

# Grants Training

Module 4, Lesson 1



Council on Financial Assistance Reform (COFAR)

## FEDERAL GRANTS MANAGEMENT 101

# Uniform Guidance Subpart E Cost Principles Lesson 1



## Course Overview

- 1** **Lesson 1:**  
General Principles
- 2** **Lesson 2:**  
Generally Allowable Costs
- 3** **Lesson 3:**  
Costs that Require Prior Written Approval
- 4** **Lesson 4:**  
Generally Unallowable Costs or Costs that Require Further Review
- 5** **Lesson 5:**  
The Cost Principles in Practice



# 1

## Lesson 1: General Principles

At the completion of this lesson, you will have a basic understanding of general cost principles to which grant recipients must adhere. This lesson also highlights differences between direct and indirect costs.





## Lesson 1: General Principles

200.400 – Policy guide

200.401 – Application

200.402 – Composition of costs

200.403 –.405 – Allowable,  
reasonable, and allocable costs

200.407 – Prior written approval

200.410 – Collection of unallowable costs

200.412 – Classification of costs

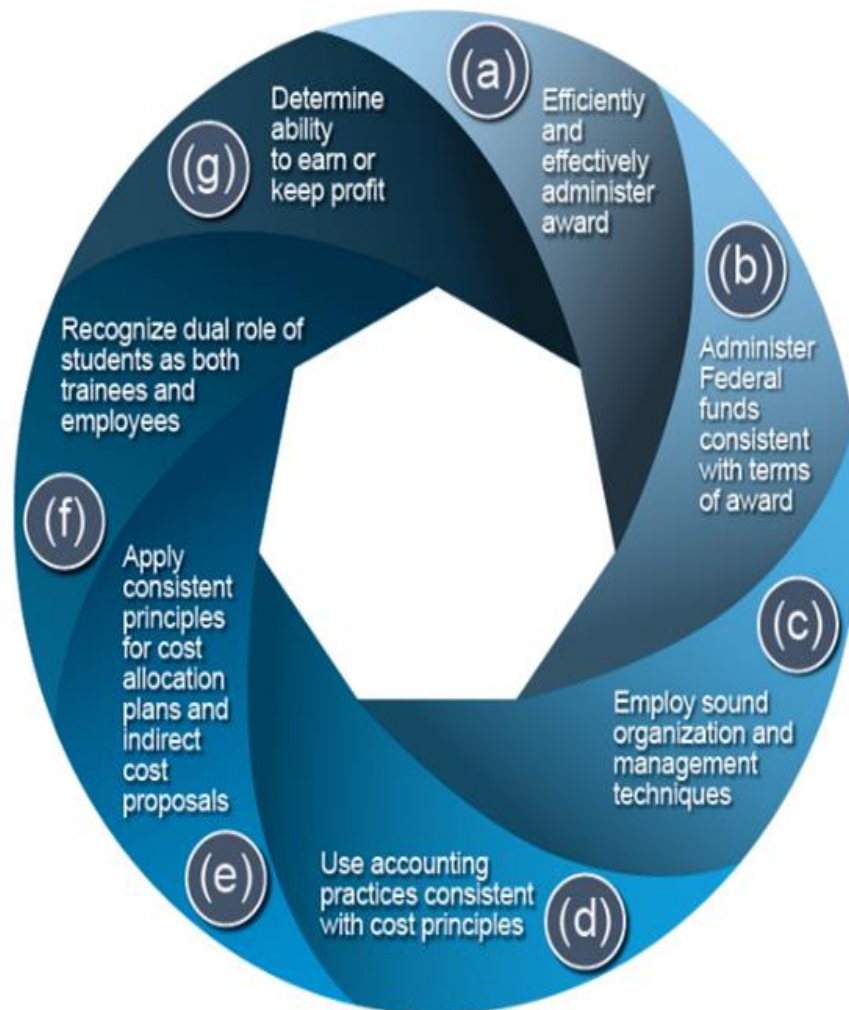
200.413 – Direct costs

200.414 – Indirect (F&A) costs

200.416 – Cost allocation plans and  
indirect cost proposals



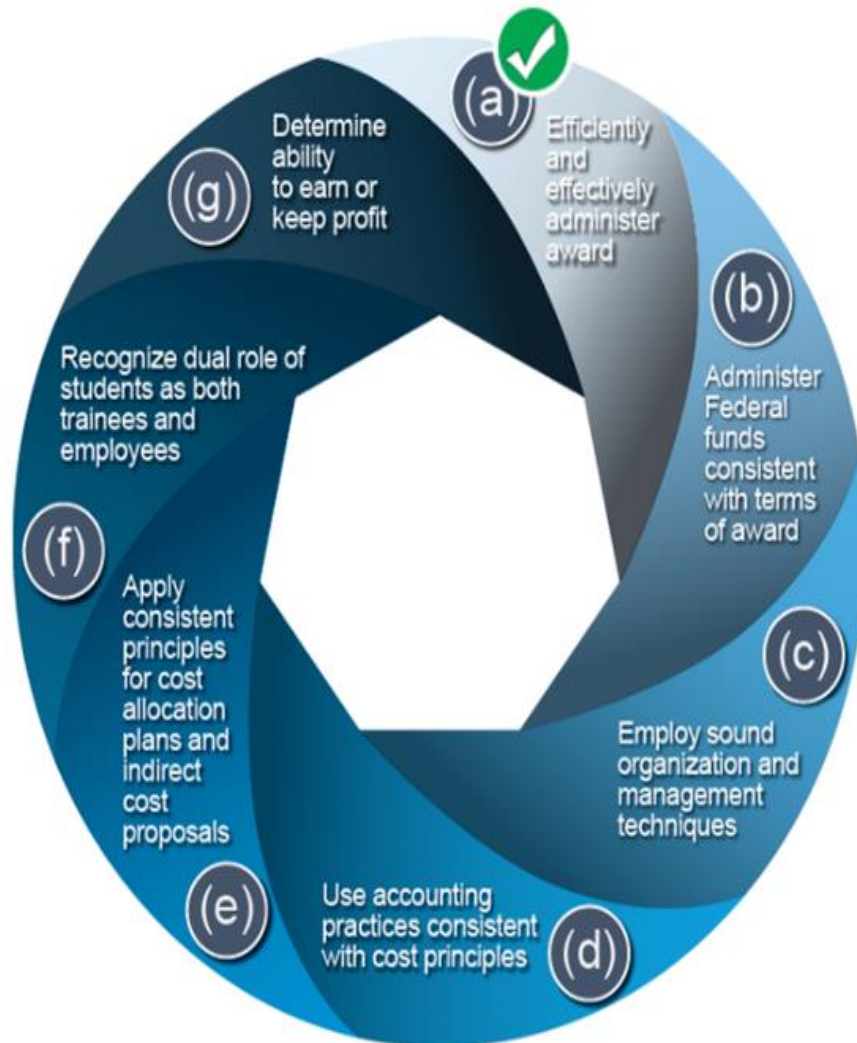
## § 200.400 Policy Guide: Fundamental Premises



