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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**.

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)

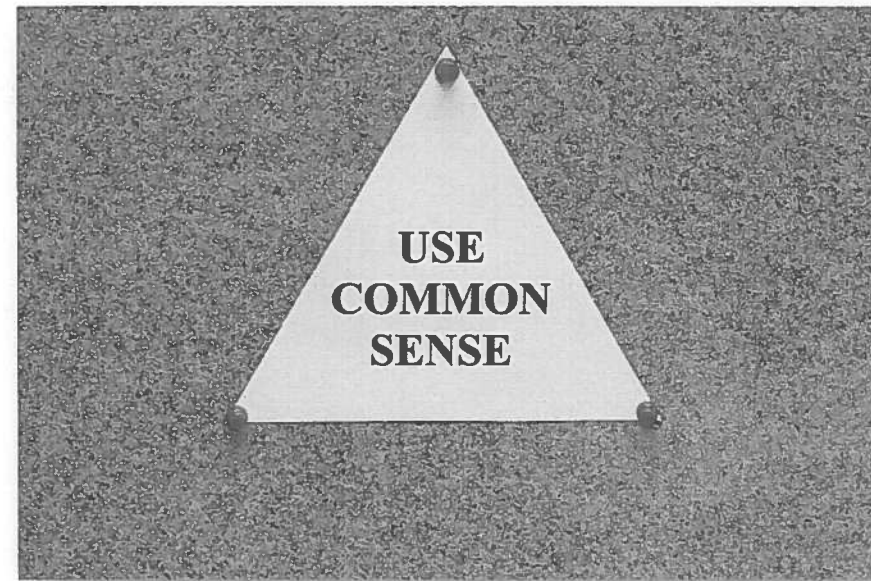
- Reasonable means the cost does not exceed what would be incurred by a **prudent person** under the same circumstances. (2 CFR 200.404).
- Considerations:
 - Ordinary and necessary for the proper and efficient performance of the grant.
 - Sound business practices; laws and regulations; terms and conditions 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.

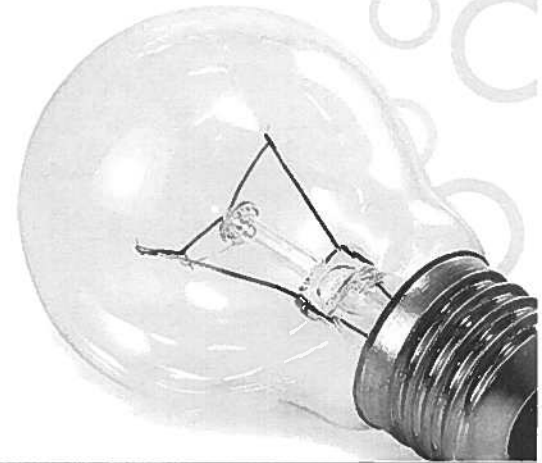


Check Your Knowledge in 60 Seconds

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?