

OHIO AUDITOR OF STATE
KEITH FABER

2023 Local Government Officers Conference
Cost Principles
A Deeper Dive

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Objectives for the Day

What are Cost Principles?

Determine which regulation apply under a given circumstance.

Understand the reach of the cost principles.

Understand how to apply the Cost Principles to the different stages of a federal agreement.

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What are Cost Principles?

Established by Uniform Guidance

Principles to help determine the applicability of costs to Federal grants, contracts, and other agreements

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Fundamental Premises (2 CFR § 200.400)

Local Governments are Responsible for:

- Efficient and effective administration through sound management practices
- Administering funds in accordance with agreements and terms and conditions of the awards
- Responsible for employing individuals to ensure proper efficient and effective administration through sound management practices
- Applying cost principles consistently
- Recognition of student research in application of cost principles

NOTE: Local Governments may not earn or keep any profit from the federal assistance unless explicitly authorized!!

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Application (2 CFR § 200.401)

General	Federal Contract	Exemptions
<ul style="list-style-type: none">• Principles must be used in determining the allowable costs, where applicable	<ul style="list-style-type: none">• Contract must contain the Cost Accounting Standard clauses, standards, and requirements.	<ul style="list-style-type: none">• Some non-profit organizations and others designated by the cognizant agency

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Cost Composition (2 CFR § 200.402)

TOTAL COST =
(Less Applicable Credits)

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graph TD; R[Reasonable] --> A[Allowable]; Al[Allocable] --> A; R <--> Al;
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Allowability Factors
(2 CFR § 200.403)
Except where otherwise authorized by statute

Costs must meet the following to be allowable under federal awards:

Be necessary and reasonable	Conform to any limitations in these principles or in the Federal award	Be consistent with policies and procedures all activities of the non-Federal entity.	Be accorded consistent treatment.
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Allowability Factors
(2 CFR § 200.403)
Cont.
Except where otherwise authorized by statute

Costs must meet the following to be allowable under federal awards:

Be determined in accordance with generally accepted accounting principles (GAAP), except, for... local governments...	Not be included as a cost or used to meet cost sharing or matching requirements.	Be adequately documented. If it's not documented, it didn't happen!	Cost must be incurred during the approved budget period.
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Direct Costs
(2 CFR § 200.413)

Direct costs

- Those costs that can be identified specifically with a particular final cost objective or that can be directly assigned to such activities.

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Indirect Costs
(2 CFR § 200.414)

Indirect costs

- Costs that benefit more than one or all Federal awards and are not readily assignable to the cost objectives specifically benefitted.
- Indirect cost pools must be distributed to benefitted cost objectives
- May be allocated as such using an approved method.

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Example

Photocopy costs - Direct or Indirect?

- **Direct cost if:** acquired specifically for the purpose of a Federal award.
- **Indirect cost if:** already leased and also used for the benefit of the organization and other programs.

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Selected Items of Cost

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Advertising and Public Relations Allowable (2 CFR § 200.421)

<p style="text-align: center; background-color: #d9ead3; margin: 0;">Advertising (required for the performance of the grant):</p> <ul style="list-style-type: none"> Recruitment of Personnel Procurement of goods and services Disposal of scrap or surplus materials Program outreach or special services 	<p style="text-align: center; background-color: #d9ead3; margin: 0;">Public Relations (applicable to the grant):</p> <ul style="list-style-type: none"> Costs specifically required by the award Costs of communicating with the public and press Costs of conducting general liaison
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Advertising and Public Relations Unallowable (2 CFR § 200.421)

Unallowable Advertising and Public Relations:

Advertising costs not detailed on the previous slide	Costs of hosting meetings, conventions, convocations, or other events	Costs of promotional items and memorabilia	Cost of advertising and public relations designed solely to promote the non-Federal entity.
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Advertising and Public Relations Unallowable (2 CFR § 200.421)

Example – What about face masks w/ logos?

- Necessary for the award or Promotional item?**
 - What if a public hospital buys employees masks with the entity logo on them?
 - What if a Township buys employees masks with the entity logo on them?