Select each item in the image for more information.



## § 200.400 Policy Guide: Fundamental Premises



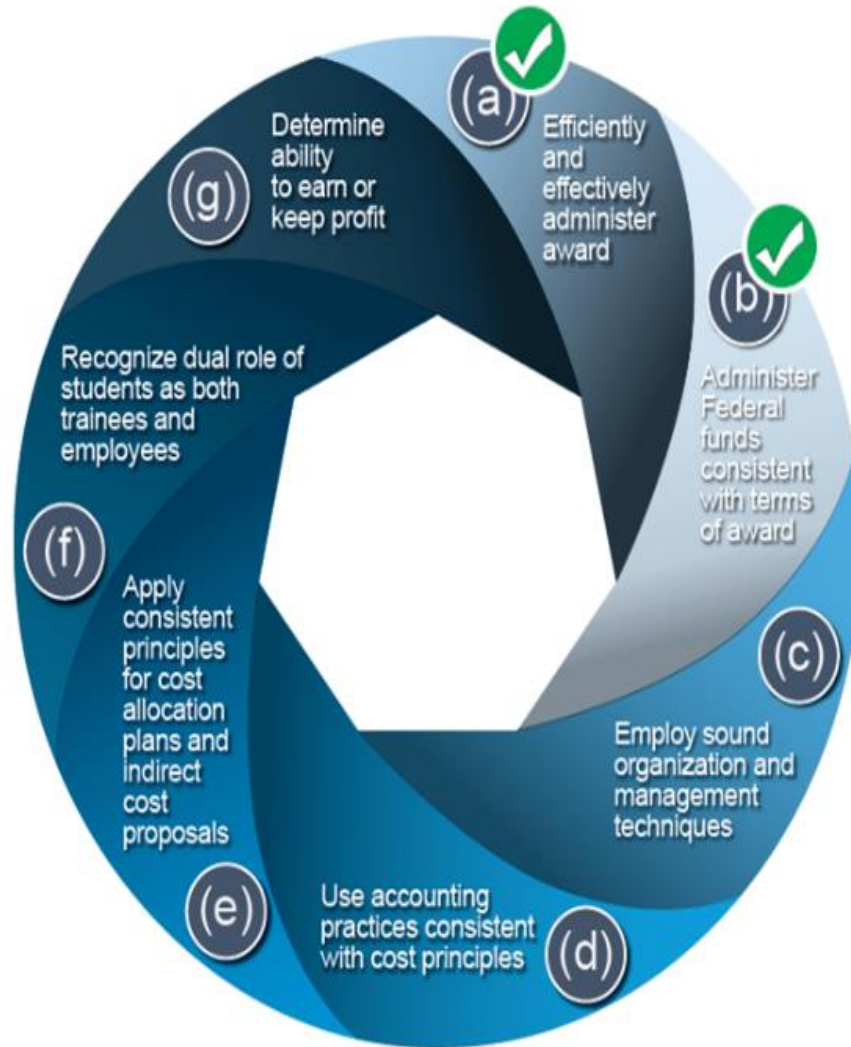
### (a) Efficiently and effectively administer award

The non-Federal entity (NFE) is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.

Select Back to review another fundamental premise.



