

The letters S, M, A, R, and T are arranged vertically, each inside a circle. The circles are connected by a dashed line that forms a path from the top of the 'S' circle, around the 'M' and 'A' circles, down the 'R' circle, and around the 'T' circle, ending in a small arrowhead pointing downwards. The background of the slide features a pattern of overlapping circles in light blue and orange.

S
M
A
R
T

Strategies

Monitoring

Accountability

Risk Mitigation

Transparency

Cost Principles and Cost Classification

SMART 4.0

Hosted by the Office of Grants Management
Division of Compliance Assistance and Policy
Employment and Training Administration
U.S. Department of Labor

SMART 4.0 Training Series

- The training modules are focused on: **S**trategies for sound grant management that includes **M**onitoring, **A**ccountability, **R**isk mitigation, and **T**ransparency.
- **4.0 focuses on Risks Identification and SMART Practices!**



Disclaimer

SMART 4.0 is part of the catalog of SMART grant management tools. This conference and its materials should be viewed primarily as a support resource. It is not intended to be comprehensive, but rather to provide an understanding of 2 CFR 200, 2 CFR 2900, and the management of ETA grants. The use of these SMART 4.0 modules does not ensure compliance. Any omission of an applicable Federal requirement does not waive a grant recipient or subrecipient's responsibility to comply with that requirement.

If, in any instance, there appears to be a conflict with the program statute, Federal regulations or OMB guidance, such conflict must be resolved in favor of the statute, Federal regulations, or OMB guidance. All the information contained in the SMART 4.0 modules may not be reproduced or distributed for a fee or profit.

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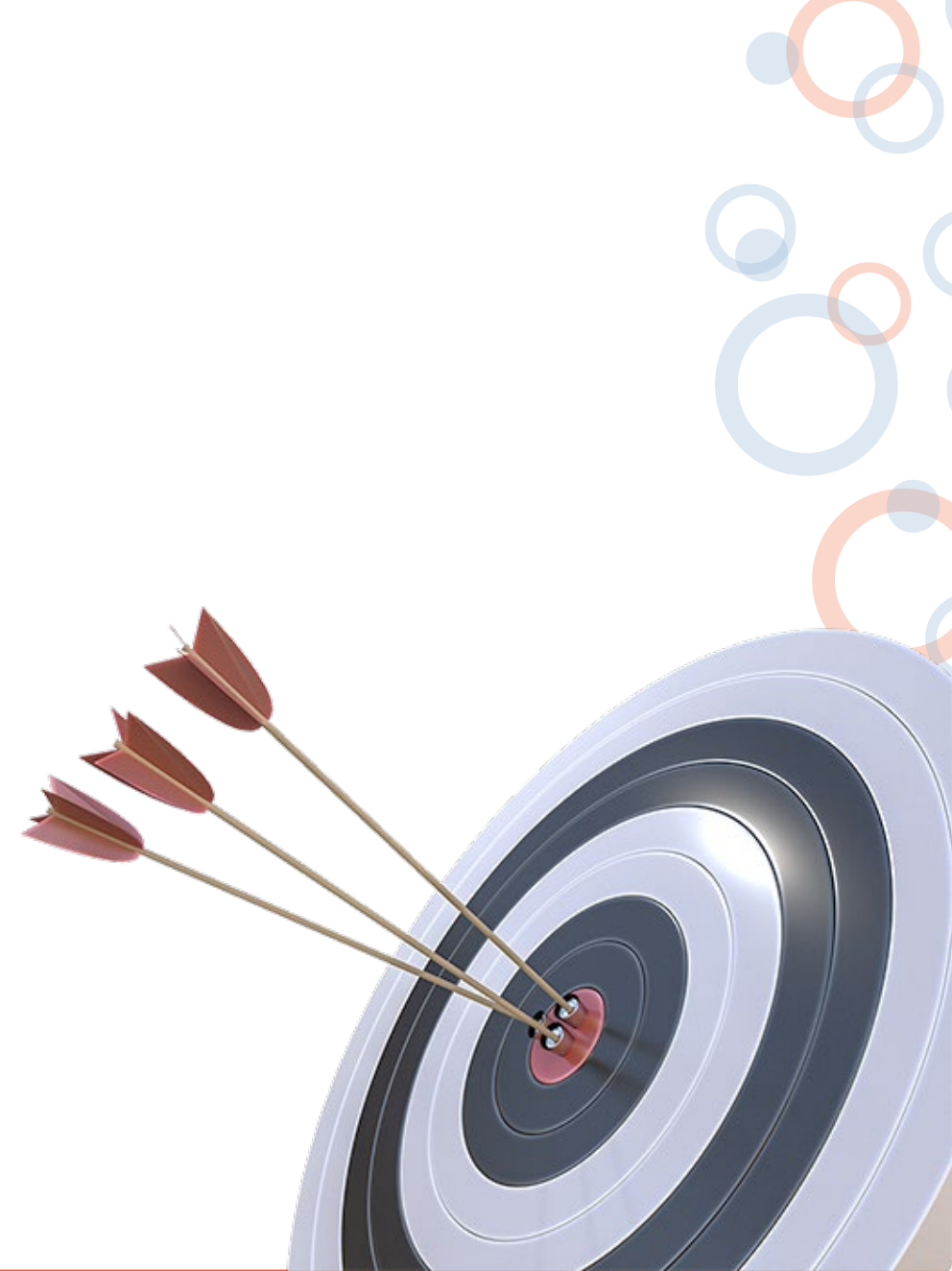
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Module Overview

