

Cost Principles Reinforcement Questions

Appendix A – Overview of Federal Rules& Basic Premises

1. Which of the following regulations applies to state and local governments?
 - a. 2 CFR 225 Appendix A
 - b. 2 CFR 230 Appendix A
 - c. 2 CFR 230 Appendix B
 - d. OMB Circular A-122.

2. If a state agency receives a grant from the federal government and then makes a subgrant to a nonprofit organization, the nonprofit should follow the cost principles in:
 - a. 2 CFR 225.
 - b. 2 CFR 230.
 - c. OMB Circular A-133.
 - d. Subgrantees do not follow federal grant cost principles.

3. Which set of regulations applies to the federal administrative rules for a grant awarded to the City of New York?
 - a. OMB Circular A-102.
 - b. OMB Circular A-87.
 - c. 2 CFR 215.
 - d. 2 CFR 220.

4. The cost principles in 2 CFR 225 apply to:
 - a. All nonprofit organizations.
 - b. Non-profits except for colleges and universities.
 - c. State universities.
 - d. All tribal governments.

5. Appendix A of 2 CFR 225 sets out:
 - a. General criteria for the allowability of costs.
 - b. Specific items of cost that deserve special attention.
 - c. Budget revision, procurement, and property standards.
 - d. Criteria for schools of postsecondary education and hospitals regarding cost.

Cost Principles Reinforcement Questions

6. Who authors the Code of Federal Regulations?
 - a. Federal agencies.
 - b. The Government Accountability Office.
 - c. The Council of Inspectors General on Integrity and Efficiency.
 - d. The Office of the Federal Register.
7. Who is responsible for establishing the cost principles for state and local governments?
 - a. The Department of Health and Human Services.
 - b. The Office of Management and Budget.
 - c. The Office of Federal Register.
 - d. The United States Congress.
8. Who is responsible for the efficient and effective administration of federal awards within their organization per 2 CFR 225?
 - a. The cognizant agency.
 - b. The federal.
 - c. The grantee.
 - d. The federal awarding agency.
9. You are the accountant for Defensive America, a for-profit contractor for the Department of Defense. You must comply with the cost principles established under:
 - a. The Federal Acquisition Regulations (FAR).
 - b. OMB Circular A-122.
 - c. The Department of Defense.
 - d. 2 CFR 182.
10. Which of the following trumps all other regulations and agreements when it comes to the allowability of a cost?
 - a. The individual grant agreement terms.
 - b. The cross-cutting administrative rules.
 - c. The cross-cutting cost principles.
 - d. The program rules contained in the Code of Federal Regulations.

Cost Principles Reinforcement Questions

11. What is the proper sequence of layers of regulations in agreements from most general to most specific to the program?
- Cross-cutting administrative rules, program rules, individual grant terms, cross-cutting cost principles
 - Program rules, cross-cutting administrative rules, individual grant terms, cross-cutting cost principles
 - Cross-cutting cost principles, program rules, cross-cutting administrative rules, individual grant terms
 - Cross-cutting administrative rules, cross-cutting cost principles, program rules, individual grant terms
12. A government entity does not have to follow which of the following rules?
- Rules governing the specific federal program.
 - 2 CFR 230.
 - The audit requirements in A-133.
 - The administrative requirements in 2 CFR 215, as adapted by the awarding agency.

Cost Principles Reinforcement Questions

Appendix A – General Cost Principles

1. Appendix A of 2 CFR 225 addresses the allowability of costs for state and local government entities for which of the following award types?
 - a. Cost reimbursement contracts, grants, and cooperative agreements
 - b. Grants and cost reimbursement contracts only
 - c. Cost sharing agreements between state and local governments and sub-recipients
 - d. Grants and pass-through awards only

2. The auditor is threatening to write a finding on a federal grant your entity administers because he does not think that the executive team should have used federal monies to hold their first ever, executive strategic session for the grant in Las Vegas. Your entity does not reside in Las Vegas. Which allowability criteria is he complaining about?
 - a. Necessary and reasonable.
 - b. Allocable.
 - c. Consistent treatment.
 - d. Determined in accordance with GAAP.

