

 **USAID**
FROM THE AMERICAN PEOPLE

 **PEPFAR**
U.S. President & People's Plan to End AIDS

WEBINAR
USG RULES AND REGULATIONS: COST PRINCIPLES
Presented by:
Accelerating Support to Advanced Local Partners (ASAP)

COST PRINCIPLES FOR NON-FEDERAL ENTITIES

2 CFR 200.400
Subpart E

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COOPERATIVE AGREEMENT

ATTACHMENT A: SCHEDULE

ATTACHMENT B: PROGRAM DESCRIPTION

ATTACHMENT C: NON-US MSPs & RAAPs
OR
US MSPs & RAAPs

ATTACHMENT D: MARKING/BRANDING

ATTACHMENT A: SCHEDULE

- A.1 Purpose of Cooperative
- A.2 Period of Cooperative Agreement
- A.3 Amount of Cooperative Agreement and Payment
- A.4 Cooperative Agreement Budget
- A.5 Reporting, Monitoring and Evaluation
- A.6 Title To and Use of Property
- A.7 Indirect Cost Rate
- A.8 Program Income
- A.9 Cost-Sharing (Matching)
- A.10 Authorized Geographic Code
- A.11 Substantial Involvement Understandings
- A.12 Resolution of Conflicts
- A.13 Post-Award Agreement Administration
- A.14 Special Provisions
- A.15 Environmental Compliance and Management
- A.16 Standard/Mandatory Provisions
- A.17 Branding Strategy and Marking Plan
- A.18 Termination
- A.19 Disputes
- A.20 Management Review and External Evaluation

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NON-U.S. (FOREIGN) PRIME

GET NON-U.S. MSPs WHICH
INCLUDE 2 CFR 200.400 ONLY

U.S. SUBs

GET U.S. MSPs WHICH INCLUDE
2 CFR 200 & 700

NON-U.S. SUBs

GET NON-U.S. MSPs WHICH
INCLUDE 2 CFR 200.400 ONLY

OMB A-110

OMB A-102

A-122

A-21

A-87

A-133

2 CFR 200

45 CFR 75

NON-US MSPs & RAAPs

US MSPs & RAAPs

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Electronic Code of Federal Regulations

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Title 2 - Grants and Agreements

TYPICAL TYPES OF COSTS FOR HEALTH PROJECTS

- ▶ Salaries
- ▶ Travel
 - Local flights
 - Car hire / other transport
 - Accommodation
- ▶ Supplies (campaign materials, condoms)
- ▶ Equipment (electronic information system, laptops, furniture fittings)
- ▶ Contractors
 - Assessments
- ▶ Prevention and training
 - Awareness campaigns
 - Treatment
 - Workshops
- ▶ Other
 - Rent
 - Computer facilities
 - Printing, stationary
 - Insurance
 - Audit & consulting

PURPOSE, APPLICABILITY AND RESPONSIBILITIES

Purpose

- ▶ Cost principles for grants, contracts and other agreements with non-Federal entities

Applicability

- ▶ Used by Federal agencies that sponsor cost of work performed by non-Federal entities and their subs

SECTIONS

- ▶ Basic Considerations (General principles) (2 CFR 200.402 - .411)
- ▶ Direct and Indirect (F&A) Costs (2 CFR 200.412 - .415)
- ▶ Provisions for Selected Items of Cost (2 CFR 200.420 - .475)

BASIC CONSIDERATIONS

§200.402	Composition of costs.
§200.403	Factors affecting allowability of costs.
§200.404	Reasonable costs.
§200.405	Allocable costs.
§200.406	Applicable credits.
§200.407	Prior written approval (prior approval).
§200.408	Limitation on allowance of costs.
§200.409	Special considerations.
§200.410	Collection of unallowable costs.
§200.411	Adjustment of previously negotiated indirect (F&A) cost rates containing unallowable costs.

DIRECT AND INDIRECT (F&A) COSTS

§200.412	Classification of costs.
§200.413	Direct costs.
§200.414	Indirect (F&A) costs.