- General Cost Principles.
- Factors of Allowability.
- Prior Written Approval, Cost Limitations, and Prohibited Use.
- Cost Classification.
 - Cost Classification Standards.
- Risks and SMART Practices.



Cost Principles

- Uniform Guidance Cost Principles [2 CFR 200 Subpart E](#).
 - General provisions [2 CFR 200.400- 2 CFR 200.401](#).
 - Basic considerations [2 CFR 200.402- 2 CFR 200.411](#).
 - Direct and indirect (F&A) Costs [2 CFR 200.412- 2 CFR 200.415](#).
 - Special considerations for states, local governments, and Indian Tribes [2 CFR 200.416- 2 CFR 200.417](#).
 - Special considerations for institutes of higher education [2 CFR 200.418- 2 CFR 200.419](#).
 - General provisions for selected items of cost [2 CFR 200.420- 2 CFR 200.476](#).



General Cost Principles

Applicability (1)

- Cost principles must be used to determine allowable costs.
 - Work performed by a grant recipient or subrecipient under a Federal award.
- Also used to determine pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price.
- Additional guidance on cost allowability can be found:
 - Grant agreement.
 - Program regulations.

Applicability (2)

- Cost principles apply to:
 - States.
 - Local Governments.
 - Non-profit organizations.
 - Indian Tribes.
 - Institutions of Higher Education.
 - For-profit entities or commercial entities*.
 - Foreign organizations and foreign public entities*.

*Uniform Guidance Revisions in 2020 ([2 CFR 200.101\(a\)\(2\)](#)) and DOL Exceptions ([2 CFR 2900.2](#)) extend applicability to these entities that receive awards of financial assistance.

Composition of Costs

[2 CFR 200.402](#)

Costs includes total costs and applicable credits.

- Total cost is the sum of **allowable** direct and allocable indirect **minus credits received**.

Applicable Credits

[2 CFR 200.406](#)

Applicable credits are credits that reduce expense items allocable to the grant as either direct or indirect costs.

- Examples include rebates, discounts, insurance refunds, adjustments of overpayments.
- These reductions in costs cannot be counted towards a match requirement.

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Factors of Allowability

Standards

- Costs are allowable when ([2 CFR 200.403](#)).
 - a) **Necessary, reasonable and allocable.**
 - b) Conform with federal law, guidelines, and grant terms.
 - c) Consistent with policies and procedures.
 - d) Accorded consistent with treatment.
 - e) In accordance with Generally Accepted Accounting Principles (GAAP).
 - f) Not used for cost sharing or matching funds.
 - g) **Adequately documented.**
 - h) Incurred during the approved budget period (NEW).

