



Vermont Department of Education

Cost Principles Training for State and Local Governments

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OMB Circulars

- **OMB Circular A-87 for State, Local & Tribal Governments**
- OMB Circular A-21 for Educational Institutions
- OMB Circular A-122 for Nonprofit Organizations
- All sub-awards are subject to the cost principles applicable to the particular organization concerned.
- Selected items are presented; refer to circular for full details.

- All superintendents and business managers have a copy of this circular in the Handbook for Financial Accounting of Vermont School Districts.
- The Circulars are also available at www.whitehouse.gov/omb/circulars/index.htm
- The Cost Principles in the three circulars are not identical; be sure to use the appropriate circular for your entity.

C. Basic Guidelines

For an expenditure to be allowable, it must -

- Be necessary & reasonable for grant performance,
- Be allocable to federal awards,
- Be authorized or not prohibited by laws,
- Conform to limitations or exclusions in these principles,
- Be consistent with policies, regulations and procedures that apply to federal awards,
- Be consistent treatment as a direct or indirect cost,
- Be net of applicable credits,
- **be adequately documented**, (Who, what, when, where, why)
- And cost must be allocated to all funding sources.

C 2. 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 that time.



C 2. Continued

- A. Cost is ordinary and necessary for the operation of the governmental unit or performance of the federal award.
- B. Consideration shall be given for restraints or requirements imposed such as : sound business practice, arms length bargaining, laws and regulations, terms of grant.
- C. Costs will be market prices for comparable goods or services.
- D. Individuals concerned with the purchase shall have acted with prudence.

C 3. Allocable costs

- A. Cost is allocable to the grant if goods & services chargeable are in accordance with benefits received.
- B. All activities which benefit receive an appropriate allocation.
- C. Costs allocated to a federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions or terms of the federal award. (If funds are exhausted in grant a, they don't get shifted to grant b.)

Attachment B

Selected Items of Cost

1. Accounting

The cost of establishing and maintaining accounting or other information systems is allowable.



2. Advertising & Public Relations

- C. Advertising costs are only allowable for recruitment of personnel, procurement of goods & services, disposal of surplus materials, and any other specific purpose necessary to meet the purpose of the grant.
- Costs associated with disposal of surplus materials are not allowable where costs are reimbursed based on a standard rate as specified in the grant management common rule.



2. E Un-allowed Advertising & Public Relations

- 2 B Cost of hospitality suites, conventions, promotional items, gifts & souvenirs
- C4 Costs solely to promote governmental unit



3. Advisory Councils

Costs of advisory councils are allowed as a direct cost when approved by the awarding agency.



4. Alcoholic Beverages

- All costs for alcoholic beverages are an unallowable cost.

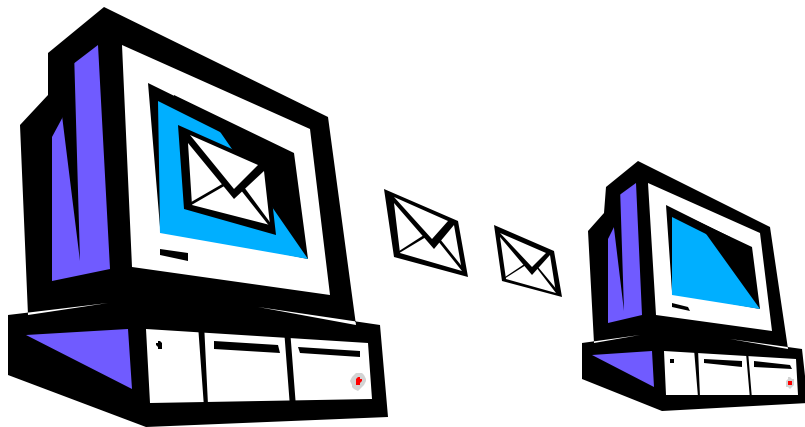


5. Audit services

- Costs of audits performed in accordance with the Single Audit Act are allowable.
- Prior approval is needed for other types of audits.



6. Automated Data Processing



- Cost of Automated Data Processing is allowable, (but see section 19 Equipment and other capital expenditures).

