



OMB Circular A-87: How To Determine If A Cost Is Allowable

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Helpful Resources

- U.S. Department of Education program information:

<http://www.ed.gov/programs/find/title/index.html?src=ov>

- OMB Circulars:

<http://www.whitehouse.gov/omb/circulars/>



Helpful Resources (cont.)

- OMB Circular A-133 Compliance Supplement:

http://www.whitehouse.gov/omb/circulars/a133_compliance/07/07toc.html

- OMB Circular A-133, Part 6 (Internal Controls):

http://www.whitehouse.gov/omb/circulars/a133_compliance/07/pt6.pdf



Helpful Resources (cont.)

- OMB Circular A-87 Implementation Guide:
<http://www.thompson.com/images/thompson/nclb/audit/asmbc10.pdf>
- Financial Accounting for State and Local School Systems:
<http://nces.ed.gov/pubs2004/h2r2/index.asp>



How to Analyze Allowable costs



Legal Structure of Federal Programs

- Statutes
 - Program statutes (NCLB, IDEA, Perkins)
 - General Education Provisions Act (GEPA)
- Regulations
 - Program regulations
 - Education Department General Administrative Regulations (EDGAR)
- OMB Circulars
- Guidance



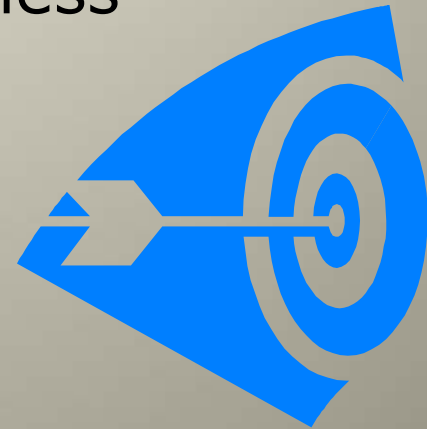
Helpful Questions to Ask

- ❑ Is the proposed cost consistent with federal cost principles?
- ❑ Is the proposed cost allowable under the relevant program?
- ❑ Is the proposed cost consistent with program specific fiscal rules?
- ❑ Is the proposed cost consistent with EDGAR?
- ❑ Is the proposed cost consistent with special conditions imposed on the grant?



Practical Question

- Is the proposed cost consistent with the underlying needs of the program?
 - Data driven decision making
 - Target funds to areas of weakness





Federal Cost Principles

- A-21 Educational Institutions
- **A-87 State, Local & Indian Tribal Governments**
- A-122 Non-Profit Organizations



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Cost Principles: Basic Guidelines

- All Costs Must Be:
 - Necessary
 - Reasonable
 - Allocable
 - Legal under state and local law
 - Conform with federal law & grant terms
 - Be consistently treated
 - Be in accordance with GAAP
 - Not be included as match
 - Be a net of applicable credits
 - Be adequately documented