3. The general tests for allowability do not include:
 - a. Reasonableness
 - b. Compliance with GAAP
 - c. Financial need of the organization
 - d. Adequate documentation

4. Which of the following is considered an applicable credit?
 - a. A reimbursement by the grantor for utilities expense
 - b. Grant-related income
 - c. A discount on a large purchase of office supplies
 - d. Local sales tax

Cost Principles Reinforcement Questions

5. Which of the following is NOT a criterion that should be followed to determine allowability?
 - a. The cost must be reasonable and allocable
 - b. The cost must be treated consistently and adequately documented
 - c. The cost must be charged net of any applicable credits
 - d. The cost must be budgeted

6. Which would NOT be a factor to consider for the reasonableness of a cost?
 - a. Arms-length bargaining
 - b. Use of normal organizational procedures
 - c. Conformance with grant limitations
 - d. Prudent person rule

7. Which statement is correct?
 - a. A reasonable cost is always allowable.
 - b. An allocable cost is always necessary.
 - c. An allowable cost is always reasonable.
 - d. A reasonable cost is always necessary.

8. When Pea Ridge City Hospital completed its financial statements, the government hospital, made certain that its paperwork followed the same organization as San Francisco City Hospital Mayo Clinic's financial statements. Which main GAAP principle is Ready Doctors following?
 - a. Consistency
 - b. Relevance
 - c. Reliability
 - d. Comparability

9. Which is correct regarding adequacy of documentation?
 - a. The cost principles have specific requirements for documentation.
 - b. The only costs with specific documentation requirements are salaries and wages.
 - c. Auditors have the authority to determine whether a cost is adequately documented.
 - d. A cost listed in the grant budget does not require any other documentation.

Cost Principles Reinforcement Questions

Appendix A – Composition of Cost

1. A cost that cannot be readily identified to a final cost objective is referred to as:
 - a. A direct cost.
 - b. An indirect cost
 - c. An allocable cost
 - d. An unallowable cost

2. Examples of a direct cost normally would NOT include:
 - a. Equipment included in the grant budget
 - b. Salary of the project director
 - c. Insurance on the organization's assets
 - d. Travel to review subgrant activities

3. Which of these items would likely be an indirect cost of repairing the bridges?
 - a. Rental of construction equipment.
 - b. Concrete to repair the bridges.
 - c. The salary of the accounts payable clerk who pays the project bills.
 - d. The salaries of the public works employees who repairs the bridge.

4. You work for the Workforce Commission, a state agency. Your specific grant is intended to train the unemployed how to conduct a successful job search. The direct costs of the grant include:
 - a. The cost of renting the banquet room at a hotel for the training
 - b. The salary of the director of accounting for the agency
 - c. The cost of upgrading the computer hardware agency wide
 - d. The cost of maintaining the website describing benefits for the unemployed offered by the Workforce Commission

Cost Principles Reinforcement Questions

5. You work for the City of San Antonio's Urban Development Department. You have recently been awarded a federal grant to refurbish low income housing downtown.

Which of the following is an indirect cost that you might charge to the award?

- a. The architectural fees for redesigning the low income housing
- b. The cost to move the families to another location while their building is being refurbished
- c. The salary costs of the grants management department that is responsible for 39 state, federal, and corporate grants
- d. The contractor's fee

Cost Principles Reinforcement Questions

Appendix B – Selected Items of Cost

1. Missouri's Department of Alcohol and Other Drug Abuse received a grant for educating high school students on the dangers of drugs and alcohol. As a part of the grant, the department sends out representatives to speak at schools across the state. At each high school, the department distributes, on average, 500 pamphlets. Using a photocopy service would be far too expensive for the department. So, to limit the costs, the department uses an interagency copying center. How should the department classify these costs?
 - a. As direct costs for supplies.
 - b. As indirect costs provided by an internal service fund.
 - c. As direct costs for travel.
 - d. As indirect costs that are minor items.

2. Which type of cost might the American Civil Liberties Union (ACLU) have that the United States Post Office (USPO) would NOT have?
 - a. Advertising and public relations expenses.
 - b. Housing and personal living expenses.
 - c. Selling and marketing expenses.
 - d. Termination costs applicable to sponsored agreements.

3. Appendix B identifies which costs are allowable and unallowable. Based on how this appendix uses this term, which word would be most synonymous for "unallowable"?
 - a. Inconsistent
 - b. Nonpermissible
 - c. Unallocable
 - d. Unqualified

4. Which of the following costs should you, a local government grantee, treat as unallowable based on the context of the costs?
 - a. Materials and supplies donated to a local charity.
 - b. Property taxes on a purchased building.
 - c. Costs for employee healthcare.
 - d. Costs for training temporary employees.