7. Bad Debts



- Any losses arising from uncollectible accounts and other claims, and related costs are unallowable unless provided for in federal program award regulations.

8. Bonding of Employees and Officials is allowable, when in accordance with sound business practice or when required by award.

9. Costs incurred for the development, presentation and execution of budgets are allowable.

10. Communications

- Costs of Telephones,
- Mail,
- Messenger,
- and similar communications are allowable.



11. a. Personnel Services



- Compensation for personnel services for services rendered during the period of performance including but not limited to wages, salaries, & fringe benefits is allowable to the extent that they satisfy the requirements of this circular.

11. A Compensation for individual employees is allowable if compensation is:

- 1) reasonable for services rendered;
- 2) follows appointment made in accordance with unit hiring procedures;
- 3) meets merit system or other requirements by federal law;
- 4) is determined and supported as provided in subsection h.

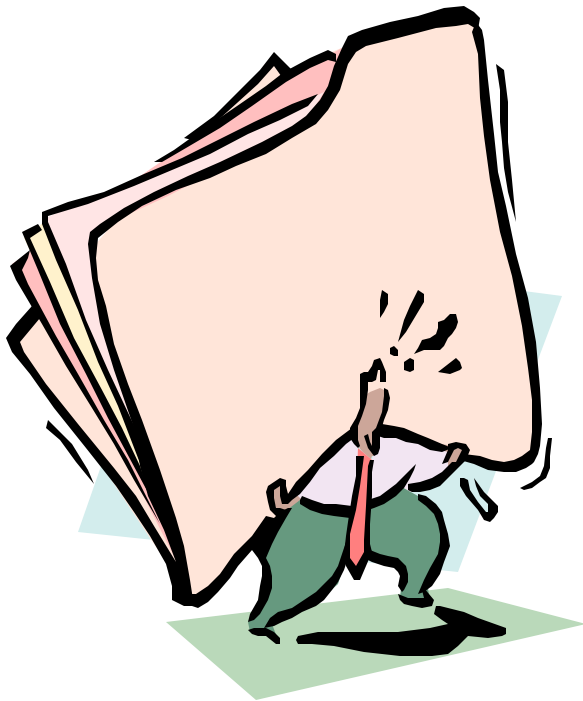
h. Support of Salaries and Wages

- 1. Charges for salaries and wages will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official.

- h 3. Where employees are expected to work solely on a single federal award the charges will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.
- Certifications must be at least semi-annually and signed by the employee or the supervisory official having first-hand knowledge of the work performed.

h. Support of Salaries and Wages

- 4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 5 or other approved substitute system.



h 4

- Such documentation will be required where employees work on:
 - a) more than one federal award,
 - b) a federal and a non-federal award,
 - c) an indirect cost activity and a direct cost activity,
 - d) two or more indirect activities with different allocation bases, or
 - e) an unallowable activity and a allowable activity.

h 5. Personnel Activity Reports must

- reflect after-the-fact distribution of actual activity of the employee,
- account for total activity for which the employee is compensated,
- be prepared at least monthly and coincide with one or more payroll periods,
- and be signed by the employee.
- Budget estimates or other distributions do not qualify as support for charges but may be used as interim accounting purposes.

11. G - Severance packages



- Must be required by law,
- Employer – Employee Agreement,
Or established written policy
Allocated to all activities.
Abnormal severance pay
will be considered on a case
by case base and is
allowable only if approved.

12. Contingencies

Contributions to a contingency reserve or similar provision made for events the occurrence of which can not be foretold with certainty as to time to intensity, or with assurance of their happening are unallowable.



13. Contributions and Donations

- Contributions and donations, including cash, property and services by governmental units to others regardless of recipient are unallowable.



14. Defense proceedings

- Costs for defense of civil or criminal proceedings, where the contractor is found liable or pleaded nolo contendere to a charge of fraud, or
- legal expenses for prosecution of claims against the federal government are unallowable.



