Uniform Guidance: Cost Principles
Uniform Guidance vs. OMB Circulars

- Prior to the Uniform Guidance, requirements governing cost principles, administrative requirements and single audit requirements were found in eight separate OMB Circulars.

- In addition to the Uniform Guidance, recipients and subrecipients of a DOL award must adhere to 2 CFR 2900 found at www.ecfr.gov.

- Adopted on December 19, 2014, includes a limited number of exceptions approved by OMB to ensure consistency with existing policy and procedures.

- Expanded at 2 CFR 2900.2, the exceptions definition of non-Federal entity includes for-profit or commercial and foreign entities.

- Grant recipients and subrecipients of DOL funds that are commercial or for-profit entities or foreign entities must adhere to 2 CFR 200 and 2 CFR 2900.
The information in this course will help you to better understand the Cost Principles in the Uniform Guidance.

- The way in which costs can be charged to a grant has not changed.
- We will reinforce when a cost is necessary, reasonable, allowable and allocable.

We will also focus our attention on:

- Changes to many cost principles
- Impact of changes on current operations
- Selected items of costs
SECTION 1: General Cost Principles

SECTION 2: Describe Significant Changes

SECTION 3: Selected Items of Cost
Course Objectives

At the end of this course, you should be able to:

• Identify the general cost principles and applicability to recipients and sub-recipients.

• Describe the exceptions listed in the cost principles and selected items of cost.

• Identify changes to the selected items of cost and impact on recipient operations.

• Apply requirements to financial activities under the grant, specifically to the determination of allowable costs.
SECTION 1:
General Cost Principles
Fundamental Premise

Recipients and subrecipients assume responsibility to administer the award in an efficient and effective manner consistent with the terms and conditions of the award and applies sound management practices.

Factors include the restriction of earning and keeping profit.

DOL funds that are commercial, for-profit or foreign entities must adhere to 2 CFR 200 and 2 CFR 2900.
Applicability and Exception of Cost Principles

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

- Exceptions
  - Fixed amount awards
  - Loans, Scholarships, fellowships, etc.
  - Awards to Hospitals
Standards

Cost Factors Affecting Allowability

- Necessary, allocable and reasonable
- Adequately documented
- Not used for cost sharing or matching funds

In accordance with GAAP
(In most situations GAAP must be followed)

Conform with Federal law, guidelines and grant terms

Accorded consistent treatment

Consistent with policies and procedures
A cost is reasonable if it does not exceed what would be incurred by a prudent person under prevailing circumstances when the decision was made to incur the cost.

Costs should be necessary and reasonable:

- Necessary for the performance or administration of the grant
- Follow sound business practices
- In line with fair market prices
- Act with prudence
- No significant deviation from established prices
Necessary and Reasonable

A Foundation for Allowable Costs

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?
...if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.
Specified requirements for all Federal grants in the Uniform Guidance.

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

- Applicable Credits
- Composition of Costs
- Prior Written Approval
- Special Considerations
ETAs or Program Specific Limitations

- **Salaries & Bonus Limitations**: TEGL 05-06
- **SESA Real Property**
- **Public Service Employment Programs**
- **Legal expenses for prosecution of claims, ALJ audit appeals or civil actions**
WIOA Specific Limitations

WIOA – Section 181(e)
Prohibits use of funds for:

- Employment-Generating activities
- Revolving loan funds
- Business capitalization
- Economic development
- Foreign travel
Knowledge Check

Knowledge Check
The cost principles are the criteria for charging costs to a Federal award.

- A) True
- B) False
The answer is True.

ALL costs that are charged to a Federal grant must meet the cost principles.
The standards for documentation include performance information.

- A) True
- B) False
The answer is True.

As stated in the overview section, the Uniform Guidance places an increased emphasis on the use of performance data and the achievement of performance goals. Recipients and subrecipients must maintain documentation that adequately demonstrates or shows that costs charged to a grant or program are allowable, reasonable, necessary, and allocable.
Salary and bonus restrictions no longer apply with the new Principles.

- A) True
- B) False
The answer is False.

