

## **CONTROLLER ALERT: Agency Authority to Restrict Certain Types of Costs through Grant Terms and Conditions**

*Controller Alerts are designed to highlight emerging financial management issues that may require agency attention or action. These Alerts are intended to inform the Chief Financial Officer (CFO) community of key issues where the Office of Management and Budget (OMB) believes further action or awareness may be warranted, but do not constitute official guidance or prescribe specific tasks for agencies beyond consideration of appropriate steps to address the issue.*

As we progress towards mid-year FY2020 reporting, it is a good time to remind the financial management and financial assistance communities of the Administration's commitment to manage costs, including over \$700 billion in grants going to State, local, and non-profit organizations.

The purpose of this Controller Alert is to remind grant-making Executive departments and agencies of their responsibility to manage costs associated with administration of Federal financial assistance. To that end, agencies should utilize the discretion afforded agencies in the Uniform Grants Guidance to better manage programs and ensure that the maximum percentage of the federal funding goes toward achieving program objectives.

A Federal awarding agency may make a determination in the planning phase to exclude certain types of costs that it deems are not "necessary" or "reasonable" for the successful completion of a program, and make clear what costs would not be allowable in the Federal award. The Uniform Grants Guidance (2 CFR 200) sets forth the criteria for allowable costs. Specifically, section 2 CFR 200.403 provides seven criteria affecting the allowability of costs charged to a Federal program. Two of the seven criteria are highlighted below.

“Except where otherwise authorized by statute, cost must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.”

2 CFR 200.403 (Emphasis Added). These criteria require agencies to ensure that costs associated with federal grant dollars are both necessary and reasonable for the operations of the Federal program, prior to making the awards, and set forth any exclusions in the Federal award.

“Reasonable” means that “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” 2 CFR 200.404. In addition, subsection 200.404 (c) adds that “consideration must also be given to: market prices for comparable goods or services for the geographic area.” For example, in determining whether certain salary and rates are “reasonable,”

an agency may use the prevailing wage rates established by the Department of Labor by occupation and geographical area. This practice is consistent with the guidance with Appendix II (D) to the 2 CFR 200, which provides the provisions for contracts procured under Federal awards.

The Uniform Grants Guidance provides agencies with authority to identify and specify certain items of costs as unallowable costs in the terms and conditions of an award. Not only do agencies have authority to do so, specifying certain costs that may be at dispute as unallowable costs prior to award of the grant and in the terms and conditions of the grant award is good practice to minimize disputes post-award. In so specifying certain unallowable costs as part of the conditions of an award, the Federal awarding agency must include such exclusions in any required Notice of Funding Opportunity pursuant to 2 CFR § 200.203 and in the Award's Terms and Conditions.

For example, for disaster relief funds, an agency may make determinations about allowability to ensure that the maximum amount of funds goes to serving the victims. Or, for example, for research grants, an agency may make determination that even though foreign travel costs are allowable costs under the Uniform Grants Guidance such travel is not allowable for a particular research grant because it is not necessary for completion of the research project in question.

In addition, in accordance with 2 CFR 200.102, the Federal awarding agency may apply additional restrictions on certain types of costs for a class of Federal award or non-Federal entities (or grantees) when approved by OMB.

If you have any questions regarding this alert, please contact Gil Tran ([Hai M. Tran@omb.eop.gov](mailto:Hai_M._Tran@omb.eop.gov)).