17. Employee Health, Morale & Welfare costs



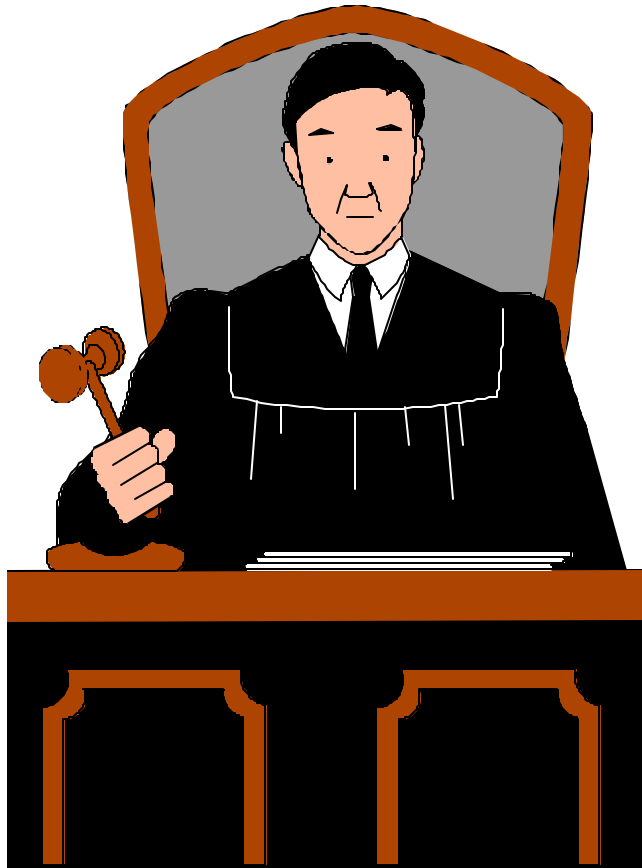
- Costs of health or first aid clinics, recreational facilities, employee counseling, information publications in accordance with the governmental unit policy are allowable.

18. Entertainment



- Costs of entertainment, including amusement diversion, social activities and any costs directly associated with such costs (such as tickets to shows, sporting events, meals, lodging, rentals, transportation and tips) are unallowable.

20. Fines or Court Costs



- Fines or penalties resulting from failure to comply with Federal, State or Local laws are unallowable except when incurred as a result of specific provisions of the grant.

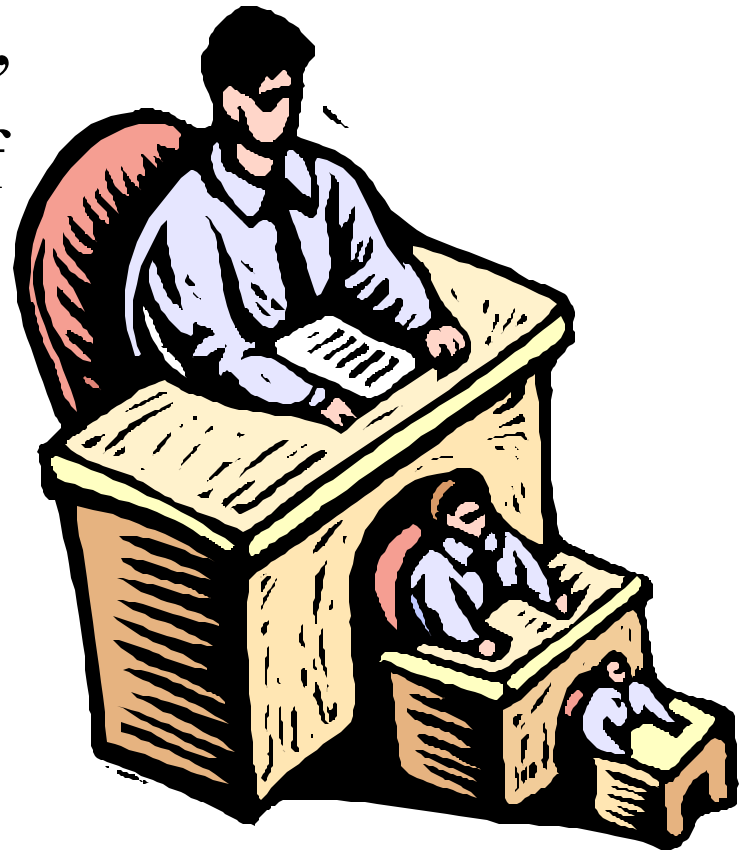
21. Fund Raising & Investment



- Cost of fund raising, solicitation of gifts or bequests and similar expenses to raise capital or contributions are unallowable, regardless of the purpose which the funds will be used.
- Costs of investment counsel, staff and similar expenses are unallowable.