Cost Principles Reinforcement Questions

5. Which of the following costs are almost always unallowable for governmental entities?
- Beer and wine
 - Legal costs
 - Lobbying costs
 - Donated services
6. Which of the following costs are most likely unallowable for governments?
- Indirect costs for transportation.
 - Indirect costs for trustees.
 - Direct costs for participant support.
 - Indirect costs for contingency contributions.
7. You are the governor of the State of Texas, and although you talk a tough game about seceding from the union, you will never formally propose that because federal funds pay for 30% of the state's expenditures in 2008. Which of the following is true regarding your relationship with the federal government?
- Your salary is chargeable as an indirect expense on all the federal grants the state receives
 - The federal government sent billions to your state to help with the cleanup after the Galveston Hurricane. They will allow 1/8 of your salary to be directly applied to this grant as 1/8 of the state was affected by the hurricane.
 - The federal awarding agency may approve travel related to the Galveston FEMA award for the state's governor .
 - You are able to charge the cost of police protection at the capital to the federal government.
8. Under 2 CFR 225, which items has the best chance of being allowable as general government costs?
- Salaries of the Travis County board of supervisors
 - Salaries of the heads of the Texas Department of Transportation
 - Security and police protection costs for city office buildings
 - Legal costs incurred by the state's Attorney General's Office

Cost Principles Reinforcement Questions

9. Which of the following is true regarding employer retirement contributions?
- Employer retirement contributions must be accounted for in indirect costs
 - Employer retirement contributions must be accounted for in direct costs
 - Employer retirement contributions are unallowable
 - Employer retirement contributions are allowable and can be classified as direct or indirect costs
10. When he was hired, the city manager of Bluebell City negotiated a very lucrative contract with the city. Because the auditor wrote so many findings regarding the mismanagement of the federal grants to fortify the bridges, the city manager was let go. His severance pay was equal to one full year of salary. Which of the following is true about his "golden parachute"?
- The city can charge the "golden-parachute" to the federal grant so long as the Board of Directors or Board of Trustees approves the package
 - The city can charge the "golden parachute" to the federal grant at the same rate or proportion that it charged the city manager's salary to the grant
 - The city cannot charge the "golden parachute" to the grant at all
 - The city cannot charge the "golden parachute" to the grant but can convert it to salary cost and charge it as indirect expense once they hire a new city manager.
11. Normally, which of the following supervisors can best attest to the work activities of line employees?
- Project director
 - Agency head
 - Department manager
 - Immediate supervisor
12. Which statement is correct regarding the documentation requirements for salaries for a county government?
- An employee who works on road improvements funded by a federal grant needs just a semi-annual certification signed by the employee or judge.
 - Employee time reports must cover all compensated time.
 - The second level supervisor in each department must sign all staff time reports.
 - Time reports for all employees must show the number of hours they worked each day.

Cost Principles Reinforcement Questions

13. Which of the following is NOT a relevant factor when determining the allowability of costs related to professional services?
- The nature and scope of the service rendered.
 - The result of the services.
 - The qualifications of the individual.
 - Whether the service can be performed more economically by direct employment.
14. The Lancaster Township has a solid relationship with a local law firm, Profit & More. Every time they the township has a legal issue, it calls Barrister Profit to ask his advice, and it hires his firm for all of its legal needs. Which of the following charges from Profit & More are likely to be unallowable for charging to federal grants?
- Legal costs of defending a grantee in a proceeding involving grant-related criminal activities where a settlement is negotiated.
 - The costs of accountants hired by the lawyers to review the books of the waste management company that the city was suing for overcharging.
 - The cost to defend the grant program against discrimination charges filed by applicants for grant positions.
 - The fees charged by Profit & More to help the Township write a standard contract with the contractor who was hired by the city to build the library funded by a federal grant.
15. Which statement is correct regarding the costs of a legal defense?
- The requirements in both sets of cost principles are essentially identical
 - Legal defense costs in criminal cases that result in a conviction are unallowable
 - Legal defense costs are allowable in civil fraud case brought by the federal government if the case is resolved by an offer in compromise
 - Costs incurred to defend the grantee against the federal government are allowable
16. Which of the following is true regarding donated services?
- Donated services, by their nature, do not require consideration in allocating indirect.
 - Donated services can be used to meet matching requirements.
 - Donated services are classified as indirect costs.
 - Donated services should be documented and reviewed and certified by a front-line supervisor once a year.