There are specific salary and bonus restrictions contained in the Uniform Guidance. Additionally there are restrictions specific to certain ETA funded programs as outlined in TEGL 05-06. In addition to the terms and conditions of the grants, this requirement can be found in the DOL appropriation language and in the Workforce Innovation and Opportunity Act.
SECTION 2: Significant Changes
Prior Written Approval

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

Request for approval must be submitted no less than 30 days before requested action occurs (2900.16)

Significant changes in the Cost Principles have added prior written approval Requirements (200.407)
Prior Approval Applicability

State Discretionary (non-formula) Recipient

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

As the State Formula Grantee

- Prior approval authority is delegated to the Governor.
- No additional ETA approval is required.
Applicability

Recipients, subrecipients, pass-through entities

- States and local governments
- Non-profit organizations
- Native American tribes
- Institutions of Higher Education (IHE)
- For-profit or commercial entities
- Foreign orgs and foreign public entities
Cost Allocation and Indirect Costs

- 2 CFR 200.411 Clarification
- DOL clarification at 2 CFR 2900.17
  - Adjustments to IDC rates may need re-approval.
- 2 CFR 200.413—Discussion of Direct Costs
- Use of Appendices
De Minimis Rates

A type of Indirect Cost Rate discussed at 200.414(f)

- Has costs classified as indirect costs
- Entity has never received a negotiated indirect cost rate

Covered in Indirect Cost Module

- Entity eligible to receive rate
- May charge an indirect cost rate of 10% of modified total direct costs (MTDC)
SECTION 3: Selected Items of Cost
### Types of Costs

#### Allowable
- Training Costs
- Collection of Improper Payments
- Health and Welfare

#### Unallowable
- Entertainment
- Fines and Penalties
- Bad Debts

#### Allowable with Conditions
- Personnel
- Donations
- Interest
- (Most Costs)
The costs of Advisory Councils are unallowable unless certain conditions have been met.

These exceptions hold true unless the costs are:
• Authorized by statute,
• Authorized by Federal agency, or
• Included as an indirect cost where allocable.
Advertising

- 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 are capitalized in accordance with GAAP. Examples are:

- Real Property
- Intellectual Property
- Major Renovations
- Equipment

2 CFR 200.439
Dependent Care for a Conference

Cost of actual child care is unallowable

Cost of searching for dependent care is allowable

Provision can be found in the Selected Item for Conference costs

2 CFR 200.432
Collection of Improper Payments

New item of cost:
  • Allowable
  • Either direct or indirect
  • Use of amounts collected specified

2 CFR 200.428
Contingency Provisions

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

2 CFR 200.433 and 2900.18
Conferences

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

2 CFR 200.432
Equipment

2 CFR 200.33 and 200.439

Definition

Tangible personal property (use life > 1 year)

$5000 cost or entity capitalization level

Management Requirements

Specifies acquisition and use requirements

Prior approval required
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”
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 and 2900.13

Combines patent and royalties from Circulars
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
Lobbying

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

2 CFR 200.450
Participant Support and Student Activity Costs

2 CFR 200.456
Participant Support Costs

- Allowable with prior approval
- Your grant agreement may contain that prior approval

2 CFR 200.469 and 2900.19

- Unallowable in the Uniform Guidance
- DOL exception at 2900.19.
- These are allowable if they:
  - Meet a program requirement AND
  - Have prior written approval

See Subpart E of the Uniform Guidance for a complete list of Items of Selected Cost
Knowledge Check
Advertising costs include electronic media.

- **A) True**
- **B) False**
The answer is True.

The updates to the Guidance now specifically reference the use of electronic media such as webpages.
DOL requires a Creative Commons license for intellectual property developed with grant funds.

- A) True
- B) False
The answer is True.

All materials developed with grand funds must be licensed under Creative Commons.
The costs of collecting bad debts are unallowable.

A) True
B) False
The answer is False.

The Guidance specifically allows these costs to be charged to the grant under specific conditions.
Section 1: General Cost Principles
- Identified factors affecting allowability.
- What is considered necessary, reasonable and allocable.
- What the required documentation and standards are.
- Program specific regulations and limitations.

Section 2: Significant Changes
- Prior written requirements.
- Applicability for recipients, sub-recipients and pass-through entities.
- Cost Allocation, Indirect Costs and De Minimis Rates.

Section 3: Selected Items of Cost
- Types of Costs that are allowable, unallowable or allowable with conditions.
This presentation is complete.