Necessary, Reasonable, and Allocable



- The foundation for **allowable** costs.
 - To be allowable under Federal awards a cost be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles ([2 CFR 200.403\(a\)](#)).
- Three basic requirements.
 - Necessary.
 - Reasonable.
 - Allocable.

Necessary (1)

- Necessary for the **performance** of the Federal award ([2 CFR 200.403\(b\)](#)).
- Align with allowable grant activities.
- Necessary to accomplish the grant's goals.

Necessary (2)

- How to determine that a cost is necessary?
 - How does the purchase align with the objectives/goals of the program in which the Federal funds were awarded?
 - Is the cost necessary for the performance of the award?
 - Is this item or service needed to meet grant goals?
 - Is this the minimum amount of funds required to meet my grant needs?

Reasonable (1)

- Reasonable means the cost does not exceed what would be incurred by a **prudent person** under the same circumstances. ([2 CFR 200.404](#)).
- Considerations:
 - Ordinary and necessary for the proper and efficient performance of the grant.
 - Sound business practices; laws and regulations; terms and conditions of award.
 - Market prices for comparable goods/services.
 - Act with prudence.
 - No significant deviation from established practices.

Reasonable (2)

- How to determine that a cost is reasonable?
 - Do I have the capacity to use what I am purchasing?
 - Did I pay a fair price?
 - If I were asked to defend this purchase, would I be comfortable doing so?

Reasonable - Prudent Person

- When providing such payments, the standards of reasonableness using the prudent person standards prevails.
- The concern seen throughout the system, is when the cost becomes high, excessive or beyond the prudent person test that it becomes questionable.



Check Your Knowledge in 60 Seconds

Example: Your office needs electrical work done, and your cousin is an electrician. You pay a rate (\$180/ hour) for this work than the average costs of a local contractor (\$75/ hour). The estimated cost for labor and materials is \$4,500.

Will this cost pass the reasonable test? Will it be allowable?

- Do I really need this? Is the item I'm buying needed to meet my grant performance goals?
- Is this the minimum amount I need to spend to meet my need? If not, why haven't I adjusted my estimate?
- Did I pay a fair rate?
- If I were asked to defend this purchase, would I be comfortable doing so to auditors, the federal awarding agency, and just as importantly, to the general public?



Allocable (1)

- 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** ([2 CFR 200.405](#)).
- Considerations:
 - Final cost objectives for direct and indirect costs.
 - Cost pools for indirect costs.
 - Acceptable base to measure benefits.

Allocable (2)

- How to determine that a cost is allocable?
 - Does my grant, program, or project benefit from this cost?
 - Are there benefits to both the Federal award and other work of the grant recipient and if so, can they be distributed based on proportionate share?
 - Are the benefits measured using acceptable bases?

Check Your Knowledge in 60 Seconds

Paying for electrical work example: Your office needs electrical work done, and your cousin happens to be an electrician. You pay a slightly higher rate (\$80/ hour) for this work than the average costs of a local contractor (\$65/ hour). The estimated cost for labor and materials is \$4,500. You share your office with another non-profit organization, and you run multiple Federal grants with your organization within your office.

Is the cost allocable?

- Is the cost incurred specifically for the Federal award?
- Are there benefits to both the Federal award and other work of the grant recipient and if so, can they be distributed in proportions that may be approximated using reasonable methods?
- Is it necessary to the overall operation of the grant recipient and is assignable in part to the Federal award in accordance with the principles in this subpart?



Documentation

- Records should evidence the following:
 - To attest to allowability, reasonableness, necessity, and allocability.
 - › May include fully executed contracts, agreements, leases, invoices, canceled checks, time and attendance records, reimbursement to employers for OJT, eligibility for stipends, justification for needs-related payments.
 - › Explain or support cost classification.
 - Adequately identify the source and application of funds for federally-funded activities.
 - › These records must contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.