Necessary & Reasonable

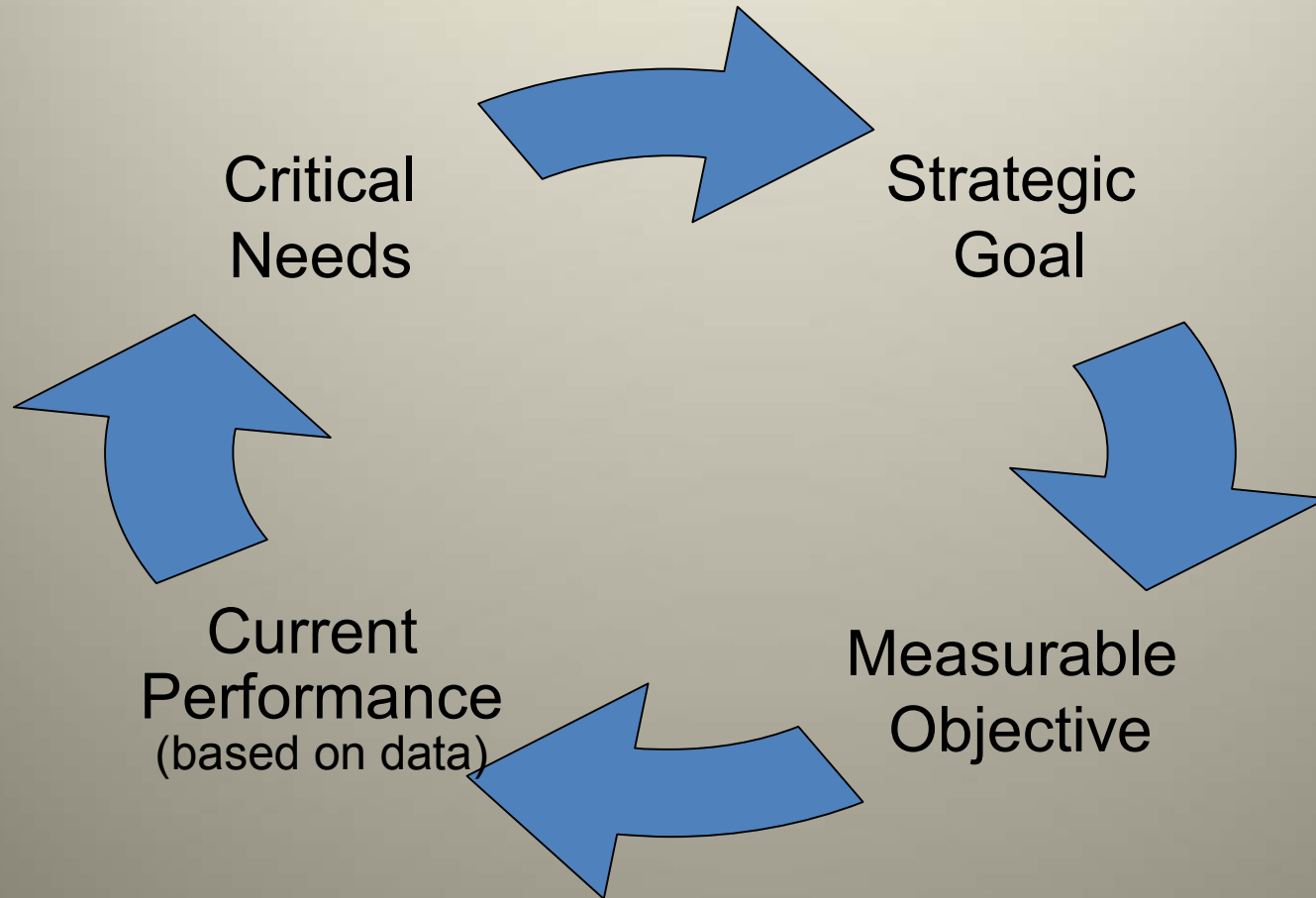
- Necessary and Reasonable
 - Must be necessary for the performance or administration of the grant
 - Must follow sound business practices
 - Fair market prices
 - Act with prudence under the circumstances
 - No significant deviation from established prices

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Necessary & Reasonable

(cont.)

Data driven decision making



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Necessary & Reasonable

(cont.)

- Practical aspects of “necessary”
 - Do I really need this?
 - 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? Can I prove it?
 - If I were asked to defend this purchase, would I be comfortable?



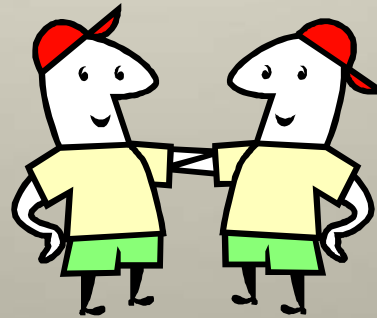
Allocable

- Allocable
 - Can only charge in proportion to the value received by the program
 - 2 Methods of allocating costs
 - Direct cost allocation / Indirect cost allocation
- Practical aspects of direct allocation
 - Can I prove the program benefited?
 - E.g., time distribution records, Inventory management records
 - Can I prove other programs are not benefiting?
 - Ensuring only authorized use
 - Incidental benefit



Basic Guidelines (cont.)