GENERAL PROVISIONS FOR SELECTED ITEMS OF COST

§200.420	Considerations for selected items of cost.
§200.421	Advertising and public relations.
§200.422	Advisory councils.
§200.423	Alcoholic beverages.
§200.424	Alumni/ae activities.
§200.425	Audit services.
§200.426	Bad debts.
§200.427	Bonding costs.
§200.428	Collections of improper payments.
§200.429	Commencement and convocation costs.
§200.430	Compensation—personal services.
§200.431	Compensation—fringe benefits.
§200.432	Conferences.
§200.433	Contingency provisions.
§200.434	Contributions and donations.

**REASONABLE
ALLOCABLE
ALLOWABLE
SUPPORTED**

REASONABLENESS

[§ 200.404]

“ A cost is reasonable if, in its nature or 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.”

REASONABLENESS

Consideration shall be given to:

- ▶ Generally recognized cost for the operation.
- ▶ Restraints/requirements imposed by factors like arm-length bargaining, State laws, etc.
- ▶ Market prices for comparable goods or services for the geographic area
- ▶ Individuals acted with prudence
- ▶ Significant deviations from established practices.

ALLOCABILITY

[§ 200.405]

“ A Cost is allocable to a particular cost objective (Grant/project/service) in accordance with relative benefits received.”

ALLOCABILITY

A cost is allocable to a Federal Award if treated consistently with other costs incurred for the same purpose and:

- ▶ Incurred specifically for award
- ▶ Benefit both award and other work and can be distributed in reasonable proportion to the benefits received; or
- ▶ Necessary to overall operation of the organization although a direct relationship cannot be shown.

ALLOCABILITY

- ▶ 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.
- ▶ No cost allocable to a particular award, may be shifted to other Awards to overcome funding deficiencies!

ALLOWABILITY

[§ 200.403]

To be allowable under an award, costs must meet the following general criteria:

- a) Be reasonable for the performance of the award and be allocable thereto under these principles.
- b) Conform to any limitations or exclusions set forth in these principles or in the award as to the types or amount of cost items.
- c) Be **consistent** with policies and procedures that apply uniformly to both the agency-funded project and other activities of the organization.
- d) Be accorded **consistent** treatment.

ALLOWABILITY

- e) Be determined in accordance with Generally Accepted Accounting Principles (GAAP).
- f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program.
- g) Be adequately **documented**.

ALLOWABLE COSTS

[Mandatory Standard Provisions Part I, M1]

- ▶ The terms of the award and relevant cost principles apply from the date of the award. (Make sure you are working with the correct documents.)
- ▶ The recipient is responsible for ensuring that all costs should be reasonable, allocable and allowable.
- ▶ For costs not clearly addressed in the cost principles (or not clearly included in the original proposal) get written determination from the AO on **allowability** and allocability.
- ▶ No funds will be paid as profit to recipient (unless for services under a contract).
- ▶ This provision must be passed down to sub-awards and contracts on a cost reimbursement basis.

421. ADVERTISING & PUBLIC RELATIONS COSTS

Only allowable advertising costs:

- ▶ Recruitment of personnel
- ▶ Procurement of good and services
- ▶ Disposal of scrap or surplus materials
- ▶ Program outreach

Only allowable public relations costs:

- ▶ Costs specifically required by award
- ▶ Communication performance of agreement
- ▶ Conducting liaison with media or government

421. ADVERTISING & PUBLIC RELATIONS COSTS Cont...

UNALLOWABLE advertising and public relations:

- ▶ All costs not mentioned above
- ▶ Cost of meetings, conventions etc related to fund raising including displays, exhibits
- ▶ Cost of promotional items
- ▶ Costs solely to promote the organization

422. ADVISORY COUNCILS

- ▶ Costs incurred by advisory councils or committees are unallowable unless authorized by statute, the Federal awarding agency or as an indirect cost where allocable to Federal awards.

423. ALCOHOLIC BEVERAGES

- ▶ UNALLOWABLE

425. AUDIT COSTS AND RELATED SERVICES

- ▶ Audit costs for 2 CFR 200 Subpart F or Yellow Book audits also known as Recipient Contracted Audits (for USAID & CDC) are allowable, only if conducted in accordance with guidelines.
- ▶ Other audit costs (e.g. statutory audit fees) are allowable as an Other Direct Cost, with prior approval, up to an allocable "fair share". (Discuss AO authority to deviate)
- ▶ Certain costs for agreed-upon procedures for managing sub-recipients are allowable subject to certain conditions listed in 2 CFR 200.425 (c) (1-3).