Cost Principles Reinforcement Questions

17. Which of the following costs for donated services might be reimbursed under a federal award?

- a. None.
- b. The volunteer teaching crafts which indirectly benefits a project.
- c. The bookkeeper's salary that is allocated to donated services that directly benefit a project.
- d. The office that a citizen donates specifically for a project which thus receives direct benefit from the space.

18. The state owns hundreds of structures. One building at the intersection of two major highways is used to hold equipment and materials used to improve interstate highways. These equipment and materials are funded primarily by federal grants. How can the state legally recoup from the federal grantor the cost of the building?

- a. Under the cost principles, a grantee may use either depreciation or use allowance to recover facilities related costs.
- b. Under the cost principles, the grantee must foot the bill for storage facilities.
- c. Under the cost principles, the grantee must estimate what they would earn if they leased it to a commercial entity and charge the federal government that amount.
- d. Under the cost principles, the land and the building can be included in the depreciation charge.

19. The acquisition cost of an asset donated to a non-profit organization by a third party shall be its fair market value at the time of the donation. The computation of use allowances or depreciation will include which of the following:

- a. The cost of land
- b. Any portion of the cost of buildings and equipment borne by or donated by the federal government.
- c. Any portion of the cost of buildings and equipment contributed by or for the non-profit organization in satisfaction of a statutory matching requirement.
- d. The nature of the asset and estimated useful life.

Cost Principles Reinforcement Questions

20. The State of Grace purchased twenty new excavators for road construction that that was funded by a grant under the Recovery Act. In 2009, the state applied use allowances, but in 2010, it wants to switch to the depreciation method. What is a condition of such a switch?
- The state must receive approval from the federal awarding agency.
 - The total depreciation amount may not exceed the total use allowance amount over the same period.
 - The annual depreciation amount may not exceed the annual use allowance amount.
 - The state must treat the equipment as a single asset and depreciate it over a single useful life.
21. Which statement is correct in connection with depreciation?
- Depreciation is usually a direct cost.
 - Depreciation of most buildings increases over time as the value of the buildings increase.
 - No depreciation may be claimed for a building that is donated to the entity.
 - No depreciation may be claimed for a building purchased under a grant with federal funds.
22. The definition of idle facilities includes:
- Facilities not currently needed but needed when acquired.
 - Facilities in excess of current usage but needed to adapt to changing workload requirements.
 - Meeting rooms that are used only once or twice a week.
 - An empty office used by a former employee.
23. Which of the following is representative of idle capacity and could be charged to the federal program?
- The second floor of a three-floor office building.
 - Several unused offices on the second floor.
 - The second and third floors of a three-floor office building.
 - The entire office building.

Cost Principles Reinforcement Questions

24. Cancer Research owned several machines that had been used for a federal award in 2009. Since that purchase, the organization bought more up-to-date machines that proved to be more effective for research purposes. As a result, the previously purchased machines are not currently being used, but may be in the future. For how long will the costs of maintaining the 2009 equipment probably be allowed?

- a. For a reasonable period, up to a year.
- b. For up to two years.
- c. For up to three years.
- d. For up to five years.

25. In November 2007, the city of Fernville purchased a new office building for its housing authority due to the additional staff needed under the Move to Work program. The office relocated to the new space in January 2008 and completely vacated the former office by the following month. The program has worked so effectively that the FHA was able to eliminate some positions. But, as a result, the building has several empty offices. Under the Cost Principles for State and Local Governments, how are the costs associated with the vacant offices treated?

- a. They are completely unallowable.
- b. They are allowable since the costs are due to normal business costs.
- c. They are allowable since the program is effective.
- d. They are allowable for up to two years if the PHA tries to rent out the offices.

26. Which statement(s) are true regarding the allowability of costs incurred for rearrangement and alteration of facilities?

- a. The ordinary rearrangement costs are treated as indirect costs only if approved in advance by the grantor.
- b. The ordinary rearrangement costs are charged directly to the federal award.
- c. Special rearrangements costs incurred specifically for a federal award that have prior approval of the federal awarding agency can be charged directly to the program.
- d. Special rearrangements costs incurred specifically for a federal award that have prior approval of the federal awarding agency should be charged indirectly to the program.