- Consistently treated
 - Must follow uniform policies that apply equally to federal and non-federal activities



- Cannot assign cost as direct cost if indirect under state programs



Basic Guidelines (cont.)

- 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
- ***Increased level of scrutiny from Office of Inspector General (OIG)!**

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Federal Cost Principles:

Selected Items of Costs

Special rules for specific expenses

- 43 specific costs detailed
- Listed in alphabetical order





Selected Items of Cost

□ **Advertising/PR**

- Generally not allowable, except as specified in Attachment B

□ **Advisory Councils**

- Generally allowable as direct cost as authorized by awarding agency, as indirect cost where allocable to Federal Awards

□ **Alcohol**

- Not allowable

□ **Audit Costs**

- Allowable to the extent provided under A-133
- Other audit costs are allowable if included in a cost allocation plan



Selected Items of Cost (cont.)

□ **Bad Debts**

- Includes losses, uncollectable accounts, related legal costs, and related costs are unallowable.

□ **Bonding Costs**

- Generally allowable if required under terms of grant.

□ **Communication Costs**

- Telephone, local and long distances calls, postage, electronic and computer transmittal services are allowable.

Selected Items of Cost (cont.)

- **Compensation for Personal Services**
(Salaries and Wages)
 - Allowable if proper time distribution records
- **Fringe Benefits**
 - Allowable if: (1) established written leave policies;
(2) cost equitably allocated to all related activities;
and (3) accounting basis consistently followed
- **Severance Pay/Terminal Leave**
 - Normal: Allowable as indirect cost
 - Abnormal: Allowable if approved by cognizant federal agency
- **Post Retirement Health Benefits**

Services

- Includes *all compensation* paid for services rendered during the award period
 - Salaries and Wages
 - Fees
 - Incentive awards
 - Fringe benefits
 - Pension costs
 - Allowances for off-site pay
 - Incentive pay
 - Location allowances
 - Hardship pay
 - Cost of living differentials

Compensation for Personnel Services (cont.)

- May pay costs as long as they:
 - Are reasonable for the work performed
 - Conform to the established policy of the organization, which must be consistently applied to federal and non-federal activities





Payroll Records

- Payroll must be:
 - Documented
 - Approved by a responsible official of the organization



Selected Items of Cost (cont.)

- **Defense and Prosecution of Criminal and Civil Proceedings, and Claims**
 - Legal expenses required in the administration of federal programs are allowable
 - Legal expenses for “prosecution of claims” against the federal government are not allowable



Selected Items of Cost (cont.)

□ **Donations and Contributions**

- Made by government entity: Not allowable
- Received: generally allowable only as match or as indirect cost

□ **Employee Morale, Health and Welfare**

- Health or first aid clinics, recreational activities, employee counseling services are allowable

□ **Entertainment Costs**

- Amusement, diversion, and social activities are not allowable

□ **Fines and Penalties**

- Not allowable



Selected Items of Cost (cont.)

- **Fund Raising Costs**
 - Not allowable regardless of purpose
- **Investment Management Costs**
 - Generally not allowable unless associated with investment covering pension, self-insurance then allowable but charged as indirect cost
- **General Government Expenses**
 - Includes costs of general types of government services normally provided to the general public
 - Not allowable

Selected Items of Cost

(cont.)

- **Goods or Services for Personal Use**
 - Unallowable regardless of whether cost is reported as taxable income
- **Insurance and Indemnification**
 - Allowable but subject to limitations
- **Lobbying**
 - Costs of activities that are meant to influence the grant process are unallowable



Select Items of Cost (cont.)

□ **Maintenance, Operations & Repairs**

- Utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs & alterations are allowable if:
 1. Keep property in efficient operating condition
 2. Do not add to permanent value or appreciably prolong property's intended life

□ **Materials and Supplies Costs**

- Allowable



Select Items of Cost (cont.)

