

Cost Principles: Understanding 2 CFR 230

(OMB Circular A-122)

*Taking the Fear Out of
USG Rules and Regulations*

Rabat, Morocco
25-27 May 2011



Objectives

- Understand the general cost principles of your award.
- Review required supporting documents.
- Explore allowable and unallowable costs as well as those requiring prior approval.

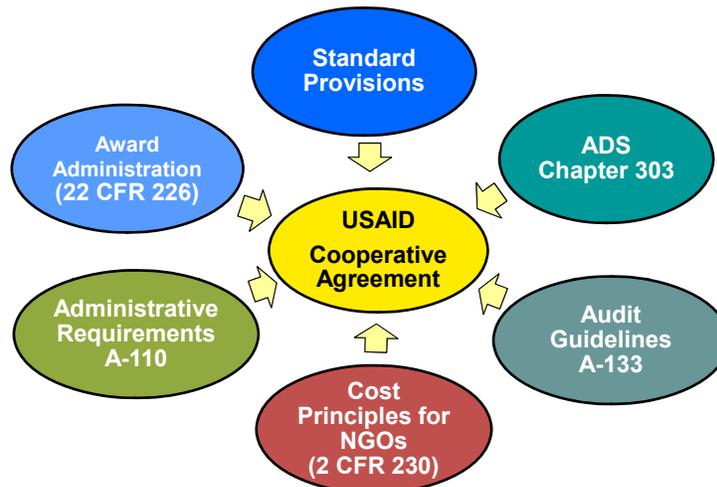
Exercises

- 8.1—Adequate documentation
- 8.2—Allowable, Unallowable Costs and Prior Approval

What governs my award?



Understanding your USAID Cooperative Agreement



2 CFR 230 – Overview

- Establishes principles for determining costs of grants, contracts and other agreements **between the USG and non-profit organizations**
- **Supersedes** policies issued by your **NGO**
 - **You can either ask for permission or ask for forgiveness, and...**
 - **If you don't ask for permission you might not get forgiveness → UNALLOWABLE COST**

2 CFR 230 Attachment A: General Principles

- **Two overriding concepts—**
 - **“Fair Share”**—Allocation of costs is **fair** and does not discriminate between donor sources
 - **Consistency**
- **Three requirements—**
Costs must be:
 1. Allowable
 2. Reasonable
 3. Allocable



2 CFR 230 General Principle: “Allowable”

To be **allowable**, a cost must be:

- Reasonable and allocable
- Conform to limitations or exclusions in the award as to type or amount of cost
- **Consistent** with recipient/subrecipient's **policies** that apply to **both USG-financed and other funded activity**
- Accorded **consistent treatment** (Chart of Accounts & Definitions and Job Costs)
- In accordance with generally accepted accounting principles (GAAP)
- Not included as a cost, or used to meet cost-share requirement, in any other USG-funded program (no “double dipping”)
- **Adequately documented**

6



Exercise 8.1—Cost Principles in Practice

Objective: Apply cost principles to a real scenario.

Background: The supply inventory for an upcoming training is running low, and there is absolutely no time to wait for the shipment of materials from the approved vendor. To avoid postponing the training program, the Project Director purchased the materials from a local store using personal funds totaling \$1,825. The local store provided a receipt with the total cost only.

Instructions: Answer the following questions:

- Will s/he receive reimbursement?
- Why or why not?
- If so, what are the requirements for reimbursement?

7

Exercise 8.1—Answers to Adequate Documentation Q&A

1. **Competition** is generally required (by the policy of organization).
2. **Emergency** was not externally imposed—due to **poor planning**.
3. **Itemized receipts/invoices** are required at all times for reimbursement.
4. **Unauthorized** purchases will *not* be reimbursed.