Cost Principles Reinforcement Questions

27. ABC City remodeled its educational facilities so that they would perform properly under its federal award. At the end of the award period it no longer needs the individual offices it built to afford participants the privacy needed to perform services. Which of the following is true regarding the cost to return the facility to pre-grant condition?
- The costs to return the facility to its pre-grant condition are claimed under the cost principles without prior approval.
 - The federal government must approve in advance the costs to return the facility to its pre-grant condition in order to be allowable.
 - The costs to return the facility to its pre-grant condition can be amortized over a period of 6 years and charged to the grant.
 - The costs to return the facility to its pre-grant condition are unallowable.
28. Which factor does NOT have to be considered in determining the allowability of building lease costs?
- Market values in the area.
 - Whether the lease cost was negotiated at arm's-length.
 - Whether the lease involved a "sale and leaseback".
 - Whether taxes are being paid on the property.
29. Under a federal award, the Willard County leased ten police vehicles from a neighboring county. Which costs are allowable?
- Interest costs on the vehicles.
 - Lease amounts exceeding the amounts allowed under a vehicle purchase.
 - Property taxes on the vehicles.
 - The costs to have purchased the vehicles when new.
30. Pine Nut County, Iowa received some bad publicity which affected the morale of many of its employees. Management wants to boost morale of its employees but also wants to be able to include the costs under the federal awards that it receives from the government. Which of the following recreational activity costs would be allowable as employee morale costs?
- Expenses associated with hosting a company-wide brunch at a local restaurant.
 - Expenses associated with hiring a motivational speaker.
 - Expenses associated with lodging during a week-long cabin retreat.
 - Expenses associated with renting snowmobiles for a winter retreat.

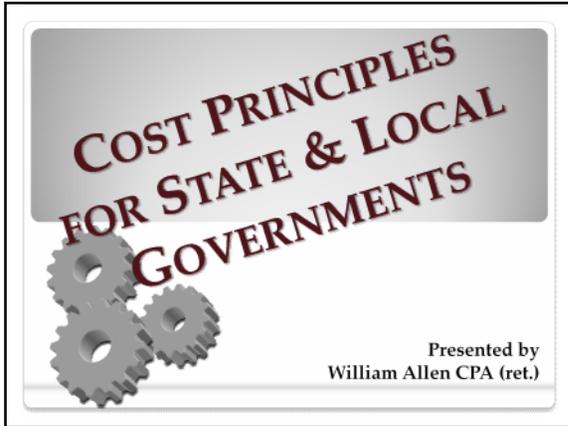
Cost Principles Reinforcement Questions

31. Which of the following costs is unallowable as employee morale costs?
- A fitness center for employees.
 - An annual awards ceremony during which the entity provided soft drinks and cookies.
 - Season tickets to the Dallas Cowboys games.
 - A psychologist hired to counsel employees after the death of two of their five board members in an automobile accident.
32. ABC City has been fined \$10,000 for a zoning violation by the County Planning Commission for which the federal awarding agency did NOT provide a separate prior written approval related to the specific violation. Under which circumstance is the fine allowable?
- The fine is unavoidable.
 - The fine is less than \$500.
 - The fine is necessitated under the grant provisions
 - The fine is directly related to the federal award.
33. Which statement is correct regarding the allowability of insurance costs?
- In general, costs of insurance coverage are unallowable as indirect costs.
 - Reasonable insurance costs in accord with the entity's usual procedures are allowable.
 - Costs of actual losses which could have been covered by permissible insurance are allowable only as indirect costs.
 - Medical liability insurance is not an allowable cost of federal research programs.
34. A private organization is selling vacant land for \$1.4 million. The state of New Mexico is looking for land on which to build a new detention center. The state borrows \$1.4 million and is in the process of purchasing the land from the private organization. Under which circumstance might the interest costs of financing the purchase be allowable?
- The state receives financing from another division of the government.
 - The land is indirectly used in support of a federal award.
 - The state purchased the land before October 1, 1980.