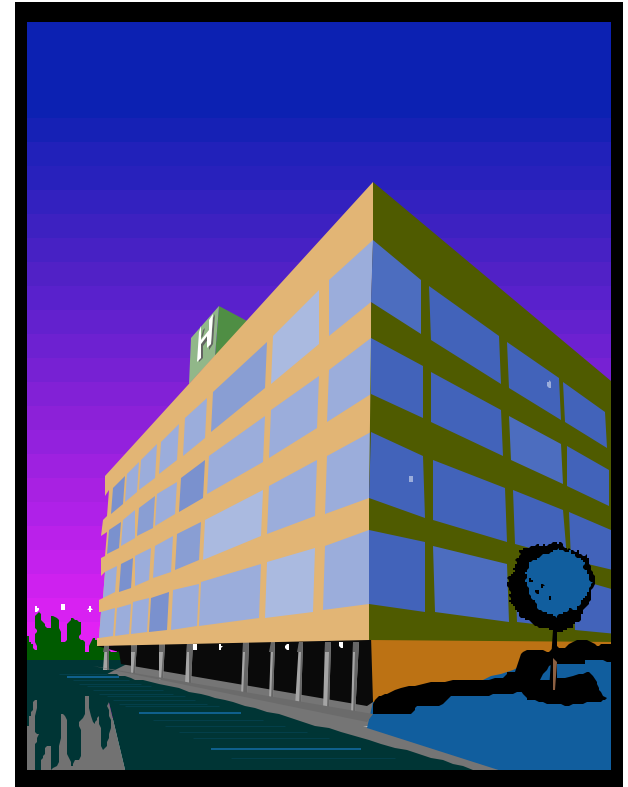
23. General Government Expenses

- Salaries and Expenses of Chief Executive Officer,
- Salaries and expenses of city councils & school boards, and
- costs normally provided to the general public such as Police and Fire Dept are unallowable.



24. Idle Facilities & Capacity

- Completely unused facilities or space in excess of current needs are un-allowed, except when they are necessary to meet work load fluctuations.



25. Insurance & Indemnification

- A. Costs of Insurance required or approved and maintained, pursuant to the federal award are allowable.
- B2. Costs of insurance or contributions to a reserve covering the risk of loss or damage to federal government property are unallowable except as required or approved by the federal agency.

- C. Actual losses which could have been covered by permissible insurance or self insurance program are unallowable.
- F. Insurance refunds shall be credited against insurance costs in the year the refund is received.
- H. Costs of commercial insurance that protects against the costs of a contractor for correction of the contractor's own defects in workmanship or materials are unallowable.

26. Interest

- A. Costs incurred for interest on borrowed capital or the use of a government unit's own funds, however represented, are unallowable, except as authorized by federal legislation
- B. Financing costs associated with the otherwise allowable costs of building acquisitions, reconstruction, remodeling construction is allowable subject to conditions.

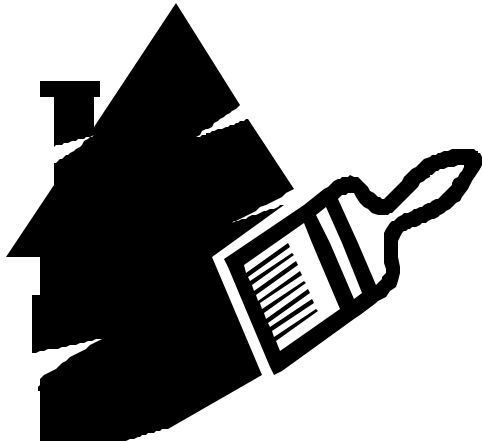
27. Lobbying Costs



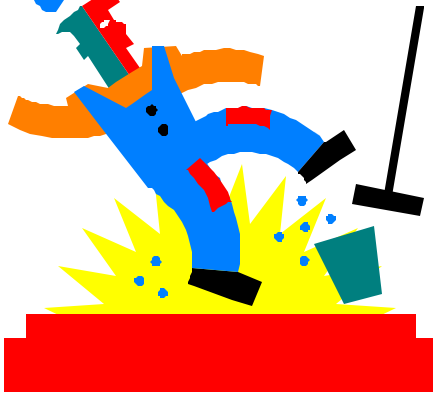
- Costs of certain influencing activities associated with obtaining grants, cooperative agreements or loans is an unallowable cost.
- Ref – OMB’s “Government wide guidance for new restrictions on Lobbying”.