## § 200.400 Policy Guide: Fundamental Premises



### (b) Administer Federal funds consistent with terms of award

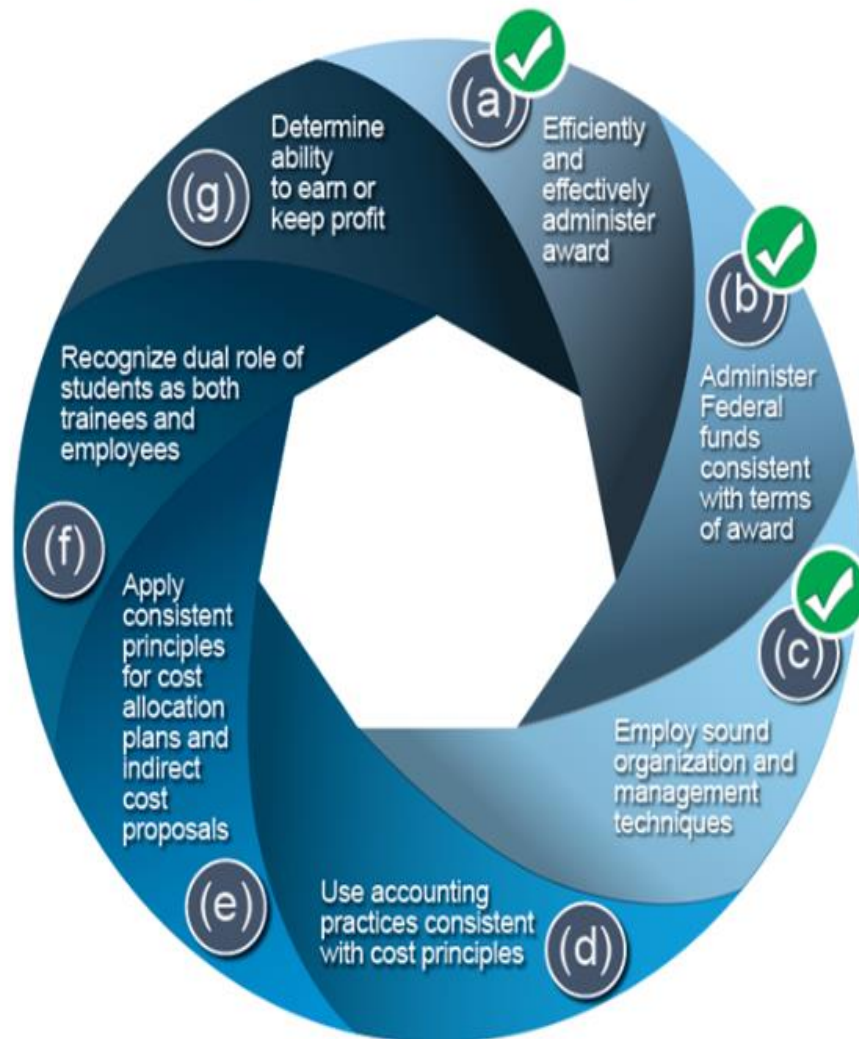
The non-Federal entity (NFE) assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

Select Back to review another fundamental premise.





## § 200.400 Policy Guide: Fundamental Premises



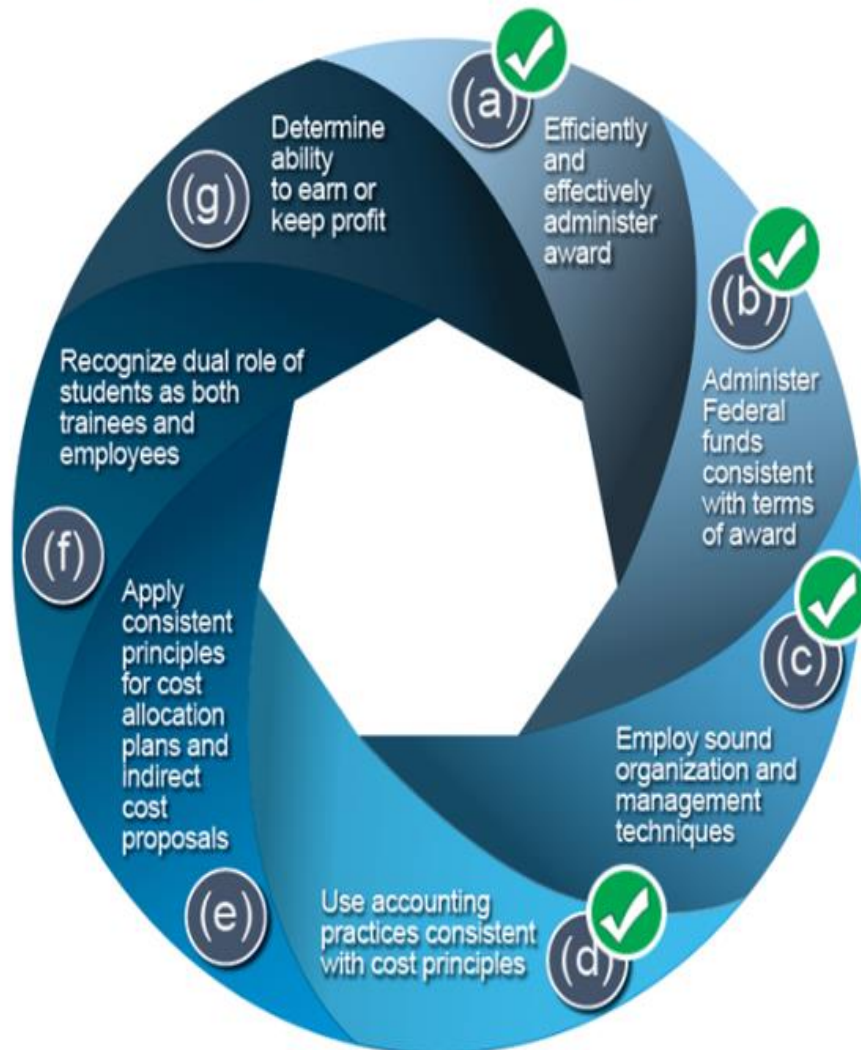
### (c) Employ sound organization and management techniques

The non-Federal entity (NFE), in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.

Select Back to review another fundamental premise.