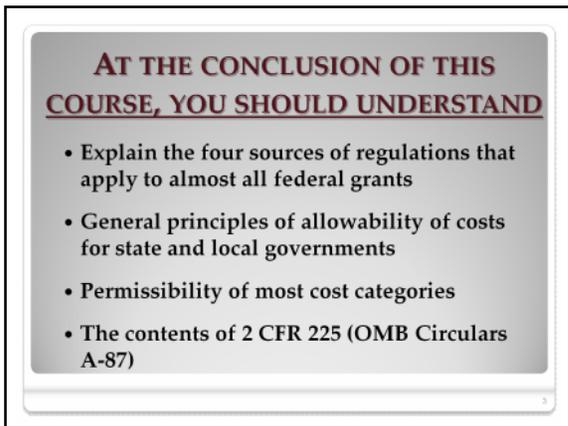
Cost Principles Reinforcement Questions

35. The state of Idaho pays numerous taxes, most of which may be included under federal awards. However, which of the following taxes would be unallowable under the cost principles?

- a. State property taxes on business offices.
- b. Taxes on state vehicles.
- c. Gasoline taxes.
- d. Employment taxes for state employees.







**LEVELS OF REGULATIONS
APPLICABLE TO FEDERAL GRANTS**

1. Cross-cutting administrative rules
2. Cross-cutting Cost Principles
3. Program rules
4. Individual grant terms and conditions



4

**CROSS-CUTTING
ADMINISTRATIVE RULES**

Cross-cutting administrative rules cover -

- budget revisions
- procurement, and
- property standards

OMB Circular A-102 applies to governmental units

*EDGAR is derived from and consistent with
OMB Circular A-102*

5

CROSS-CUTTING COST PRINCIPLES

- Cross-cutting Cost Principles address the general rules on what makes a cost allowable and cover the rules on specific types of cost. These rules, which differ by type of entity, are set out in:
- 2 CFR 225 (formerly OMB Circular A-87), which applies to state and local governments, and Indian Tribal governments
- Other CFRs address other types of entities

6

PROGRAM RULES

Program rules, which differ by federal program, are –

- customarily cited in the grant award
- may conflict with, and override, crosscutting administrative rules and the Cost Principles.

7

INDIVIDUAL GRANT TERMS

Individual grant terms and conditions may:

- Be the same for all grantees under one program
- Differ because of specific grantee situation
- Differ because a grantee is considered “high risk”

8

GENERAL PRINCIPLES FOR DETERMINING ALLOWABLE COSTS

Appendix A of the regulations establishes the General Principles for allowability of costs



9

GENERAL PRINCIPLES COVER

- Grants and cost-type contracts
- Indirect cost rates/allocations
- Do not mandate federal funding
- Do not cover profit



10

BASIC PREMISES

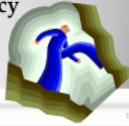
- Grantees must manage efficiently
- Grantees must administer federal funds in accordance with rules
- Grantees set their own organization
- Agencies will work with grantees to test new systems

11

RULES TO FOLLOW

Governmental units must follow:

- The specific award requirements
- The Cost Principles in 2 CFR, Part 225 (A-87)
- The Administrative Requirements in A-102, as adapted by the awarding agency
- The audit requirements in A-133



12

**Cost Principles
Reinforcement Questions:
Answers**

**Overview of
Federal Rules &
Basic Premises**



TESTS OF ALLOWABILITY

- Necessary and reasonable
- Allocable
- Consistent treatment
- Net of applicable credits
- OK under GAAP
- Conform to state and federal law
- Not charged to, or used as, matching on another award
- Adequately documented



REASONABLENESS

- Prudent person rule
- Ordinary and necessary
- Sound business practices
- Arms-length bargaining
- Use established practices



ALLOCABILITY

- Charges relate to benefits
- All activities are charged a fair share
- Cannot reallocate to avoid restrictions
- But can reallocate if costs are OK under either program

16

RELATIVE BENEFITS RECEIVED

“A cost is allocable to a particular activity if the goods or services involved are chargeable to it in accordance with relative benefits received.”

17

FAIR SHARE OF COSTS

The Cost Principles require that all activities, which benefit from the entity’s indirect cost, including unallowable activities, will receive an appropriate allocation of indirect costs.”



18

SHIFTING COSTS

Shifting Costs – **Is not allowable**

- Transferring costs related to Grant A to Grant B simply because the costs are **not permitted** under Grant A is **unallowable**.
- Transferring costs because Grant A has no remaining fund availability **is unallowable**.