426. BAD DEBTS

- ▶ UNALLOWABLE
- ▶ Also, related collection costs and legal costs arising from such debts after they have been determined to be uncollectible are also unallowable

COMMUNICATION COSTS

- ▶ Note: this specific cost principle which used to say “*Telephone, postage, internet connectivity etc., are allowable*” has been removed.
- ▶ This does not mean that communications costs are not allowable but that such costs must be clearly defined in the cost proposals and still be adequately supported. You might consider asking for specific AO approval for such costs.

430. COMPENSATION – PERSONAL SERVICES

- ▶ All compensation paid or accrued by organization for services by employees during award
- ▶ E.g. salaries, incentives, fringe, pension, hardship pay etc.
- ▶ Allowable to extent:
 - Reasonable
 - Follows an appointment made in accordance with local laws
 - Determined and supported

430. COMPENSATION – PERSONAL SERVICES Cont...

- ▶ Reasonableness
 - Consistent with salary paid for similar work in the organization’s other activities
 - Or else in the labor market that is relevant to the types of employees which the organization competes for

430. COMPENSATION – PERSONAL SERVICES Cont...

- ▶ Incentive compensation
 - When based on cost reduction, increased performance: allowable when reasonable and agreement reached before performance.

430. COMPENSATION – PERSONAL SERVICES Cont...

- ▶ Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
 - Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated
 - Be incorporated into the official records of the non-Federal entity
 - Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity
 - Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis

430. COMPENSATION – PERSONAL SERVICES Cont...

- ▶ These records must:
 - Comply with the established accounting policies and practices of the non-Federal entity
 - Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award
 - Budget estimates alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes
 - Records may reflect categories of activities expressed as a percentage distribution of total activities
 - When recording salaries and wages charged to Federal awards for IHEs, a precise assessment of factors that contribute to costs is therefore not always feasible, nor is it expected.

431. COMPENSATION – FRINGE BENEFITS

- ▶ Compensation in addition to regular salaries and wages
- ▶ Include, but are not limited to, the costs of leave (vacation, family- related, sick or military), employee insurance, pensions, and unemployment benefit plans
- ▶ Allowable provided that the benefits are reasonable and are required by law, non-Federal entity-employee agreement, or an established policy of the non-Federal entity.

431. COMPENSATION – FRINGE BENEFITS Cont...

- ▶ Severance payments to foreign nationals employed by the non-Federal entity outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the non-Federal entity in the United States, are unallowable, unless they are necessary for the performance of Federal programs and approved by the Federal awarding agency.
- ▶ Severance payments to foreign nationals employed by the non-Federal entity outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the non- Federal entity in that country, are unallowable, unless they are necessary for the performance of Federal programs and approved by the Federal awarding agency.

432. CONFERENCES

- ▶ Allowable conference costs may include rental of facilities, speakers' fees, costs of meals and refreshments, local transportation, and other items incidentals
- ▶ Conference hosts/sponsors must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary and managed in a manner that minimizes costs to the Federal award.

433. CONTINGENCY PROVISIONS

- ▶ For events which cannot be foretold with certainty
- ▶ Contributions **unallowable**
- ▶ Excludes:
 - Self-insurance reserve
 - Pension fund
 - Severance and post-retirement health costs
 - Insurance and indemnification

435. DEFENSE AND PROSECUTION OF CRIMINAL AND CIVIL PROCEEDINGS, CLAIMS, APPEALS AND PATENT INFRINGEMENT

- ▶ Costs connected to criminal proceeding are unallowable
 - Proceeding relates to violation/failure to comply with regulations by Organization
 - **AND** results in:
 - Conviction
 - Admin./civil proceeding
 - Imposition of monetary penalty
 - USG final decision to debar
- ▶ Costs may be allowable if cost incurred as a result of condition of agreement.
- ▶ Legal costs etc with defense against USG are unallowable.