## § 200.400 Policy Guide: Fundamental Premises



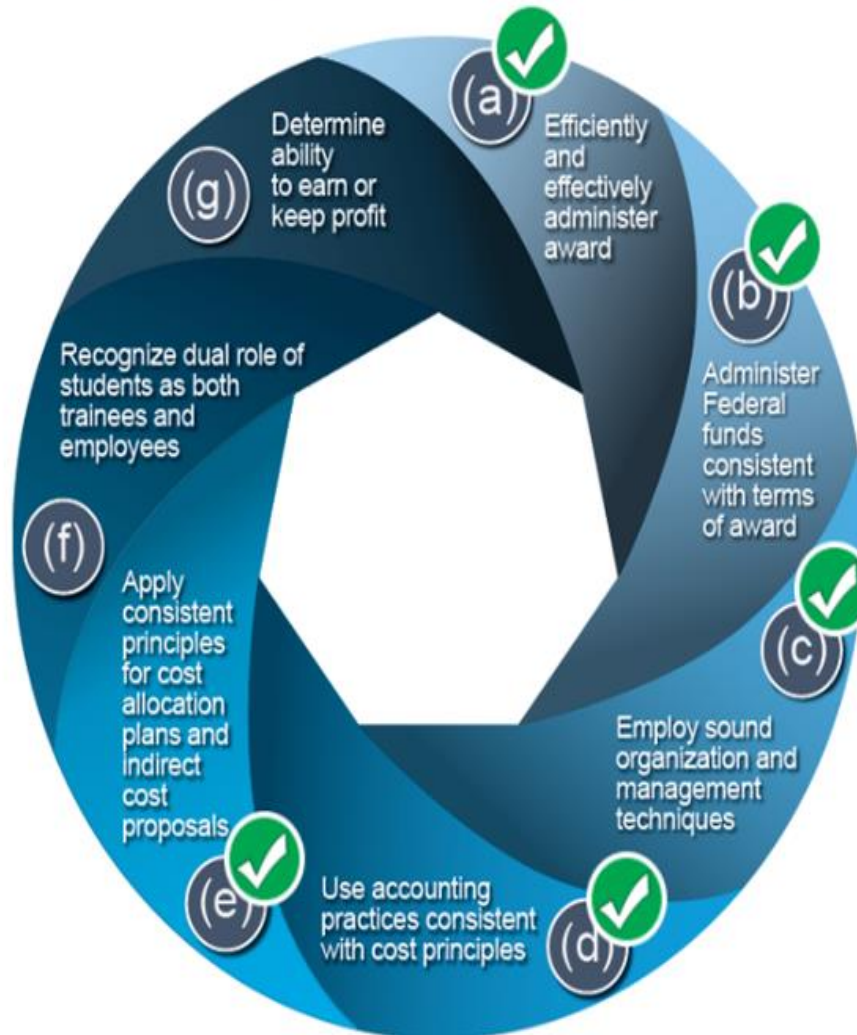
### (d) Use accounting practices consistent with cost principles

The application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity (NFE). However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award.

Select Back to review another fundamental premise.



## § 200.400 Policy Guide: Fundamental Premises



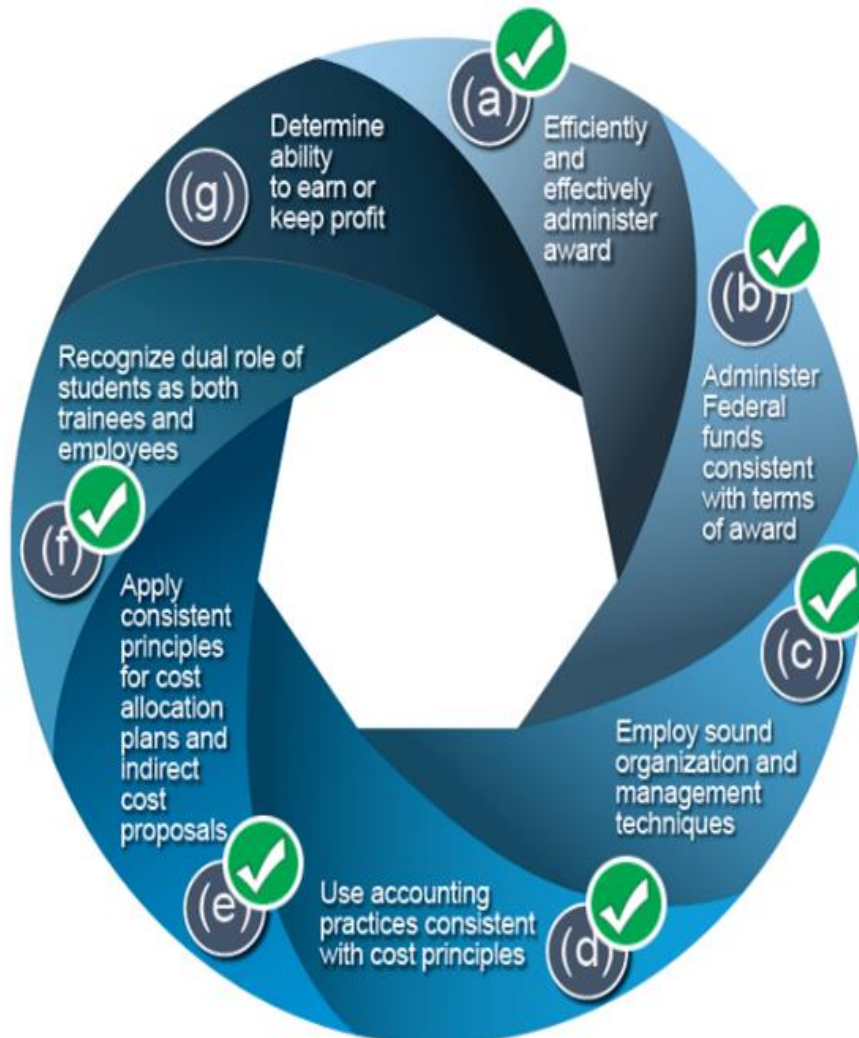
### (e) Apply consistent principles for cost allocation plans and indirect cost proposals

In reviewing, negotiating and approving cost allocation plans or indirect cost proposals, the cognizant agency for indirect costs should generally assure that the non-Federal entity (NFE) is applying these cost accounting principles on a consistent basis during their review and negotiation of indirect cost proposals. Where wide variations exist in the treatment of a given cost item by the non-Federal entity, the reasonableness and equity of such treatments should be fully considered. See §200.56 Indirect (facilities & administrative (F&A)) costs.

Select Back to review another fundamental premise.