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**Advisory Councils
(2 CFR § 200.422)**

Unallowable unless:

- authorized by statute, the Federal awarding agency or
- as an indirect cost where allocable to Federal awards

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**Audit Services
(2 CFR § 200.425)**

Must be a reasonable proportionate share of the costs of audit.	Must be required to be performed in accordance with the Single Audit requirements.
Must be allowable under the terms and conditions of the grant award.	Must be allocated using a reasonable method.

https://ohioauditor.gov/publications/bulletins/2022/Bulletin_2022-012.pdf

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**Bonding Costs
(2 CFR § 200.427)**

Allowable when:

- Federal awarding agency requires assurance against financial loss
- Pursuant to the terms and conditions of the Federal award
- Required by the non-Federal entity in the general conduct of its operations with limitations.

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Improper Payments (2 CFR § 200.428)

Costs incurred by a non-Federal entity to recover improper payments are allowable as either direct or indirect costs, as appropriate.

Amounts collected may be used by the non-Federal entity in accordance with cash management standards

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Compensation – Personal Services (2 CFR § 200.430)

- Only time spent on the program objective.
- Must be reasonable (*generally measured against the national average for similar services*).
- Must have occurred during the period of performance.
- Must be consistent with those not compensated with federal funds.
- Must have accurate and adequate support for time charged. (i.e. time and effort)

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Compensation – Fringe Benefits (2 CFR § 200.431)

- Benefits related to time spent and salaries paid in accordance with the program objective.
 - Leave, insurance, pensions, severance, unemployment, etc.
- Must be reasonable.
- Must be associated with wages paid during the period of performance.
- Must be consistent with those not compensated with federal funds.
- Must have accurate and adequate support for time charged. (i.e. time and effort)
 - Can be charged as a fringe benefit rate, percentage of salary, or component of Indirect Cost Rate.

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Conferences
(2 CFR § 200.432)

Primary purpose is to disseminate technical information. Including:

Facility rental	Speaker fees	Meals and refreshments	Local transportation	Incidental items
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Defense and Prosecution
(2 CFR § 200.435)

Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements

<p>Allowable Costs:</p> <ul style="list-style-type: none"> • services of in-house/private counsel, accountants, consultants, or others engaged • before, during, and after commencement of a proceeding • direct relationship to the award/grant 	<p>Unallowable Costs:</p> <ul style="list-style-type: none"> • Suits brought by employees or ex-employees under sec. 2 of the Major Fraud Act (1988) • Costs of prosecution of claims against the Federal govt.; and • Costs incurred in connection with patent infringement litigation, unless otherwise authorized in the Federal award.
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Depreciation
(2 CFR § 200.436)

Must be made in accordance with Appendices III through IX.

- Assets may be depreciated or claimed as matching for a program, but not both.
- Changes in computing depreciation may occur but certain guidelines must be followed.
- No depreciation may be allowed on any assets that have outlived their depreciable lives.
- Where the depreciation method is introduced to replace the use allowance method, depreciation must be computed as if the asset had been depreciated over its entire life.
- Charges for depreciation must be supported by adequate property records, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed.

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Employee Health and Welfare Costs (2 CFR § 200.437)

- Employee morale costs are unallowable.
- Costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable, **MUST** be equitably apportioned.
- Losses resulting from operating food services are allowable only if the non-Federal entity's objective is to operate such services on a break-even basis. Losses sustained because of operating objectives other than the above may be allowable in certain circumstances.

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Equipment and Capital Expenditures (2 CFR § 200.439)

- Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, unless prior written approval is obtained.
- Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5,000. If more, must have the prior written approval.
- Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost, unless prior written approval is obtained.

See § 200.1 for the definitions of terms.

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Equipment and Capital Expenditures (2 CFR § 200.439)

- When approved as a direct charge pursuant this section, capital expenditures will be charged in the period in which the expenditure is incurred.
- The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by (1) continuing to claim as allowable depreciation on the equipment or (2) amortizing as approved by cognizant agent.
- Cost of equipment disposal is dictated by agency or Pass-through.
- Equipment and other capital expenditures are unallowable as indirect costs.

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**Gains and Losses of Assets
(2 CFR § 200.443)**

Sale, Retirement, or Other Disposition of Depreciable Property

- a. Must be included in the year in which they occur as credits (except some dep property) or charges to the asset cost grouping(s) in which the property was included.
- b. Amount = difference between the amount realized on the property and the undepreciated basis of the property
- c. Items not covered in a. must be excluded in computing Federal award costs
- d. Disposition proceeds must be made in accordance with §§ 200.310 through 200.316

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**Idle Facilities and Idle Capacity
(2 CFR § 200.446)**

The costs of *idle facilities* are unallowable except:

- They are necessary to meet workload requirements.
- They were necessary when acquired and are now idle because of changes in program requirements which could not have been reasonably foreseen.