436. DEPRECIATION

- ▶ Compensation for organization's buildings, other capital improvement costs, equipment and software projects are allowable – this is done by computing depreciation.
- ▶ Depreciation based on acquisition cost. If donated use fair market value.
- ▶ Acquisition costs exclude cost of land and donation by USG.
- ▶ Depreciation method- period of useful life.
- ▶ Depreciation method once used shall not be changed unless approved by relevant Agency official.
- ▶ No depreciation may be allowed on any assets that have outlived their depreciable lives.

437. EMPLOYEE HEALTH AND WELFARE COSTS

- ▶ Costs of employee health, first-aid etc. are allowable.
- ▶ Costs must be apportioned to all activities of the organization.
- ▶ Potential income to be credited to cost
- ▶ NB “Morale” costs are no longer specifically allowed

438. ENTERTAINMENT COSTS

- ▶ Costs of entertainment including amusement etc. are unallowable.
- ▶ Except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.

439. EQUIPMENT AND OTHER CAPITAL EXPENDITURES

- ▶ **Capital expenditures**- acquisition of capital assets.
- ▶ **Equipment**- tangible personal property >1 year useful life and > USD 5,000 or own policy amount.
- ▶ **Special purpose equipment**- equipment used for research, medical etc.
- ▶ **General purpose equipment**- office equipment, IT equipment and systems, vehicles, telephone networks, air-con etc.

439 (b). RULES OF ALLOWABILITY

- ▶ General purpose equipment, land and buildings are **unallowable** as a direct charge except with prior approval
- ▶ Special purpose equipment is allowable as direct costs (*prior approval needed for item > USD 5,000*)
- ▶ Capital expenditures for (improvements to) land, building are unallowable as direct cost except with prior approval.

440. EXCHANGE RATES

- ▶ Cost increases for fluctuations in exchange rates are allowable (subject to the availability of funds)
- ▶ Recipient must make reviews of local currency gains to determine the need for additional federal funding before the expiration date of the Federal award
- ▶ Adjustments for currency increases may be allowable only when the non-Federal entity provides the Federal awarding agency with adequate source documentation

442. FUND RAISING & INVESTMENT MANAGEMENT COSTS

- ▶ Costs of organized fund raising, campaigns, endowment drives etc., solely to raise capital or obtain contributions are **unallowable**
- ▶ Fund raising costs for the purposes of meeting the Federal program objectives are allowable with prior written approval
- ▶ Costs for certain staff related to fund raising and investment management are **unallowable**
- ▶ Unallowed costs must be appropriately accounted for when calculating indirect cost rates

445. GOODS OR SERVICES FOR PERSONAL USE

- ▶ Costs for personal use of employees are **unallowable** even when it is taxable income to the employee
- ▶ Costs of housing (depreciation, maintenance, utilities, furnishings, rent), housing allowances and personal living expenses are only allowable as direct costs regardless of whether reported as taxable income to the employees

447. INSURANCE AND INDEMNIFICATION

- ▶ Costs of insurance if required or which is approved are allowable.
- ▶ Costs of other insurance are allowable subject to... (see 200.447 b (1)-(6))
- ▶ Actual losses (that could have been covered through allowable insurance) are unallowable.

450. LOBBYING

- ▶ **Activities are unallowable:**
- ▶ Attempts to influence.
- ▶ Expense of political party.
- ▶ Influence over legislation.
- ▶ Seeking reimbursement of indirect costs.
- ▶ Executive lobbying cost unallowable.
- ▶ Add on C 2 (i)

451. LOSSES ON OTHER AWARDS OR CONTRACTS

- ▶ Excess costs over income are unallowable.

452. MAINTENANCE AND REPAIR COSTS

- ▶ Costs to repair or upkeep are allowable / maintain in efficient operating condition.
- ▶ But improvements costs are capital expenditure (refer to 439)

453. MATERIAL AND SUPPLIES COSTS

- ▶ Costs for materials & supplies are allowable.
- ▶ Costs net applicable credits.
- ▶ Used for sponsored agreement >> treat as direct cost
- ▶ Donated goods should not be charged to Agency.