## § 200.400 Policy Guide: Fundamental Premises



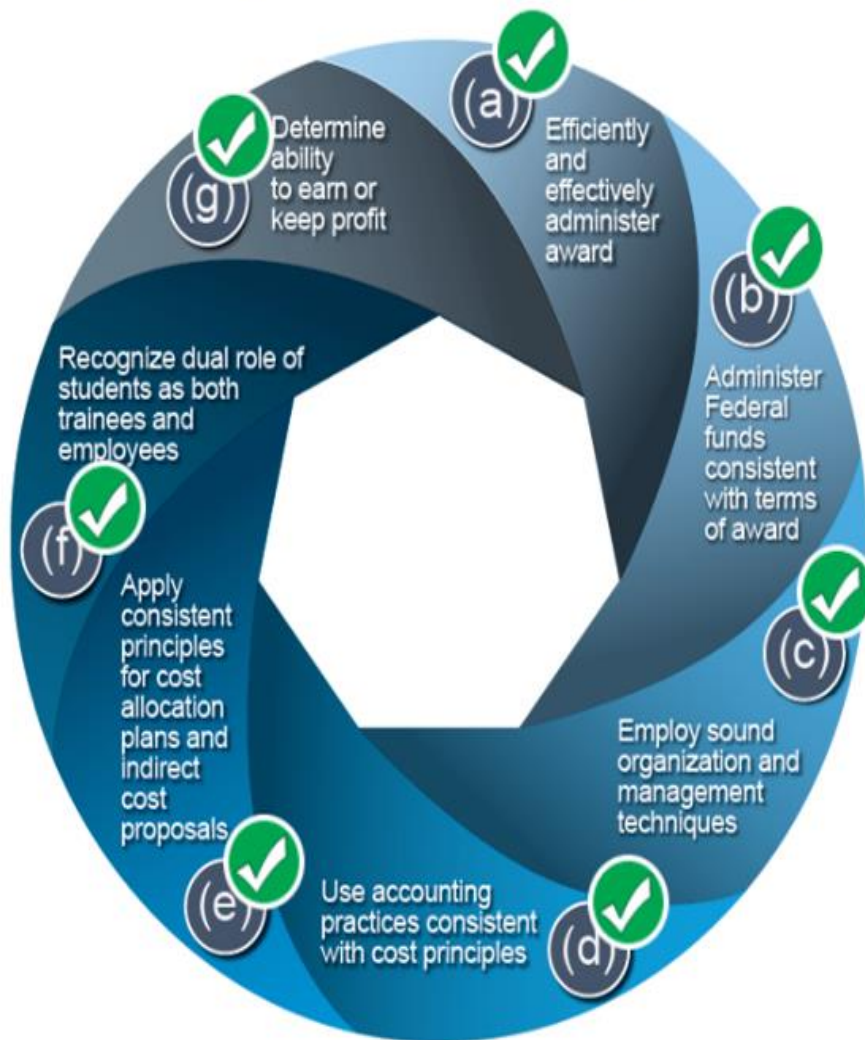
### (f) Recognize dual role of students as both trainees and employees

For non-Federal entities (NFEs) that educate and engage students in research, the dual role of students as both trainees and employees (including pre- and post-doctoral staff) contributing to the completion of Federal awards for research must be recognized in the application of these principles.

Select Back to review another fundamental premise.



## § 200.400 Policy Guide: Fundamental Premises



### (g) Determine ability to earn or keep profit

The non-Federal entity (NFE) may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the Federal award. See also §200.307 Program income.

Select Back to review another fundamental premise.



## § 200.401 Applying Cost Principles

The screenshot shows a Microsoft Excel spreadsheet titled "M4\_L1\_007 - Microsoft Excel". The spreadsheet contains a table with the following data:

	A	B	C	D
1	Cost	Allowable	Unallowable	Rationale/Restrictions
2	Alcoholic beverages		✓	200.423
3	Compensation (personal)	✓		200.430
4	Compensation (fringe)	✓		200.431
5	Lobbying		✓	200.450
6	Printing	✓		200.461
7	Travel (air)	✓		200.474
8				



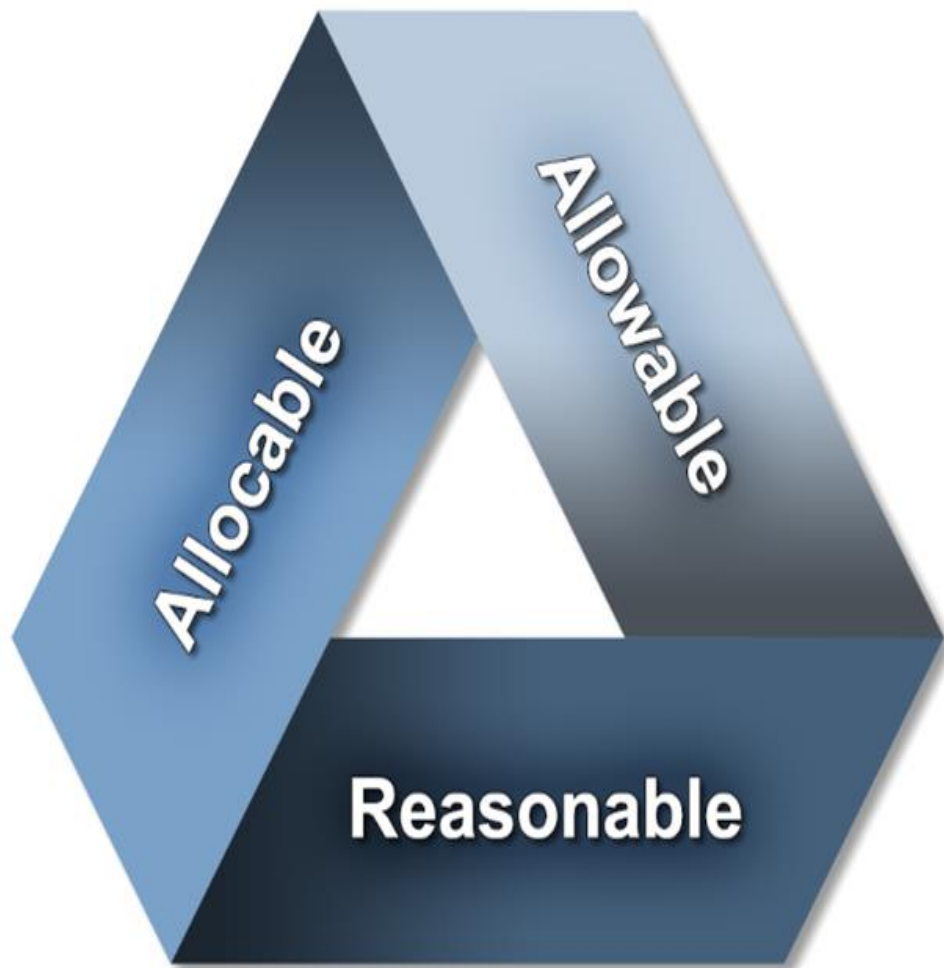
## § 200.402: Composition of Costs: Total Allowable Cost