28. Maintenance, operations and repairs.

- Unless prohibited by law, utilities, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance or repairs are allowable to the extent they 1) keep the property in efficient operating condition, 2) do not add to the value of the property, 3) are not included in other charges for space.



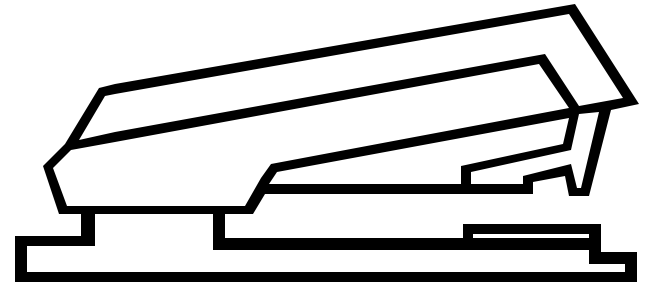
Repairs



Janitorial services

29. Materials and supplies

- Cost of materials and supplies is allowable.
- Purchases should be charged after deduction of all credits and allowances.
- Related transportation costs are a part of these costs.



30 Memberships, Subscriptions and Professional Activities

- A. Costs of memberships in business, technical and professional organizations are allowable.



- B. Costs of subscriptions to business, professional and technical organizations are allowable.

C. Costs of meetings where the primary purpose is the dissemination of technical information including meals, transportation, facilities rental and incidentals are allowable.

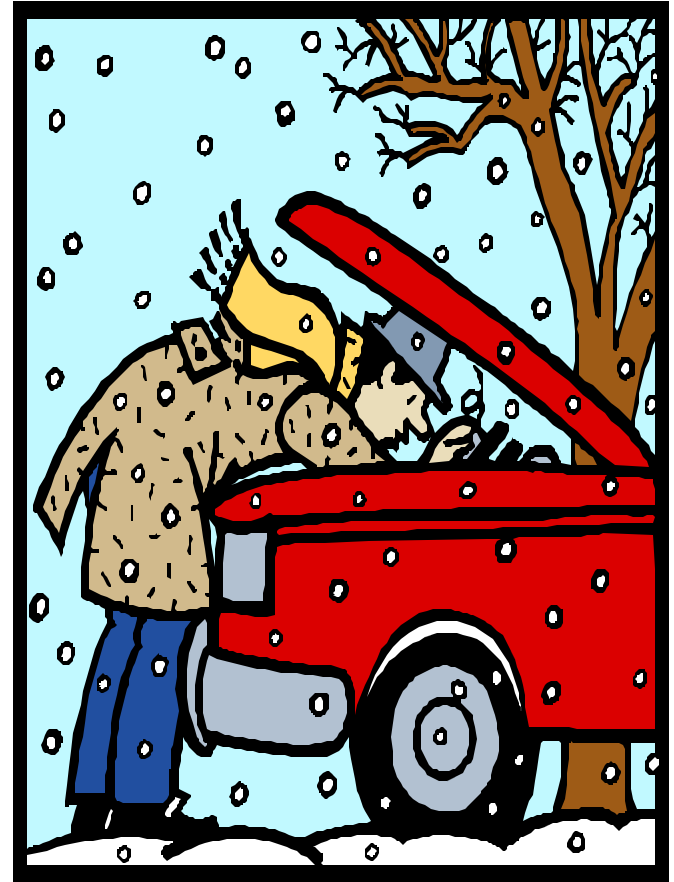
30. Continued

- D. Costs of memberships in civic, community and social organizations are allowable as a direct cost with the approval of the federal awarding agency.
- E. Costs of membership in organizations substantially engaged in lobbying are unallowable.