Prior Written Approval, Cost Limitations, and Prohibited Costs

Additional Standards

- Prior written approval [2 CFR 200.407](#) and [2 CFR 2900.10-2 CFR 2900.13](#).
- Limitations on allowance of costs [2 CFR 200.408](#).
 - Such as administrative costs, work experience, out of school youth.
- Special considerations [2 CFR 200.409](#).

Prior Written Approval (1)

■ Standards

- Obtained **prior** to incurring the costs.

■ Considerations

- Does **not** exempt grant recipient from the requirements that purchases are reasonable, necessary and allocable.
- Request must be submitted **no less than 30 days before** requested action occurs. ([2 CFR 2900.16](#))
- Items included in the statement of work or budget as awarded does **not** constitute prior approval. ([2 CFR 2900.16](#))
- Purchases must be made prior to the last funded year of grant, even with prior approval.
- Request must include timeframe or scope of the agreement.

Prior Written Approval (2)

- Grant Officer is the **only** authorized official able to provide prior written approval ([2 CFR 2900.16](#)).
- States – Formula grant recipients.
 - Prior approval authority is delegated to the Governor for State and Local Workforce Investment Area (LWIA) costs.
 - No additional ETA approval is required.
- Discretionary (non-formula) competitive grant recipients.
 - Must obtain ETA prior written approval.
- Local governments, non-profit organizations, Indian tribes, institutions of higher education, for profit or commercial entities, foreign organization and foreign public entities.
 - Must obtain ETA prior written approval.

ALWAYS LOOK TO THE TERMS AND CONDITIONS OF YOUR FEDERAL AWARD.

Cost Limitations – Program Regulations (1)

- Some programs have statutory requirements that limit the allowability of costs.
 - Not surpassing the maximum amount allowable under a limitation.
- Examples include:
 - **Administrative costs.**
 - Pay-for-performance contract expenditures.
 - Transitional job expenditures.
 - Incumbent worker training expenditures.
 - YouthBuild: cost of supervision and training for participants on community and other public facilities.

Administrative Cost Limitations – Program Regulations (2)

- State formula grants [20 CFR 683.205\(a\)](#).
- National Farmworker Jobs Program [20 CFR 685.450](#).
- Senior Community Service Employment Program [20 CFR 641.867](#).
- Wagner-Peyser Employment Service [20 CFR 683.205\(a\)\(4\)](#).
- Indian and Native American (INA) Program [20 CFR 684.830](#).
- All other grants - Limits on administrative costs for any other programs will be identified in the grant or cooperative agreement. [20 CFR 683.205\(b\)](#).
 - This varies from grant program to grant program so please review your grant agreement.

Other Cost Limitations – FOAs and Grant Terms and Conditions (1)

The Funding Opportunity Announcements (FOAs) and Grant Terms and Conditions may also either restate or identify new cost limitations for a particular program.

Some include:

- **Administrative costs.**
- Salary & bonus.
- Consultants.
- Pay-for-Performance contract strategies.

Cost Limitations – FOAs and Grant Terms and Conditions (2)

Salary & Bonus Limitations [P.L. 116-260, Division H, Title I, Section 105](#); [20 CFR 683.290](#).

- Recipients and subrecipients are prohibited from using funds to pay any individual (salary plus bonuses) at a **rate** in excess of the annual rate of basic pay of a Federal Executive Level II.
 - Either as direct or indirect costs.
 - Executive Level II schedule can be found at <https://www.opm.gov/>.
 - Does not apply to contractors or vendors.
 - States may have a lower threshold.

Prohibited Costs - Uniform Guidance

Federal Funds **cannot** be used for:

- Legal expenses for prosecution of claims, ALJ “Administrative Law Judge” audit appeals, or civil actions ([2 CFR 200.435](#)) Costs of lobbying are unallowable ([2 CFR 200.450](#)).
 - Lobbying includes any actions that are:
 - › Designed to influence the obtaining of grants.
 - › Designed to influence or give special consideration to acting on an award or regulatory matter.
- Fines, penalties, damages, violations of Federal and/or local laws ([2 CFR 200.441](#)).
- Other items outlined in program regulations, statute, Uniform Guidance or grant terms and conditions.