# Total Allowable Cost



## Factors to Consider



**=**  
**Chargeable  
Cost**

Select each item to learn more about each factor.





## § 200.403: Factors Affecting Allowability of Costs

- (a) Are necessary and reasonable
- (b) Conform to limitations and exclusions
- (c) Consistent with policies and procedures of the NFE
- (d) Accorded consistent treatment (similar costs charged consistently)
- (e) Determined in accordance with generally accepted accounting principles (GAAP)
- (f) Not used to meet matching or cost-sharing requirements of another Federal award, unless authorized by statute
- (g) Are adequately documented



Select Back to continue.



## § 200.404: Reasonable Costs

A cost is reasonable if, 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.

- (a) Generally recognized as ordinary and necessary
- (b) Restraints and requirements (business practices, laws and regulations, terms and conditions)
- (c) Market prices for the geographic area
- (d) Prudent person rule
- (e) NFE's established practices and policies

Select Next to continue.



## § 200.405: Allocable Costs

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assigned to that Federal award or cost objective in accordance with relative benefits received.

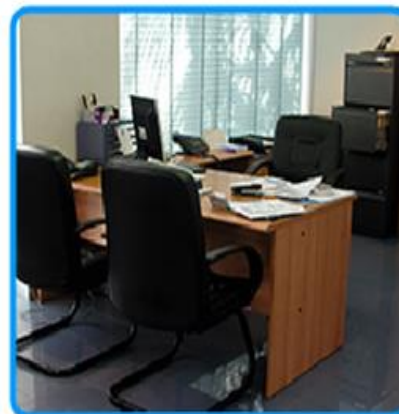


Select Next to continue.



## Criteria for Allocable Costs

- (1) Incurred specifically for the Federal award
- (2) Benefits the award and other work of the NFE and can be distributed in proportions approximated using reasonable methods
- (3) Necessary to the overall operation of the NFE and can be assigned in part to the Federal award according to cost principles



Select Next to continue.



## Example of an Allocable Cost



- (1) Incurred specifically for the Federal award
- (2) Benefits the award and other work of the NFE and can be distributed in proportions approximated using reasonable methods
- (3) Necessary to the overall operation of the NFE and can be assigned in part to the Federal award according to cost principles

Select Next to continue.



## Charging an Allocable Cost

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.



Supports a  
single Federal  
award

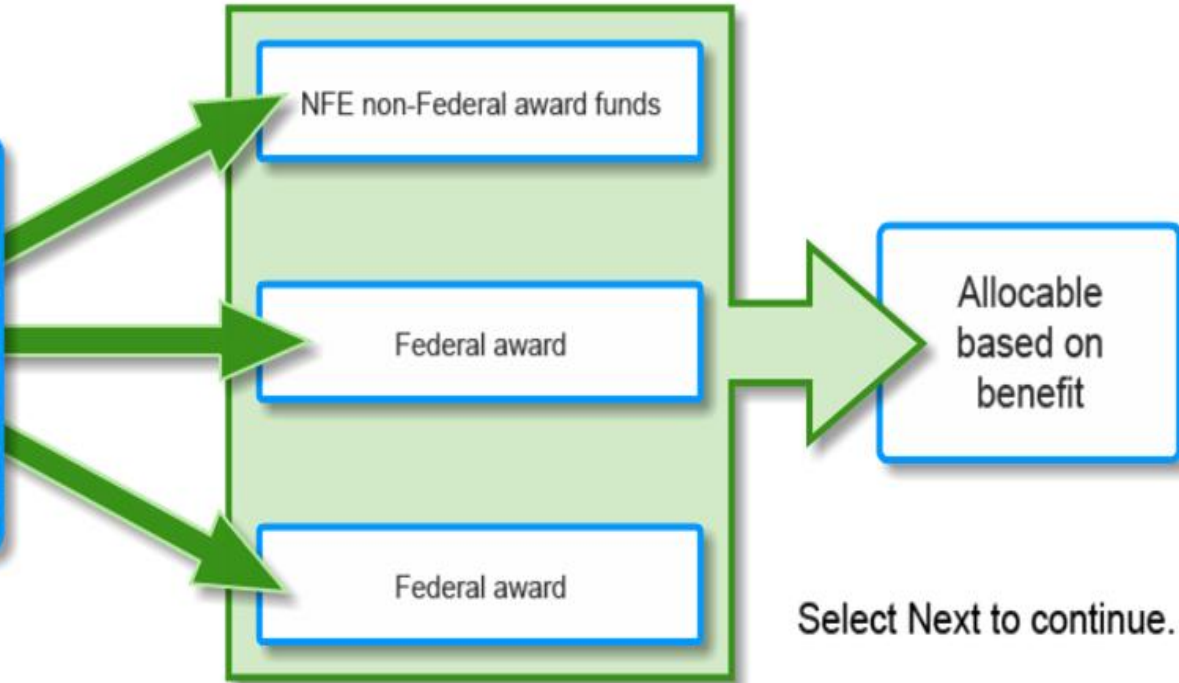
100%  
allocable to  
the award

Select Next to continue.



