FEDERAL COST PRINCIPLES SUBPART E (200.400 – 200.475)

Recording Link:
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Presentation for:
GPD Grantees
Presented by: **Office of Business Oversight**
October 27, 2021

Purpose and Topics

- The purpose of this training is to gain an understanding of the concepts central to cost principles for Federal Grantees who receive federal funds from the Grant Per Diem (GPD) Program.
  - Learning Objectives
  - OBO Background
  - Allowability
  - Reasonableness
  - Allocability
  - Unallowable Costs
  - Prior Written Approval
  - Key Points Of Contact
  - Additional Information

Learning Objectives

- Summarize cost principles and how they currently apply
- Conduct research using the cost principles to answer cost allowability questions
- Practice applying the cost principles to on-the-job scenarios

OBO Background - Service Level Agreement

- The Office of Business Oversight (OBO) has a Service Level Agreement with the GPD Program Office that requires we:
  - Complete Grantee Onsite Reviews
  - Provide Recommendations and Corrective Action Plans
  - Review Grantee Federal Financial Report (FFR) SF-425s
  - Review Grantee Indirect Rate Cost Proposals
  - Conduct training for GPD Grantees

OBO Background – GPD Grants Team

- OBO has the following team structure:
  - Grants Review Division - Director
    - Jeff Brean
  - GPD Team
    - Omar Ochoa
    - Tony Huff
    - Nick Rayo
    - Christian Galivan-Lopez
    - Myra Bennett
  - OBO Contract Team
    - Trilogy, BDO, and RMA

OBO Background – GPD Reviews

- Reviews are conducted to:
  - Ensure compliance with GPD Regulatory Guidance (38 CFR Part 61), GPD Program Guide, Notice of Funding Opportunity (NOFO), Grant Agreements and other Uniform Grant Guidance (2 CFR Part 200)
  - Provide the GPD Program Office with an assessment of the Grantees ability to meet the needs of Homeless Veterans
  - Provide Grantee Management and Board of Directors with an external assessment of organizational Financial Management Systems
  - Discuss challenges and opportunities (Best Practices, Common Approaches, Program/Process Standardization) with Grantees and provide recommendations and corrective action plans.

OBO Background – GPD Review Areas

- OBO reviews the following areas:
  - Internal Controls and Fraud, Waste, and Abuse
  - Expenses
  - Payroll
  - Payment Vouchers
  - Standard Form (SF) - 425 Financial Reporting
  - Single Audit

Allowability

- **§ 200.403 Factors affecting allowability of costs – Except where otherwise authorized by statute, costs 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.
  - (c) Be **consistent with policies and procedures** that apply uniformly to both federally-financed and other activities of the non-Federal entity.
  - (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
  - (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
  - (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also § 200.306(b).
  - (g) **Be adequately documented**. See also §§ 200.300 through 200.309 of this part.
  - (h) Cost must be **incurred during the approved budget period**. The Federal awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to § 200.308(e)(3).

Reasonableness

- **§ 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. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:**
  - (a) Whether the cost is of a type generally recognized as **ordinary and necessary** for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
  - (b) The restraints or requirements imposed by such factors as: **sound business practices**; **arm's-length bargaining**; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
  - (c) **Market prices for comparable goods or services** for the geographic area.
  - (d) Whether the individuals concerned **acted with prudence** in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
  - (e) Whether the non-Federal entity significantly deviates from its **established practices and policies** regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Allocability

- **§ 200.405 Allocable costs – (a) 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. This standard is met if the cost:**
  - (1) Is **incurred specifically** for the Federal award;
  - (2) **Benefits both** the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
  - (3) Is **necessary** to the overall operation of the non-Federal entity and is **assignable** in part to the Federal award in accordance with the principles in this subpart.
    - (b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
    - (c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.
    - (d) Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.