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**Idle Facilities and Idle Capacity
(2 CFR § 200.446)**

The costs of *idle capacity* are allowable provided:

reasonably anticipated to be necessary to carry out the purpose of the Federal award or	was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices.
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Insurance and Indemnification (2 CFR § 200.447)

Allowable:

- Costs of insurance required, pursuant to the Federal award
- Costs of other insurance with certain limitations
- Contributions to a reserve for certain self-insurance programs

Unallowable

- Actual losses which could have been covered by permissible insurance are unallowable

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Intellectual Property (2 CFR § 200.448)

Patent Costs:

- Costs of preparing required award documents
- Costs associated with preparing documents of the patent application
- General counseling services related to patent and copyright matters

Royalties and Other Costs:

Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the Federal award

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Interest (2 CFR § 200.449)

Financing costs (including interest) to acquire, construct, or replace capital assets are allowable if...

- Capital Asset meets the definition in 200.11
- Capital Assets must be used for Federal award.
- Assets and financing must be obtained via an unrecited arms-length transaction.
- Must be least expensive and in accordance with GAAP.
- Any interest earned on proceeds must offset costs

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Debt over \$1 million have additional guidelines.

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Maintenance and Repair Costs (2 CFR § 200.452)

Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment to keep it in an efficient operating condition, are allowable.

Notes:
Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life must be treated as capital expenditures (see § 200.439).
These costs are only allowable to the extent not paid through rental or other agreements.

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Materials and Supplies Costs (2 CFR § 200.453)

Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

↓

Must be charged at their actual prices, net of applicable credits.
Withdrawals from general supplies must be charged at their actual net cost.

↓

Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

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Memberships, Subscriptions, and Professional Activity Costs (2 CFR § 200.454)

Allowable:	Unallowable
<ul style="list-style-type: none"> Membership in business, technical, and professional organizations Subscriptions to business, professional, and technical periodicals Membership in any civic or community organization, prior approval required 	<ul style="list-style-type: none"> Membership in any country club or social or dining club or organization Membership in organizations whose primary purpose is <u>lobbying</u>

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**Participant Support Costs
(2 CFR § 200.456)**

Participant support costs

- Require prior approval
- Means direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

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**Plant and Security Costs
(2 CFR § 200.457)**

Necessary and reasonable expenses incurred for protection and security of facilities, personnel, and work products are allowable.

Note:
Capital expenditures for plant security purposes are subject to § 200.439.

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**Pre-Award Costs
(2 CFR § 200.458)**

Incurred prior to the effective date of the Federal award

Directly pursuant to the negotiation and in anticipation of the Federal award

***Costs are allowable only to the extent that they would have been allowable if incurred after the date of the Federal award and only with the written approval of the Federal awarding agency.

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Professional Service Costs (2 CFR § 200.459)

Services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-Federal entity, are allowable.

No single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

- The **nature and scope of the service** rendered in relation to the service required.
- The **necessity of contracting for the service**, considering the non-Federal entity's capability in the particular area.
- The **past pattern of such costs**, particularly in the years prior to Federal awards.
- The **impact of Federal awards on the non-Federal entity's business** (i.e., what new problems have arisen).

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Professional Service Costs (2 CFR § 200.459) Cont.

No single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant: (Continued)

- Whether the **proportion of Federal work** to the non-Federal entity's total business is such as to influence the non-Federal entity in favor of incurring the cost.
- Whether the service can be performed **more economically by direct employment** rather than contracting.
- The **qualifications of the individual** or concern rendering the service and the customary fees charged, especially on non-federally funded activities.
- **Adequacy of the contractual agreement** for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

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Proposal Costs (2 CFR § 200.460)

Costs of preparing bids, proposals, or applications on potential awards

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Current accounting period of both successful and unsuccessful bids treated as indirect (F&A) costs

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Publication and Printing
(2 CFR § 200.461)

Publication costs

- electronic and print media, including distribution, promotion, and general handling are allowable.
- Page charges for professional journal publications (with certain restrictions)

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Rearrangement and Reconversion
(2 CFR § 200.462)

Ordinary and normal rearrangement and alteration of facilities are allowable as indirect costs

Alterations costs incurred specifically for a Federal award are allowable as a direct cost with the prior approval

Restoration or rehabilitation of the non-Federal entity's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.