## Charging an Allocable Cost, cont'd

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.



Select Next to continue.



## Knowledge Check

What three factors determine whether a cost can be charged to an award?

Select the correct responses.

- Acceptable
- Allocable
- Allowable
- Consistent
- Necessary
- Practical
- Rational
- Realistic
- Reasonable
- Sensible

Submit





## Knowledge Check

What three factors determine whether a cost can be charged to an award?

- Acceptable
- Allocable
- Allowable
- Consistent
- Necessary
- Practical
- Rational
- Realistic
- Reasonable
- Sensible

**Incorrect.**

Although the other terms can be used to determine whether a cost is allowable, reasonable, or allocable, the three factors that determine whether a cost can be charged are allowable, reasonable, and allocable.

Select Next to Continue.



## Knowledge Check

How is a cost allocated across multiple activities and awards?

Select the correct response.

- A. The cost is allocated evenly across all applicable awards and activities.
- B. The applicable cost share is limited to 25% of the Federal award amount.
- C. The cost is allocated in accordance with the relative benefit received by the award or activity.
- D. Any cost must be allocated to a single award or activity.

Submit



## Knowledge Check

How is a cost allocated across multiple activities and awards?

- A. The cost is allocated evenly across all applicable awards and activities.
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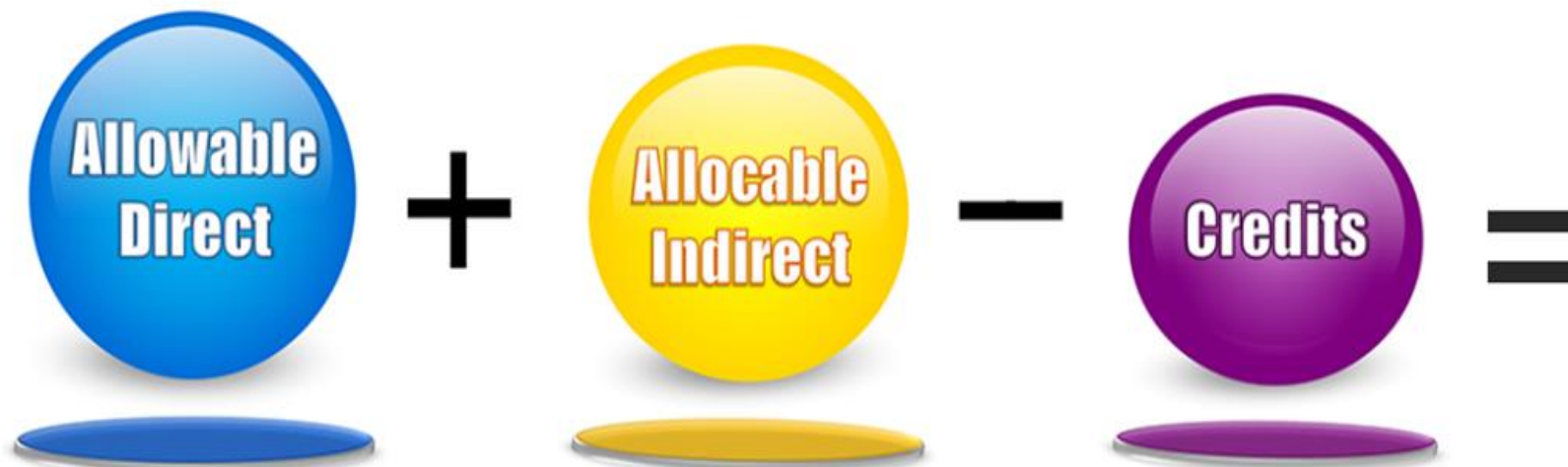
**Incorrect**

The cost is allocated in accordance with the relative benefit received by the award or activity.

**Select Next to Continue.**



## § 200.402: Composition of Costs



## Total Allowable Cost

Select each image to learn more about each component of the total cost.



## § 200.402: Composition of Costs: Direct Costs



**Allowable  
Direct**

- Identified specifically with a particular Federal award or other activity
- Directly assigned to a Federal award or other activity relatively easily with high degree of accuracy
- Typical direct costs include:
  - Compensation of employees
  - Related fringe benefit costs
  - Materials or other expenses
  - Travel

Select Back to continue.




## § 200.402: Composition of Costs: Indirect Costs



**Allocable  
Indirect**

- Also referred to as Facilities and Administration (F&A) costs
- Facilities costs include:
  - Depreciation on buildings
  - Equipment and capital improvement
  - Interest on debt
  - Operations and maintenance
- Administrative costs include:
  - General administration and expenses
  - Director's office
  - Accounting and personnel
  - Salaries of administrative and clerical staff



Select Back to continue.



## § 200.402: Composition of Costs: Credits



# Credits

- Transactions that offset or reduce expenses charged as direct or indirect costs
- Examples include:
  - Purchase discounts, refunds, rebates, and allowances
  - Adjustments for overpayments or erroneous charges

Select Back to continue.