Allowable—Adequate Documentation

- **Payments**
 - Original Invoices only fully explaining who, when, where, why, how much, etc. (Quotations, Statements, Pro-Forma invoices not acceptable)
 - Timesheets for salaries
- **Advances (for travel and workshops) are not expenses**
 - The receipts and invoices that are reconciled are the expenses (advances are not expense)
- **Receipts**
 - Original receipts only including amount paid, date paid, and a description of goods/services received (translated into English, if necessary)
- **Funds received (for example, reimbursement or refund)**
- **Deposit slip**

2 CFR 230 General Principle: “Reasonable”

A cost is **reasonable** if:

- Incurred by a **prudent person** in the conduct of normal business
- Is “**ordinary and necessary**” for the operation of the organization or performance of the award
- Is consistent with:
 - generally accepted business practices
 - government regulations
 - the terms and conditions of the award
- **Reasonable in nature and amount**—competition policy (obtain three quotes, etc.)

2 CFR 230 General Principle: “Allocable”

A cost is **allocable** to a particular cost objective (such as grant, project, etc) if it meets **2 tests**:

1. Treated **consistently** with other costs incurred for the same purpose, and
2. a. Is **incurred specifically for the award**; or
b. **Benefits both the award and other work**, and can be **distributed in reasonable proportion** to the benefits received; or
c. Is **necessary** to the **operation of the organization**, even though a direct relationship to a specific cost objective cannot be demonstrated.

Must conform to any limitations in the award (2 CFR 230 & Mandatory provisions)

2 CFR 230 Selected “Items of Cost”

- **2 CFR 230 Attachment B:**
 - Provides principles in determining the allowability of 52 items of cost.
 - Applies whether a cost is treated as direct or indirect.
- Failure to mention a specific item does not imply that the cost is unallowable.
 - Determination to be based on the treatment for a **similar or related items of cost.**

Exercise 8.2—Allowable, Unallowable and Prior Approval

Objective: Practice using cost principles.

Instructions:

- Open the envelope, which contains 29 index cards, each printed with a selected item of cost.
- Make three columns on the flip chart:
 - Allowable
 - Unallowable
 - Prior Approval
- Place each item of cost under the appropriate column.

ALLOWABLE COSTS

2 CFR 230 (1): Advertising & Public Relation Costs

- **Advertising costs—allowable costs**
 - **Recruitment** of personnel required for **award** performance.
 - **Procurement** of goods and services for **award** performance.
 - **Disposal** of scrap or surplus materials acquired for the **award**.

- **Public relations costs—allowable costs**
 - Costs specifically required by sponsored awards.
 - Costs of communicating with the public or press related to activities or accomplishments which result from the performance of the award.
 - Costs of communication to keep the public informed on matters of public concern (notices of award, etc.).

2 CFR 230 (4): Audit Costs

- USAID required audit (A-133) – Allowable

- **Other audit costs** – Allowable as direct cost with **prior approval** from USAID

2 CFR 230 (8): Compensation for Personal Services

Compensation includes, but is not limited to salaries, wages, incentive awards, fringe benefits, pension, hardship pay, etc.

- Allowable, to the extent:
 1. **Reasonable**
 - *Note:* Any **change in an organization's compensation policy** resulting in a **substantial increase** in an organization's level of **compensation**, particularly when associated with increase in ratio of USG funds, require special consideration and possible limitations (recommend seeking prior approval).
 2. Conforms to established **policy** of the organization that it **consistently applies to both USG and non-USG activities**

2 CFR 230 (8): Compensation for Personal Services

- Charges to awards for salaries (both direct & indirect costs) will be based on **documented payroll & personnel activity reports (timesheets) approved** by responsible official of the organization.
 - See Timesheet & labor distribution example.
- Timesheets must be an after-the-fact determination of **actual activity** for each employee.
 - **Budget estimates** (estimates determined before the service is performed) do **not qualify** as support for charges to award.

2 CFR 230 (11): Depreciation & Use Allowance

- Both based upon acquisition cost or fair market value where donated.
- Computation of depreciation will **exclude**:
 - Cost of **land**;
 - Any portion of cost of building or equipment borne by **USG**; and
 - Any portion of cost of building or equipment contributed by NGO as **cost share**.
- Method of depreciation should reflect pattern of consumption.
 - Where no clear evidence, use straight line depreciation method.

2 CFR 230 (28): Materials & Supplies

- **Only** materials and supplies actually used for the **performance of the award** may be charged as a direct cost.