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Recruiting
(2 CFR § 200.463)

Recruiting costs are allowable as long as they are within the normal policy guidelines of the entity and are for staff in support of the Federal program.

Note:
Relocation costs paid for newly hired employee that resigns for reasons within the employee's control within 12 months after hire, the non-Federal entity will be required to refund or credit the Federal share of such relocation costs to the Federal Government

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Relocation Costs of Employees (2 CFR § 200.464)

Must be for a permanent change in assignment of at least 12 months or upon recruitment of a new employee. Must also:

- Move is for the benefit of the employer.
- Reimbursement must be in accordance with an established written policy.
- Not exceed the actual expenses incurred.

Note:
Costs paid for newly hired employee that resigns for reasons within the employee's control within 12 months after hire, the non-Federal entity will be required to refund or credit the Federal share of such relocation costs to the Federal Government

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Rental Costs of Real Property and Equipment (2 CFR § 200.465)

Rental costs are allowable with limitations

Rates are reasonable

Arrangements should be reviewed periodically

Unallowable rental costs:
less than arm's length transactions related parties
amounts paid for profit, management fees, and taxes

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Specialized Service Facilities (2 CFR § 200.468)

Services provided by highly complex or specialized facilities operated by the non-Federal entity, provided the charges for the services meet certain conditions:

- If material, must be a direct charge to the program;
- If Immaterial, may be allocated as an indirect cost; and
- take into account any items of income or Federal financing that qualify as applicable credits under § 200.406.

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Taxes
(2 CFR § 200.470)

State and Local Governments

- Taxes that a governmental unit is legally required to pay, except for self-assessed taxes or changes in tax policies that disproportionately affect Federal programs.
- Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal Government.

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Termination Costs
(2 CFR § 200.472)

This section details specific expenses that are allowable and the conditions for each type.

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Training and Education Costs
(2 CFR § 200.473)

The cost of training and education provided for employee development is allowable.

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Transportation Costs (2 CFR § 200.474)

Costs incurred for freight, express, cartage, postage, and other transportation services are allowable.

Charge basis can be actual cost, per diem, or combination thereof.

Costs identified with the items involved may be charged directly as transportation costs or added to the cost of such items.

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52

Travel Costs (2 CFR § 200.475)

- Must be incurred by employees who are in traveling on official business
- Must be in relation to the Federal program
- Must be Reasonable
- Must be Consistent with non-federal travel policy
- May include temporary dependent care costs
- Air travel – additional restrictions may apply
- Must be allowable under the terms and conditions of the award

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Trustees (2 CFR § 200.476)

State and Local Governments: not specifically addressed.

IHEs and nonprofit organizations: Travel and subsistence costs of trustees (or directors) at are allowable.

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54

Specifically Unallowable

- Alcoholic Beverages – 200.423
- Alumni Activities (IHE only) – 200.424
- Bad Debts – 200.426
- Commencement and Convocation Costs (IHE only) – 200.429
- Contingency Provisions (*allowable only in limited circumstances*) – 200.433
- Contributions and Donations – 200.434
- Entertainment Costs (*unless specifically authorized under the award*) – 200.438
- Fines, penalties, damages, and other settlements – 200.441
- Fund Raising and Investment Management – 200.442

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Specifically Unallowable

- General Costs of Government (State and LG Only) except Travel Costs related to the award – 200.444
- Goods and Services for Personal Use – 200.445
- Lobbying – 200.450
- Losses on Other Awards or Contracts – 200.451
- Organization Costs (typically not applicable in government environment) – 200.455
- Selling and Marketing – 200.467
- Student Activity costs (unless specified in award) – 200.469

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Specifically Unallowable

- Telecommunication Costs and Video Surveillance Costs – 200.471

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Items Not Specifically Addressed

- Alumni Activities (State, LG, and NFP) – 200.424
- Commencement and Convocation Costs (State, LG, and NFP) – 200.429
- General costs of Government (IHE and NFP) – 200.444
- Scholarships and Student Aid – 200.466

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Example

- **Oh, but the cost is budgeted, so shouldn't it be allowable?!**
- **Well ... it doesn't matter.**
 - The fact that a proposed cost is awarded as requested by an applicant does not indicate a determination of allowability.
 - It is the grantee's ultimate responsibility for ensuring that all costs charged to awards meet the requirements of the cost principles.

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Questions???



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