31. Motor pools

- The cost of a service organization which provides automobiles to user governmental units at a mileage or fixed rate and provides vehicle maintenance, inspection and repair services are allowable.



32. Pre-award costs

- Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award. Such costs are allowable only if they would have been allowable is incurred after the date of the award and only with written approval of the awarding agency.

33. Professional Services

- A. Cost of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill are allowable, subject to section 14 when reasonable to the services rendered and not contingent upon recovery of costs from the federal government.



B. Retainer fees supported by evidence of bona fide services rendered are allowable,

34. Proposal costs

- Costs of preparing proposals for potential federal awards are allowable. Proposal costs should normally be treated as indirect costs. However, proposal costs may be charged directly to federal awards with the prior approval of the federal awarding agency.



35. Publication and printing costs

- Publication costs, including the costs of printing, distribution, promotion, mailing and general handling are allowable.



36. Rearrangements & Alterations



- Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable.
- Special arrangements and alterations incurred specifically for a federal award are allowable with prior approval.

37. Reconversion costs

- Costs incurred in the restoration or rehabilitation of the governmental unit's facilities to approximately the same condition existing prior to commencement of federal awards, less costs related to normal wear and tear are allowable.



38. Rental costs

- A. Subject to limitations, rental costs are allowable to the extent the rates are reasonable in light of comparable costs of property, market conditions, type, condition alternatives, life expectancy & value.



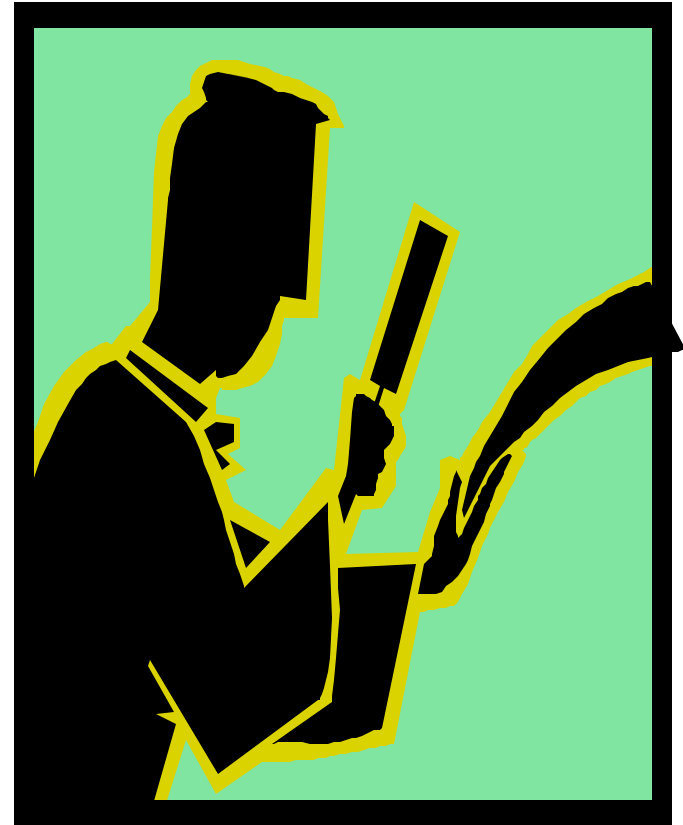
Rental limitations

- B. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.
- C. Rental costs under less-than arms-length leases are allowable only up to the amount that would have been allowed had the title to the property vested in the governmental unit include but are not limited to, those where:

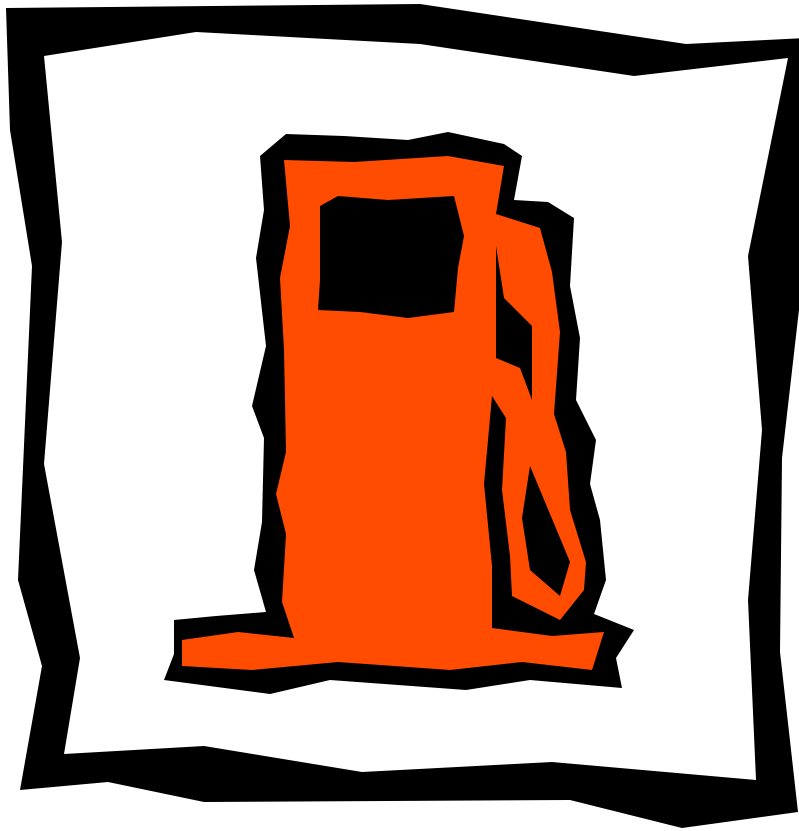
- One party to the lease is able to control or substantially influence the actions of the other;
- Both parties are of the same governmental unit; or
- The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.
- d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed.

39. Taxes

- A. Taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect federal programs.



B. Gasoline Taxes



- B. Gasoline taxes, motor vehicle fees and others that are in effect user fees for benefits provided to the federal government are allowable.

40. Training

- The cost of training for employee development is allowable.



41. Travel costs

- A. Travel costs are allowable for expenses for transportation, lodging, subsistence and related items incurred by employees traveling on official business.

Such costs may be charged on

- an actual cost basis,
- on a per diem basis,
- or mileage basis in lieu of actual costs incurred, provided the method used is applied to an entire trip and results in charges consistent with those normally allowed in like circumstances in non-federal activities.

b. Lodging and subsistence

- Costs incurred by employees and officers for travel,
- including costs of lodging,
- other subsistence,
- and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charge normally allowed by the governmental unit in its regular operations as a result of the government unit's policy.

In the absence of a written governmental policy regarding travel costs, the rates and amounts established under subchapter I OF CHAPTER 57, TITLE 5 USC travel & subsistence expenses; mileage allowances shall be used as guidance.

C: Commercial Air Travel

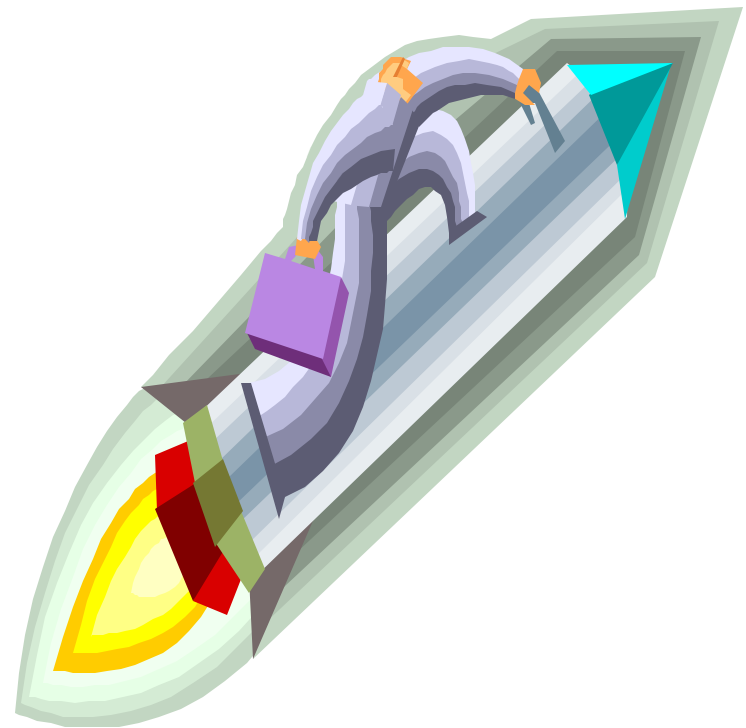
Airfare costs in excess of the customary standard (coach or equivalent) airfare, are unallowable except when such accommodations would