## § 200.412: Classification of Costs



- No universal rule for classifying costs as direct or indirect
- Same cost may be classified as direct or indirect depending on situation and whether proportion of benefit can be determined without undue effort or cost
- Example: photocopy costs
  - Direct cost: acquired specifically for the purpose of a Federal award
  - Indirect cost: already leased and also used for the benefit of the organization and other programs





## § 200.412: Classification of Costs: Example



- Salaries of administrative and clerical staff
- Can be charged as a direct cost if:
  - Integral to a project or activity
  - Can be specifically identified with project or activity without undue effort or cost
  - Costs explicitly included in the budget or have prior written approval
  - Costs not also recovered as indirect costs



## § 200.412: Classification of Costs: Key Considerations

- Application to Federal awards distinguishes direct from indirect, not the nature of goods or services
- Essential to treat costs consistently
- Avoid double-charging Federal awards

	Direct Costs	Indirect Costs	
	\$72,400	\$2,473	\$653
	\$72,968	\$2,526	\$715
	\$73,536	\$2,579	\$77
	\$74,104	\$2,632	\$83
	\$74,672	\$2,685	
	\$75,240	\$2,738	
7	\$75,808	\$2,791	
4	\$76,376	\$2,844	
31	\$76,944	\$2,897	
78	\$77,512	\$2,950	
25	\$78,080	\$3,003	
272	\$78,648	\$3,056	
619	\$79,216	\$3,109	
,966	\$79,784	\$3,162	
,313	\$80,352	\$3,215	
,660	\$80,920	\$3,268	



## Is This a Direct or Indirect Cost?

The Executive Director of the NFE travels to a regional office to give employees a quarterly update. Would this travel cost be direct or indirect?

Select the correct response.

**Direct**

**Indirect**



## Is This a Direct or Indirect Cost?

The Executive Director of the NFE travels to a regional office to give employees a quarterly update. Would this travel cost be direct or indirect?

Select "Next" to continue.

**Indirect**



## Is This a Direct or Indirect Cost?

Is the cost of space for common areas such as hallways, restrooms, and a NFE's conference room a direct or indirect cost?

Select the correct response.

**Direct**

**Indirect**



## Is This a Direct or Indirect Cost?

Is the cost of space for common areas such as hallways, restrooms, and a NFE's conference room a direct or indirect cost?

Select "Next" to continue.

**Indirect**



## Is This a Direct or Indirect Cost?

Are the postage meter costs logged for specific projects or activities a direct or indirect cost?

Select the correct response.

**Direct**

**Indirect**



## Is This a Direct or Indirect Cost?

Are the postage meter costs logged for specific projects or activities a direct or indirect cost?

Select "Next" to continue.

**Direct**





## Is This a Direct or Indirect Cost?

Is the cost of purchasing laptops for staff working full-time on a Federal award a direct or indirect cost?

Select the correct response.

**Direct**

**Indirect**



## Is This a Direct or Indirect Cost?

Is the cost of purchasing laptops for staff working full-time on a Federal award a direct or indirect cost?

Select "Next" to continue.

**Direct**



## Knowledge Check

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

Select the correct response.

- A. True
- B. False



## Knowledge Check

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

- A. True
- B. False

**Correct!**

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect facilities and administrative costs.

**Select Next to Continue.**



## Allocating Indirect Costs

- Number of active employees
- Number of transactions processed
- Square footage occupied
- Salaries and wages of units supervised
- Direct assignment





## § 200.414: Indirect Costs (Negotiated Rates)

- NFE negotiates indirect cost rate with cognizant agency
- Indirect cost negotiated agreement must be accepted by all Federal awarding agencies
- Federal awarding agency:
  - May use a different rate from the negotiated rate if:
    - Required by Federal statute or regulation
    - Approved by Federal awarding agency head or delegate
  - Must notify OMB of any approved deviations
  - Must make information for deviating from negotiated rates publicly available
  - Must make information available in the notice of funding opportunity



## § 200.414: Indirect Costs (de minimis)

- Can charge a de minimis rate if never received a negotiated indirect cost rate or qualified under exceptions in Appendix VIII to Part 200
- Equals 10% of Modified Total Direct Costs (MTDC)
- Can use the rate indefinitely
- Charge costs consistently as either direct or indirect costs (not both)
- May not double charge a cost
- Must use methodology consistently until a negotiated rate is set
- May apply for a negotiated rate at any time





## § 200.407: Prior Written Approval

- Contact the cognizant agency for costs that deviate from a negotiated indirect cost
- Contact the awarding agency for special or unusual costs
- Should include timeframe or scope of agreement in written approval
- May be specifically required for allowability







## § 200.401: Application

The cost principles generally apply to most NFEs and awards except in limited situations as specified in Section 200.401.

For example, some non-profits are considered similar to for-profit organizations and are exempt from Subpart E.

These organizations must use the cost principles at 48 CFR 31.2. Refer to Appendix VIII to Part 200 for a list of these organizations.

**Exempt**



## Knowledge Check

What is a de minimis rate?

Select the correct response.

- A. The minimum rate that must be charged for all indirect costs for all Federal awards for all NFEs.
- B. The negotiated rate for charging indirect costs for IHEs.
- C. The rate that States, local governments, and tribes use to charge for some covered services.
- D. A rate set at 10% of modified total direct costs that is used instead of a negotiated rate for charging indirect costs for qualifying organizations.

Submit



## Knowledge Check

How is a cost allocated across multiple activities and awards?

- A. The minimum rate that must be charged for all indirect costs for all Federal awards for all NFEs.
- B. The negotiated rate for charging indirect costs for IHEs.
- C. The rate that States, local governments, and tribes use to charge for some covered services.
- D. A rate set at 10% of modified total direct costs that is used instead of a negotiated rate for charging indirect costs for qualifying organizations.

**Correct!**

A de minimis rate is used instead of a negotiated rate for charging indirect costs for qualifying organizations. The de minimis rate is set at 10% of modified total direct costs.

**Select Next to Continue.**



## Knowledge Check

All costs must receive prior written approval in order to be allowable.

Select the correct response.

- A. True
- B. False

Submit



## Knowledge Check

All costs must receive prior written approval in order to be allowable.

A. True

B. False

**Correct!**

Some costs do require prior written approval, but not all costs. Refer to Section 200.407.

**Select Next to Continue.**