19

CONSISTENT TREATMENT

Like costs in like circumstances must be treated consistently

- Direct vs. indirect
- Federal vs. nonfederal
- Budgeted costs vs. unbudgeted costs

20

NET OF APPLICABLE CREDITS

- Applicable credits include deductions of expenses (discounts, credits, insurance refunds, etc.)
- Must reduce costs claimed
- Some amounts received from Feds may be credits
- Credits do not include income items

21

IN ACCORDANCE WITH GAAP

- Acceptable under GAAP for the entity
- Three GAAPs
 - ✓ FASB
 - ✓ GASB
 - ✓ FASAB

22

CONFORM TO LAW

2 CFR 225 states that costs must be "authorized or not prohibited under State or local laws or regulations"

23

CONFORM TO ANY LIMITATIONS

- Program laws and regulations
- Specific grant provisions
- Cost principles



24

NOT CLAIMED TWICE

- All costs can be claimed only once
- They cannot be charged to two grants
- Cannot be charged to one grant and used as cost sharing on another

25

ADEQUATE DOCUMENTATION

- The regulations generally do not set forth specific documentation standards
- However, they do for salary and wages
- Otherwise, the reasonable person (auditor) must decide

26

DOCUMENTATION SHOULD BE

- contemporaneous
- relevant
- sufficiently detailed to enable a reviewer to follow the transaction



27

CONTEMPORANEOUS DOCUMENTATION

- Ensures that the preparer consciously thought about the allowability of the cost.
- Reassures the reviewer that the entity is not trying to hide anything. After all, the data is there in plain view.
- Shows that no fraud is intended. If there is a difference of opinion, it is just that.

28

Cost Principles Reinforcement Questions: Answers

Appendix A – General Cost Principles



TOTAL COSTS

- Include both direct and indirect
- No one rule for classification
- Must be consistent

Note how frequently consistency is cited



DIRECT COSTS

Are costs identified with final cost objective!
Examples include -

- ✓ Salaries of persons working on project
- ✓ Materials acquired for project
- ✓ Materials used on project
- ✓ Approved capital expenditures

31

INDIRECT COSTS

- Indirect costs are those having a common or joint purpose
- Not readily assignable
- Minor items can be classified as indirect, if treated consistently
- Allocation plan can be simple or complex
- Indirect costs may be limited by law

32

CHARGES FROM ENTERPRISE FUNDS

- Services provided by one unit to another
 - 2 CFR 225 refers to interagency services
- Charges may include indirect costs
- 2 CFR 225 allows a standard indirect cost rate of 10% of direct salaries



33

**Cost Principles
Reinforcement Questions:
Answers**

**Appendix A –
Composition of Cost**



34

ATTACHMENT B

Selected Items of Cost

35

2 CFR 225 PROVIDES

- Lists types of cost individually
 - ✓ 43 types of cost in 2 CFR 225
- Excellent reference
- Note that some costs are applicable to only one type of entity

36

**SOME COSTS ARE
ALMOST ALWAYS UNALLOWABLE**

- Alcoholic beverages
- Bad debts
- Contingencies
- Contributions
- Entertainment
- Fund raising
- Goods or services for personal use
- Underrecovery on other federal grants



37

**COMPENSATION FOR
PERSONNEL SERVICES**



- Salary plus fringe benefits generally OK
- Must be reasonable
- Must be treated consistently
- Under 2 CFR 230 payments to boards, trustees, officers, family members must relate to services provided
- Sudden increases, particularly if federal awards also increased, are subject to special review

38

**FRINGE BENEFITS
INCLUDE TIME NOT WORKED**

- Can use cash basis (charge leave when it is taken)
- Can accrue leave costs
 - ✓ 2 CFR 225 requires that accruals must conform to GAAP
 - ✓ 2 CFR 225 allows the lesser of accrued or funded
- When employment terminates, payments for leave are indirect costs

39

PENSION PLAN COSTS

- 2 CFR 225 permits pay-as-you-go
- 2 CFR 225 allows conversion of pay-as-you-go to accrual if the entity amortizes the unfunded liability
- Pension accruals
 - Must conform to GAAP
 - Must be funded within 6 months of year end
- Feds get share of any credits

40

SEVERANCE PAY

- Must be required by law, agreement or policy
- Charged as general indirect cost
- Mass severance pay allowable only if approved