2 CFR 230 (38): Publication & Printing

- These costs are allowable if identified with a particular cost objective.
- Include the costs of printing, distribution, promotion, mailing, and general handling. Publication costs also include page charges in professional publications.

2 CFR 230 (41): Recruiting Costs

- Allowable to the extent related to the award
- May include following costs
 - “Help wanted” advertising – not in color or excessive size
 - Travel costs of applicants for interviews

2 CFR 230 (51): Travel Costs

Allowable when attributable to specific work under an award, or are incurred in the normal course of administration.

Options:

- **Actual basis, per-diem basis, mileage basis or a combination—** provided method is consistent with that normally allowed by the organization and is applied to entire trip and not selected days of trip
- Direct charges for foreign travel requires prior approval from USAID (e.g. via an approved budget identifying each separate foreign trip)—**PRIOR APPROVAL**
- **Not allowable** —first and business class airfare



2 CFR 230 (52): Trustees

- Travel and subsistence costs of trustees (and Directors) allowable
- Subject to travel policy and restrictions mentioned previously (51)

PRIOR APPROVAL

2 CFR 230 : Prior Approval Definition

Secure USAID's permission in **advance** to incur cost for those items that are designated as requiring prior approval.

1. Always in **writing**
2. Where an item requiring prior approval is specified in the budget of an award, **approval of the budget** constitutes approval of that cost



2 CFR 230 (15): Equipment & Other Capital Expenditures

- **Definition of Equipment (USG):**
 - Equipment is “non-expendable” property having a useful life more than 1 year and an acquisition cost => US \$5,000 per unit.
- **Prior Approval**
 - All capital equipment > \$5,000 included in budget with unit, cost and total price.
 - When budget approved, your capital equipment is considered approved in unit and amount.
 - If during the year you determine you need other capital equipment that costs > \$5,000 you **MUST** contact your AO and get prior approval before you purchase, even if enough money is in budget.
 - When approved, capital expenditures will be charged in the period expenditure incurred.

2 CFR 230 (20): Housing & Personal Living Expenses

Housing (depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for the organization's officers and employees are allowable as direct costs when:

1. Necessary for performance of the award, *and*
2. Approved by the awarding agency—**PRIOR APPROVAL.**

2 CFR 230: Prior Approval Required Summary

- » Equipment and other capital expenditures (15)
- » Housing & Personal Living Expenses (20)
- » Participant support costs (33) such as stipends, subsistence allowance, travel allowance, etc.
- » Pre-award costs (36)
- » Publication and printing costs (38)
- » International travel (55)
 - Each foreign trip approved
- » Overtime (8f) except when emergencies, indirect functions (e.g., accounts, admin.) and performing tests (e.g., lab tests)

UNALLOWABLE COSTS

2 CFR 230 : Unallowable Costs

- (1) Certain types of **Advertising & Publicity** that solely promote NGO
 - o Fund-raising related events
 - o Promotional items, for example, gifts and so
 - o Activities to solely promote the organization
- (2) **Alcoholic** beverages
- (3) **Bad debts** (including losses from uncollected accounts/claims)
- (7) Portion of the costs of **organization-furnished automobiles** that relate to **personal use** by employees provided **PRIOR APPROVAL** is received from USAID
- (8) **Contingency** and provisions made for **events** – the occurrence of which **cannot be foretold**
- (14) **Entertainment costs** – amusement, social activities, and costs directly associated with them (for example, tickets to shows/sports events, meals, lodging)



2 CFR 230 : Unallowable Costs

- (16) **Fines and Penalties** – resulting from failure to comply with laws and regulations (for example, late payment of income taxes, social insurance, etc) 
- (23) **Interest** on borrowed capital
- (31) Organization costs such as fees for in-country registration
- (45) **Personal costs related to relocation**, including fees on the acquisition of a new home, losses on the sale of a former home, continuing mortgage payments on a home being sold and taxes paid related to reimbursed relocation costs
- (48) Selling and Marketing Costs

Summary

In this session, we:

- Learned the general cost principles of your award.
- Reviewed required supporting documents.
- Explored allowable and unallowable costs as well as those requiring prior approval.

Questions and Comments