- require circuitous routing,
- require travel during unreasonable hours,
 - excessively prolong travel,
- greatly increase the duration of the flight,
 - result in increased cost that would offset transportation savings,
- or offer accommodations not reasonably adequate for the medical needs of the traveler.



d. Air travel by other than commercial carrier

Cost of travel by governmental unit owned, leased or chartered aircraft are unallowable to the extent that they exceed the costs of allowable commercial travel.

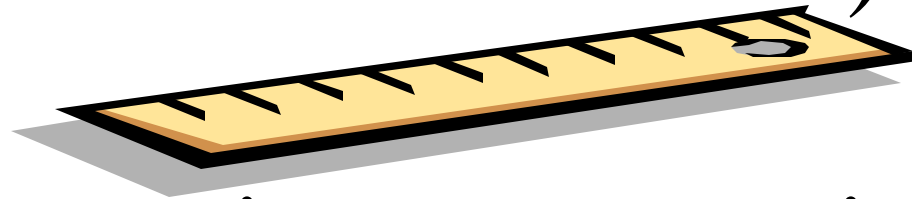


42. Under-recovery of costs under federal agreements

- Any excess costs over the federal contribution under one award agreement are unallowable under other award agreements.

A quick leap to
34 CFR Part 80

Uniform Administrative
Requirements for Grants to
State and Local Governments
(The Common Rule)



for some important points

COMMON RULE

§ 23 Period of Availability of Funds

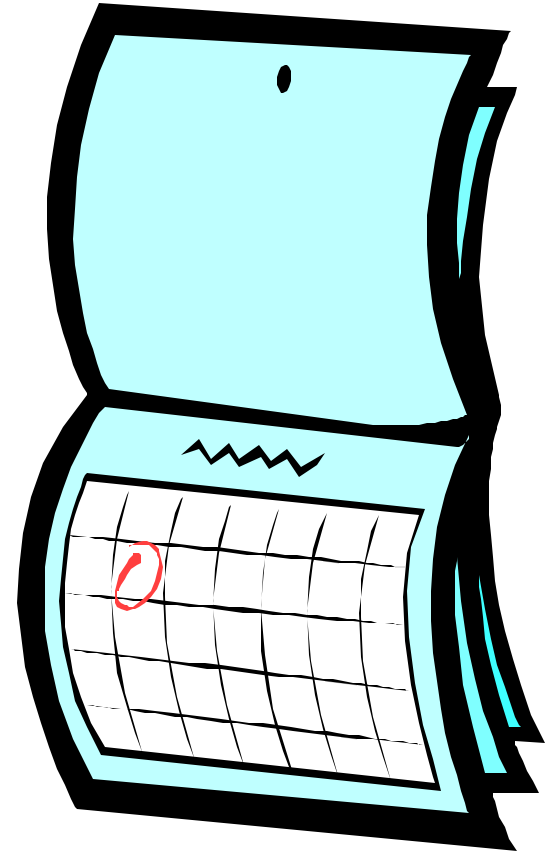
- A) Where a funding period is specified, a grantee may charge only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted.

- B) A Grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period or as specified in the program regulation.

FYI - A recent appeal by a subgrantee to the HHS appeals board was denied because the expenditures were incurred outside the terms of the grant.

Common Rule §50 Closeout

- B) Reports - within 90 days after expiration or termination of the grant, the grantee must submit all financial, performance and other reports required as a condition of the grant.



- D) (2) The grantee must immediately refund any balance of unobligated (unencumbered) cash that is not authorized to be retained for use on other grants.