Prohibited Costs - WIOA

[WIOA – Section 181\(e\)](#) and [20 CFR 683.250](#) prohibits use of WIOA funds for:

- Employment-generating activities.
- Revolving loan funds.
- Business capitalization.
- Economic development.
- Public service employment.
 - Except as specifically authorized under WIOA.
- Expenses prohibited under any other Federal, State or local law or regulation.
- Entities that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal programs or activities.
- Contracts with persons falsely labeling products “Made in America”.
- Foreign travel.



Cost Classification

Cost Classification -Purpose

- Appropriate classification of costs is not limited to direct and indirect costs; it applies to all costs charged to a Federal grant.
- Must consider the function or activity with which a cost is associated and the category that benefits from the related function or activity.
- Expenditures that are misclassified or coded to cost categories or expenses that are not associated with a particular function, service or program misrepresents the actual costs of managing a program or project.

Cost Classification – Standards (1)

- Considerations ([2 CFR 200.412](#)).
 - No universal rule.
 - May be program or administrative.
 - May be direct or indirect costs.
 - Consistent treatment in like circumstances.
 - Avoid double-charging.

Cost Classification – Standards (2)

- Chart of accounts contain codes of revenue and expenses sufficient to adequately track spending of grant funds.
- Accounting system must allow the tracking of grant activities that have an expenditure cap or threshold in accordance with the program's regulations.
- Working with a subrecipient: pass-through entities are responsible for the review of your subrecipients' charts of accounts.
 - Ensure that they are reporting costs in the appropriate budget cost categories.

Shifting of Costs

[2 CFR 200.405\(c\)](#)

- "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 statute, regulations, or terms and conditions of the Federal awards, or for other reasons."
- Examples of cost shifting include:
 - From one grant to another grant (exception below).
 - From administrative to program costs category.
 - From direct to indirect cost or vice versa.
- [2 CFR 200.405\(c\)](#) exception – shifting of costs from one grant to another grant is prohibited unless allowed under Federal statutes, regulations, or the terms and conditions of the Federal awards.

Classification – Program and Administrative Costs

■ Program costs:

- Related program activities.
- Costs associated with participants and employers.
- Can be personnel and non-personnel costs.
- Can be direct and indirect costs.

■ Administrative costs:

- Defined in WIOA.
- Related to administrative functions.
- Not related to the direct provision of workforce investment services.
- Can be personnel and non-personnel.
- Can be direct and indirect costs.

Classification – Direct and Indirect Costs

■ Direct costs:

- Costs that can be identified specifically with for a **particular final cost** objective.
 - › For example, the cost of supplies specifically for your Youthbuild grant.

■ Indirect costs:

- Costs incurred for a **common or joint purpose** benefitting more than one cost objective.
 - › For example, the building and utilities that your organization used to administer multiple Federal and non-Federal programs.

Classification – Revenue and Expenditures

- Accurate financial reporting whether through the ETA-9130 reports, SF 425s or the financial statements is essential to ensure that decisions made by third party users are correct. Equally important is the classification of revenues or fund source that is being used to cover such costs.
- Example 1: Recording revenue for Unemployment Insurance (UI) Benefits as UI State Administration on a Schedule of Expenditures for Federal Awards (SEFA) may cause readers of these financial statements to make inaccurate projections or decisions on funding related to this program.
- Example 2: Misclassifying grant expenditures charged in the wrong fiscal year (sometimes happens with reoccurring or formula awardees).

Avoid Misclassification of Costs



- Job title vs. Job function.
 - Duties related to more than one category or activity.
 - Allocation based on time worked or equitable method.
 - Not based on job title.
- Administrative vs. Program Costs.
 - Track using chart of accounts.
- Consistent with written policy on what is and isn't administrative costs.