- **Memberships, Subscriptions and Professional Activities**
 - Meetings and conference where the primary purpose is dissemination of technical information are allowable
 - Includes costs of meals, transportation, facility rental, and speakers' fees





Selected Items of Cost (cont.)

□ **Pre-award Costs**

- Allowable with approval from awarding agency and only to the extent that they would have been allowable if incurred after the date of the award

□ **Professional Service Costs**

- Allowable but subject to limitations

□ **Proposal Costs**

- Generally Allowable
- Only direct charge if approval from awarding agency otherwise indirect cost

□ **Publication and Printing Costs**

- Generally allowable
- If you cannot identify to program then charge as indirect cost



Selected Items of Cost (cont.)

- **Reconversion Costs**
 - Restoration and rehabilitation of government unit to same condition as immediately prior to commencement of federal award (less costs related to normal wear and tear)
 - Allowable
- **Rental Costs of Building and Equipment**
 - Generally allowable but subject to limitation
- **Royalties and Other Costs for the Use of Patents**
 - Generally allowable but subject to limitation

Selected Items of Cost (cont.)

- **Taxes**
- **Training**
 - Training for employee development is allowable
- **Travel costs**, including transportation, lodging, subsistence, and related items, when traveling on business are allowable with certain restrictions



Remember...

In order for any cost to be allowable it must be obligated during the period of availability...



Obligations: Definition

Obligation = Transaction that requires payment

- **Obligation must be timely to be allowable**





Obligations: Definition

Acquisition of Property	Date of binding written commitment
Personal Services by Employee	When services are performed
Personal Services by Contractor	Date of binding written commitment
Travel	When travel is taken

Obligations: Period of Availability

- Every grant has a “period of availability” = period in which grantee can obligate funds
 - Therefore, must be able to relate all costs to a specific transaction that occurred during the period of availability
- Period is substantially different for discretionary vs. formula funds

Obligations: Period of Availability (cont.)

- Grantees and subgrantees may begin to obligate funds when:
 - Statutory start date (typically July 1st)

AND

- Awarding agency approves application; or
- Awarding agency determines application is “substantially approvable”
 - Reimbursement subject to final approval

Obligations: Period of Availability (cont.)

- Tydings Amendment
 - Allows extra year to obligate funds
 - **Does not apply to all grants**
- Under Tydings, funds are available for 24-27 months:
 - 12-15 months under the grant award
(July 1, 2006 – September 30, 2007)
 - Plus 12 months
(October 1, 2007 – September 30, 2008)

Obligations: Period of Availability (cont.)



Linking Funds

- Transaction occurs on August 1, 2009
 - Available funds include:
 - 2007-2008 Funds (available 7/01/07 – 9/30/09)
 - 2008-2009 Funds (available 7/01/08 – 9/30/10)
 - 2009-2010 Funds (available 7/01/09 – 9/30/11)
 - ARRA 2009 Funds (available 2/17/09 – 9/30/11)

- But remember allocability!!



In addition...

*For any cost to be allowable
there must be compliant
Grants Management
Systems!*



Financial Management System

- ✓ Track Funds
- ✓ Complete Financial Reporting
- ✓ Reliable Data
- ✓ Budget Reconciliation
- ✓ Internal Controls
- ✓ Follow Cash Management Improvement Act
- ✓ DOCUMENTATION!!!!!!



Procurement System

- ✓ Open and Full Competition
- ✓ Vendor Selection Process
- ✓ Policies and Procedures
 - ✓ Address Conflict of Interests
- ✓ Contract Administration System
- ✓ Protest Procedures
- ✓ DOCUMENTATION!!!!!!

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Inventory Management

System

- ✓ Track Equipment (and Attractive Items)
- ✓ Supplies
- ✓ Inventory at least twice year
- ✓ Protect Against Unauthorized Use
- ✓ Investigate lost, stolen or damaged property
- ✓ Disposition Rules
- ✓ DOCUMENTATION!!!!!!



Questions?





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