Community Outreach
- Program specific awards
- General program liaison

Unallowable

- Memorabilia
- Organizational Recognition
- Promotional Items

**Capital Assets**

2 CFR 200.12

Applies to:

- Equipment
- Real Property
- Major Renovations
- Intellectual property

- Expenditures capitalized in accordance with GAAP
**Child Care**

**2 CFR 200.432**

- **Cost of searching for and obtaining child care** is **allowable**
- **Cost of actual child care** is **unallowable**

*See Conference costs*

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**Collection of Improper Payments**

**2 CFR 200.428**

- **New item of cost**
- **Allowable**
  - Either direct or indirect
  - Use of amounts collected specified

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**Contingency Provisions**

**2 CFR 200.433 & 2900.18**

- **Generally unallowable**
- Allowable only under strict conditions:
  - Included in budgets
  - Broadly accepted cost estimating methods
  - For budget purposes only
- Any type of “reserve” is unallowable
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Conferences 200.432 (1 of 2)

- Meeting
- Retreat
- Seminar
- Workshop

Primary purpose is dissemination of technical information beyond the non-federal entity

- Rental cost
- Speaker fees
- Meals and refreshments
- Local transportation

Allowable with conditions

Conferences 200.432 (2 of 2)

- Must exercise discretion and judgment in ensuring conference costs are appropriate, necessary, and minimize costs to the federal award.

Equipment 2 CFR 200.33 & 200.439

**Definition**

- Tangible personal property (use life > 1 year)
- $5000 cost or entity capitalization level
- Computing devices: IT systems, General and special purpose

**Management Requirements**

- Specifies acquisition and use requirements
- Prior approval required
- Expensed in period acquired

- Unless further restricted by the terms of the federal award
Fines and Penalties
2 CFR 200.441

Defined as fines, penalties, damages, violations of Federal and/or local laws

Unallowable

Examples are parking tickets, DUI equipment, late payment penalties

Cross reference - Defense of claims against the government - unallowable

Employee Health and Welfare Costs
2 CFR 200.437

Allowable with conditions

Conditions
• Health and welfare of staff
• In accordance with documented policies
• Must be allocated

Losses generally unallowable

Eliminates “morale costs”

Entertainment
2 CFR 200.438

Limited exceptions

Programmatic purpose AND

Authorized within budget OR

Authorized by awarding agency (prior approval)

Unallowable

Examples:
• Sports event tickets
• Gift cards
• Movie tickets
**Intellectual Property**

*2 CFR 200.448 & 2900.13*

- Combines patent and royalties from Circumstans
- Does NOT address licensing requirements
- Further clarifies allowable and unallowable costs associated with each
- Reference requirements for intangible property
  - DOL exception includes use of Creative Commons license
  - Allows subsequent use in manner specified by the awardee

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**Lobbying**

*2 CFR 200.450*

- Costs of lobbying are unallowable
- Lobbying includes any actions
  - Designed to influence the obtaining of grants
  - Designed to influence or give special consideration to acting on an award or regulatory matter
- Governed by multiple statutes

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**Participant Support Costs**

*2 CFR 200.456 & 469, 2900.19*

- Allowable as defined
- Check your grant agreement
- Student Activity fees are unallowable
- DOL exception at 2900.19
- Allowable if meet a program requirement
- Have prior written approval
**Status Check**

Are the statements true or false?

- Advertising costs include electronic media
- Conference costs include the cost of meeting space
- DOL requires a Creative Commons license for intellectual property developed with grant funds
- The costs of collecting bad debts are unallowable.

**For Your Consideration**

- Are there changes that you should be making in your award documents for future awards?
- How will the written prior approval requirements impact your program operations?
- Will some of the new restrictions on costs affect your program design in future awards?

Complete the QSAP to help identify next steps.

**Key Concepts**

- The Uniform Guidance consolidates the definitions and many have been changed or deleted.
- No change to premise of necessary and reasonable.
- The Cost Principles have been consolidated into Subpart E of the Uniform Guidance.
- The Selected Items of Cost have been clarified and many are new.
Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by circling the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

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THANK YOU!

PLEASE COMPLETE YOUR EVALUATIONS

“Procrastination is the art of keeping up with yesterday.”

-Don Marquis