Unallowable Costs – No Exceptions

- **§ 200.423 Alcoholic beverages.**
  - Costs of alcoholic beverages are unallowable.
- **§ 200.426 Bad debts.**
  - Bad debts (debts which have been determined to be uncollectable), including losses (whether actual or estimated) arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable.
- **§ 200.434 Contributions and donations.**
  - Costs of contributions and donations, including cash, property, and services, from the non-Federal entity to other entities, are unallowable.
- **§ 200.451 Losses on other awards or contracts.**
  - Any excess of costs over income under any other award or contract of any nature is unallowable. This includes, but is not limited to, the non-Federal entity's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect (F&A) costs. Also, any excess of costs over authorized funding levels transferred from any award or contract to another award or contract is unallowable. All losses are not allowable indirect (F&A) costs and are required to be included in the appropriate indirect cost rate base for allocation of indirect costs.

Prior Written Approval

- **§ 200.407 Prior written approval (prior approval) –** Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

  (a) § 200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);

  (b) § 200.306 Cost sharing or matching;

  (c) § 200.307 Program income;

  (d) § 200.308 Revision of budget and program plans;

  (e) § 200.311 Real property;

  (f) § 200.313 Equipment;

  (g) § 200.333 Fixed amount subawards;

  (h) § 200.413 Direct costs, paragraph (c);

  (i) § 200.430 Compensation - personal services, paragraph (h);

  (j) § 200.431 Compensation - fringe benefits;

  (k) § 200.438 Entertainment costs;

Prior Written Approval (Continued)

(l) § 200.439 Equipment and other capital expenditures;
(m) § 200.440 Exchange rates;
(n) § 200.441 Fines, penalties, damages and other settlements;
(o) § 200.442 Fund raising and investment management costs;
(p) § 200.445 Goods or services for personal use;
(q) § 200.447 Insurance and indemnification;
(r) § 200.454 Memberships, subscriptions, and professional activity costs, paragraph
(s) § 200.455 Organization costs;
(t) § 200.456 Participant support costs;
(u) § 200.458 Pre-award costs;
(v) § 200.462 Rearrangement and reconversion costs;
(w) § 200.467 Selling and marketing costs;
(x) § 200.470 Taxes (including Value Added Tax); and
(y) § 200.475 Travel costs.

Maintenance and Repair Costs

- **§ 200.452 Maintenance and repair costs –** Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which **neither add to the permanent value of the property nor appreciably prolong its intended life**, but keep it in an efficient operating condition, are allowable. 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. Examples:
  - Flooring
  - Roof patches
  - Parking lot patches
  - Wall repair
  - Motor for Air Conditioner

Equipment and Other Capital Expenditures

- **§ 200.439 Equipment and other capital expenditures.**
  - Capital expenditures for general purpose equipment, buildings, and land are **unallowable** as direct charges, except with the prior written approval of the Federal awarding agency or pass-through entity.
  - Capital expenditures for special purpose equipment are **allowable** as direct costs, provided that items with a unit cost of $5,000 or more have the prior written approval of the Federal awarding agency or pass-through entity.
  - Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are **unallowable** as a direct cost except with the prior written approval of the Federal awarding agency, or pass-through entity. See § 200.436, for rules on the allowability of depreciation on buildings, capital improvements, and equipment. See also § 200.465.
  - When approved as a direct charge pursuant to paragraphs (b)(1) through (3) of this section, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the Federal awarding agency.
  - Equipment and other capital expenditures are **unallowable** as indirect costs. See § 200.436.

Definitions

- **§ 200.12 Capital assets –** *Capital assets* means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:
  - **(a)** Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and
  - **(b)** Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).
- **§ 200.33 Equipment –** *Equipment* means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or $5,000.
- **§ 200.48 General purpose equipment –** General purpose equipment means equipment which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles. See also Equipment and Special Purpose Equipment.

Key Points Of Contact

- OBO GPD Audit Team
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  - Jeff Brean, Director - Jeffrey.Brean@va.gov

- GPD Program Office
  - Yvette Green, Auditor - Yvette.Green@va.gov

Additional Information

- GPD Program Staff
  - GPD Program Questions: GPDGrants@va.gov
  - Fiscal Questions (per diem rates): GPDFiscal@va.gov
  - SF-425 Questions: GPD425@va.gov
- GPD Provider Website
  - https://www.va.gov/HOMELESS/GPD_ProviderWebsite.asp
- 2 CFR Part 200 Website
  - https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1
- 38 CFR Part 61 Website
  - https://www.ecfr.gov/current/title-38/chapter-I/part-61

Conclusion

Questions?