454. MEMBERSHIPS, SUBSCRIPTIONS AND PROFESSIONAL ACTIVITY COSTS

- ▶ Costs of the non-Federal entity's membership in business, technical, and professional organizations are allowable
- ▶ Costs of the non-Federal entity's subscriptions to business, professional, and technical periodicals are allowable
- ▶ Costs of membership in any civic or community organization are allowable with prior approval
- ▶ Costs of membership in any country club or social or dining club or organization are unallowable

456. PARTICIPANT SUPPORT COSTS

- ▶ Cost allowable with prior approval
 - *Direct costs for items such as:*
 - Stipends
 - Subsistence allowance
 - Travel allowances
 - Registration fees (except for employees) in connection with conferences or training projects

457. PLANT AND SECURITY COSTS

- ▶ Necessary and reasonable security costs to protect facilities, products etc. are allowable.
 - Examples: security services, uniforms, equipment, consultants etc.

459. PROFESSIONAL SERVICE COSTS

Consulting & professional service costs are allowable.

Determining allowability:

- ▶ Nature & scope in relation to service required
- ▶ Necessity of contracting vs. internal capability
- ▶ Pattern of such costs in prior years
- ▶ Impact on the organization >> have new problems arisen?
- ▶ Economic reasons (contractor vs. employee)
- ▶ Qualifications of individual
- ▶ Adequacy of contractual agreement (e.g. Description of services, time required, rates, etc)

Retainer fees must be supported by evidence of bona fide services rendered

460. PROPOSAL COSTS

- ▶ Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals (both Federal & non-Federal) normally should be treated as indirect (F&A) costs and allocated currently to all activities of the non-Federal entity.
- ▶ No proposal costs of past accounting periods will be allocable to the current period.

463. RECRUITING COSTS

- ▶ Most types of costs (including external agencies) are allowable but they must be part of a well-managed recruitment program.
- ▶ Excessive costs are unallowable.
- ▶ Unreasonable costs are unallowable (size of advert, color, not related to recruitment etc.)
- ▶ Relocation costs for new employees are allowable (as either direct or indirect) – but repayment required if person resigns within 12 months.

464. RELOCATION COSTS

- ▶ **Relocation costs (>12 months) are allowed subject to:**
 - For the benefit of employer
 - In accordance with established written policy consistently followed
 - Reimbursement does not exceed actual cost
- ▶ **Allowable cost:**
 - Transportation
 - Cost of finding new home.
 - Closing costs (limited to 8% sales price of old home)
 - Other necessary and reasonable expenses

465. RENTAL COSTS OF REAL PROPERTY AND EQUIPMENT

- ▶ Rental costs are allowable to extent that rates are reasonable.
- ▶ Sale and leaseback is allowable but limited to what costs would have been without sale.
- ▶ Less-than-arms-length lease costs are allowable but limited to arms-length amounts.

470. TAXES (INCLUDING VAT)

- Taxes which the organization is required to pay are generally allowable except:**
- ▶ Where exemptions are available
 - ▶ Special assessments on land which represent capital improvements
 - ▶ Federal income tax (USG)
 - ▶ Interest or refunds to be credited to USG.
 - ▶ Value Added Tax (VAT) is an allowable expense under Federal awards

471. TERMINATION COSTS

- ▶ Items reasonably usable on other projects >> unallowable.
- ▶ Certain cost cannot be discontinued immediately >> allowable within limitations.
- ▶ Loss of useful value on special equipment (e.g. tools, machinery) is allowable.
- ▶ Rental costs under unexpired leases are allowable.
- ▶ Settlement expenses are allowable (e.g. accounting, legal, admin.)
- ▶ Claims under sub-awards are allowable.

472. TRAINING AND EDUCATION COSTS

- ▶ The cost of training and education provided for employee development is allowable.

474. TRAVEL COSTS

- ▶ Travel costs are allowable with conditions.
- ▶ Lodging and subsistence costs are allowed if reasonable and within institution's own policies
- ▶ Airfare costs in excess of economy unallowable except:
 - Circuitous routing
 - Travel during unreasonable hours
 - Increases duration of flight excessively
 - Results in additional costs that would offset transport savings
 - Medical needs
- ▶ Necessary and reasonable cost of family movements allowable

Always document the reasons for exception!

475. TRUSTEES

- ▶ Travel and subsistence costs of trustees and directors are allowable – subject to restrictions under Travel costs (474.)