41

SUPPORT FOR SALARIES UNDER 2 CFR 225

- Work only on single indirect cost activity:
 - ✓ Regular payroll records sufficient
- Work only on a single federal project:
 - ✓ Semi-annual certification
 - ✓ Signed by employee or immediate supervisor
- Work on multiple activities:
 - ✓ Requires more extensive support



42

WORK ON MULTIPLE ACTIVITIES

- After-the-fact distribution
- Must consider total work time
- Prepared at least monthly
- Signed by the employee, and tie in with pay period(s)
- Can use budget estimates for interim charges only
- Agency can approve statistical techniques



43

DONATED SERVICES

- Donated services are unallowable as direct or indirect cost -
 - ✓ But can qualify as cost sharing
- If significant, indirect costs should be allocated to them

44

PROFESSIONAL SERVICES COSTS

- Generally allowable
- Needed to operate organizations
- But legal defense costs sometimes unallowable



45

DEPRECIATION AND USE ALLOWANCES

Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use.

- The purpose of depreciation/use allowances is to compensate an entity for the use of its fixed assets.
- Based on the acquisition cost of the assets involved.
- Assets donated by an unrelated third party shall be its fair market value at the time of donation.

46

USE ALLOWANCES

- Almost never used these days
- Real property: allowance is 2%
- Equipment: allowance is 6 2/3 %
- Cannot separate components from building
- But can separate affixed equipment from building

47

EMPLOYEE MORALE COSTS VS. ENTERTAINMENT COSTS

- Employee recreational activities are allowable
- But must remember criteria for allowability
- If unreasonable, may be considered as entertainment



48

FINES AND PENALTIES

- Generally unallowable
- Allowable if actions resulted from complying with:
 - Terms of federal award, *or*
 - Written instructions from awarding agency



48

2 CFR 225 PROHIBITS GENERAL GOVERNMENTAL COSTS

- General governmental costs include:
 - Governor, state legislature, judiciary, etc.
 - General public support (e.g., police and fire)
- Agency may approve travel costs of general government employees if they are related to a specific award



50

IDLE FACILITIES & IDLE CAPACITY

- Idle facilities are unused, in excess of current needs
 - Generally unallowable, but OK if needed for workload fluctuations
 - Need reduced because of changed circumstances – OK for up to one year
- Reasonable idle capacity is OK



51

INSURANCE COSTS

- Generally permissible
- Self-insurance fund is OK
 - But must be set up properly
- Uninsured losses are unallowable
 - Deductible amounts are OK

52

INTEREST UNDER 2 CFR 225

- Generally unallowable
- Interest on equipment acquisition is OK after 9/1/95
- Building related interest after 10/1/80 is OK
- Negotiation required if interest plus depreciation exceeds grantee disbursements

53

LOBBYING UNDER 2 CFR 225

- Costs to improperly influence federal executive branch employee regarding a grant or regulation are unallowable
- Improper means any attempt to influence other than the merits of the case



54

COSTS OF MEMBERSHIPS

- Professional, technical associations and publications are OK
- Civic or community orgs. are OK with approval
- Under 2 CFR 225, lobbying organizations are unallowable

55

PRE-AWARD COSTS

- Pre-award costs are those incurred before start of project
- Allowable:
 - If awarding agency approves, and
 - If costs would have been OK during the award

56

REARRANGEMENT AND ALTERATION COSTS

- Generally allowable – as indirect costs
- Need prior approval as a direct cost



57

RENTAL COSTS

- Generally OK
- Only cost of ownership allowed if:
 - Sale and leaseback arrangement, or
 - Less-than-arms-length lease
- If GAAP requires treatment as capital lease
 - No more than maximum allowable if item was purchased at time of lease
 - Interest calculation based on rules in effect at theoretical purchase date

58

TAXES

- OK if legally required to pay
- Under 2 CFR 225, effective 1/1/98, taxes are not OK if:
 - They are self-assessed, and
 - They have a disproportionate effect on federal programs



59

TRAVEL

- Generally OK
- Must conform to grantee's policies
- First or business class is unallowable
- If no policy, use federal rules
- Costs limited to commercial rates
- Direct foreign travel must be approved in advance

60

**Cost Principles
Reinforcement Questions:
Answers**

**Appendix B –
Selected Items of Cost**



CONCLUDING REMARKS

The Cost Principles are crucial to assuring that award funds are used to provide services to project recipients that are allowable.

Make sure that your clients know that money repaid to the federal government, is money that is not available to provide additional services.

62