Check Your Knowledge in 60 Seconds

Answer Yes or No

1. A nonprofit organization manages several non DOL grants including a WIOA grant. The accountant classified the costs of fundraising as meeting expenses and added meals into that same category of indirect costs. **Were the costs properly classified?**
2. If an entity has an approved indirect cost rate of 14% of total direct costs, all its indirect costs are administrative costs, and its administrative cost limit is 10% of total direct costs, **can the entity charge 4% of its administrative costs to the federal award?**
3. A Reentry Employment Opportunities (REO) grant recipient has reached its administrative threshold and still needs to recognize the salary of its accountant for the last 3 months of its current grant. **Can the grant recipient re-classify the accountant's salary as a program cost?**





Risks and SMART Practices

Common Risks – Cost Allowability

■ Examples:

- Expending funds that are explicitly prohibited by statute or regulations by misclassifying them.
- Prudent person standard is not applied consistently between grant funds and non-Federal funds.
- Documentation does not demonstrate that costs are necessary, reasonable, and allocable.
- Shifting costs in order to meet program's statutory administrative cost limitations.
- Not considering applicable credits when calculating total costs.

Common Risks - Cost Classification

■ Examples:

- Misclassifying administrative costs under program costs.
- Misclassifying costs based on job title rather than function.
- Inconsistent treatment of classifying costs to meet statutory cost limitations.



SMART Practices

- Develop or update written policy and procedures describing the allowability of costs in accordance with [Subpart E – Cost Principles](#) and issue them to key personnel and subrecipients.
- Written policies must establish the factors of allowability before incurring such a cost.
 - Update the written policies to identify all unallowable costs and cost limitations as prescribed in program regulations, the Uniform Guidance and grant agreement as well as any costs requiring prior approval.
 - Policies should outline instructions or steps to provide consistency when classifying costs.
- Incorporate the standards for documentation.
- Train staff and subrecipients on the cost principles.
- Ensure the organization and categorization of your chart of accounts is reasonable.

Questions?



Testing for Compliance – Core Monitoring Guide

The purpose of ETA monitoring is to assess for compliance using the Core Monitoring Guide (CMG). Here is a list of indicators that were discussed during the module's topic.

■ **Objective 3.1: Allowable Costs and Cost Classification**

- The grant recipient has a system and procedures in place to ensure that it is incurring necessary, reasonable and allowable costs to the grant and that such costs are accurately classified in its accounting system. The grant recipient also monitors the costs incurred by its contractors and subrecipients to ensure allowability and accurate cost classification.
 - › Indicator 3.f.1: Cost Principles
 - › Indicator 3.f.2: Financial Management Systems

Procurement Standards & Methods Resources

- [Core Monitoring Guide](#)
 - [Resource I: List of Items Requiring Prior Approval](#)
- [One – Stop Comprehensive Financial Management Technical Assistance Guide Part II](#)
 - Chapter 3 Cost principles
 - Chapter 4 Allowable cost
 - Chapter 5 Cost allocation
- [Public Law 116-136](#)
- [P.L 116-260, Division H, Title I, Section 105;](#)
- [P.L. 113 sec 181\(e\)](#)
- [Uniform Guidance Crosswalk](#)
- Uniform Guidance [2 CFR 200](#)
 - [2 CFR 200.1](#)
 - [2 CFR 200.400 - 2 CFR 200.476](#)
- DOL's exceptions [2 CFR Part 2900](#)
 - [2 CFR 2900.16 - 2 CFR 2900.19](#)
- WIOA Administrative Provisions
 - [20 CFR 641.867](#)
 - [20 CFR 682.410\(d\)](#)
 - [20 CFR 683.200\(a\)](#)
 - [20 CFR 683.205\(a\)\(4\)](#)
 - [20 CFR 683.205\(b\)](#)
 - [20 CFR 683.215](#)
 - [20 CFR 683.235](#)
 - [20 CFR 683.240](#)
 - [20 CFR 683.245](#)
 - [20 CFR 683.250](#)
 - [20 CFR 683.255](#)
 - [20 CFR 683.260](#)
 - [20 CFR 683.290](#)
 - [20 CFR 684.830](#)
 - [20 CFR 685.450](#)
 - [20 CFR 687.200](#)
 - [20 CFR 688.520](#)

Thank You!