



Commonwealth of Massachusetts

Executive Office for Administration & Finance

Federal Funds Office (FFO)

Coronavirus State and Local Fiscal Recovery Fund: Allowable Costs & Costs Principles

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Introduction to Uniform Administrative Requirements



Introduction to Uniform Guidance



All recipients of the SLFRF must follow the [Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#) (2 CFR Part 200) and the Terms and Conditions of the SLFRF assistance. Your organization should review the Uniform Guidance requirements applicable to your organization's use of SLFRF funds, and SLFRF-funded projects. Recipients should consider how and whether certain aspects of the Uniform Guidance apply.



Introduction to Cost Principles



Cost Principles Policies

- As outlined in the Uniform Guidance allowable costs are based on the premise that a recipient is responsible for the effective administration of Federal awards, application of sound management practices, and the administration of Federal funds in a manner consistent with the program objectives and terms and conditions of the award
 - › Recipients must maintain **robust internal controls** to facilitate **effective compliance** with the Cost Principles, which are important for building trust and accountability
 - › Recipients in recognition of their own unique combination of staff, facilities, and experience, have the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.
 - › The application of the Cost Principles should require no significant changes in the internal accounting policies and practices of a recipient.

Before disbursing federal funds, recipients should perform a self evaluation to determine whether existing processes and policies are sufficient for responsible management of the award.



SLFRF Exceptions to Cost Principles

- SLFRF Funds may be, but are not required to be, used along with other funding sources for a given project.
 - › Note that SLFRF Funds may not be used for a non-Federal cost share or match where prohibited by other Federal programs (e.g., funds may not be used for the State share of Medicaid).
- SLFRF is not subject to the requirement of the Cash Management Improvement Act and Treasury's implementing regulations at 31 CFR part 205 to remit interest to Treasury.
 - › SLFRF payments made by Treasury to local governments and Tribes are not subject to the requirement of 2 CFR 200.305(b)(8)–(9) to maintain balances in an interest-bearing account and remit payments to Treasury.
 - › Interest earned on SLFRF payments is not subject to program or eligibility restrictions.



When Cost Principles Apply

- When determining the allowable costs of work performed by a non-Federal entity under Federal awards.
- When pricing fixed-price contracts and subcontracts where costs are used in determining the appropriate price

When Cost Principles Do Not Apply

- When Federal financing is in the form of loans, scholarships, fellowships, traineeships, or other fixed amounts.
- For IHEs, capitation awards, which are awards based on case counts or number of beneficiaries according to the terms and conditions of the Federal award.
- Fixed amount awards (see §200.1 Definitions and 200.201)
- Federal awards to hospitals
- Other awards under which the non-Federal entity is not required to account to the Federal Government for actual costs incurred.



Basic Considerations

- Allowable costs are generally those costs that can be funded with federal grant dollars as long as the cost fits within a framework of responsible stewardship of public funds.
- The Uniform Guidance provides guidance on the allowability of 55 different types of costs using federal grants (2 CFR [200.420 – 200.476](#)).
- For all other costs the Uniform Guidance requires grant recipients to determine that the cost is allocable to the federal award and necessary, reasonable, and prudent for its performance.
 - › A cost is necessary if it meets an existing important program objective.
 - » The necessity can not be theoretical or hypothetical.
 - » Recipients should be able to document the existence of the necessity.



Basic Considerations: Reasonable Costs

- A cost is reasonable if, in its nature and 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.
 - › In this context, prudence does not require spending as little money as possible despite the existence of a need but does require the demonstration of careful and thoughtful decision making.
- Other considerations when determining reasonableness:
 - › Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
 - › The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
 - › Market prices for comparable goods or services for the geographic area.
 - › Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.



Basic Considerations: Allocable Costs

- 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. This standard is met if the cost:
 - › Is incurred specifically for the Federal award;
 - › Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - › Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in Subpart E.
- If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.
- If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.
- Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required.



Basic Considerations: Consistency

- The cost must be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the recipient.
 - › Recipients cannot apply different rules for allowable costs based on funding source.
 - › Example: If the per-diem rate for employees whose salary and travel are paid from state/local funds is one amount, then there cannot be a separate, higher amount for employees paid from federal funds.
- A cost may not be assigned to a Federal award as a direct cost if the same type of cost has already been allocated as an indirect cost.



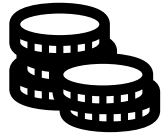
Specific Examples: Administrative Costs



- Recipients may use funds for administering the SLFRF program including **costs of consultants to support effective management and oversight**, including consultation for **ensuring compliance with legal, regulatory, and other requirements**



- Costs must be **reasonable and allocable** as outlined in 2 CFR 200.404 and 2 CFR 200.405
- Recipients are permitted to charge both direct and indirect costs to their SLFRF award to their SLFRF award as administrative costs



- › **Direct costs** are those that are identified specifically as **costs of implementing the SFRF program objectives**, such as contract support, materials, and supplies for a project
 - › **Indirect costs** are **general overhead costs of an organization** where a portion of such costs are allocable to the SLFRF award such as the cost of facilities or administrative functions like a director's office
- Each category of cost should be treated consistently in like circumstances as direct or indirect, and **recipients may not charge the same administrative costs to both direct and indirect categories, or to other programs**



- If a recipient has a current Negotiated Indirect Costs Rate Agreement (NICRA) re-established with a Federal cognizant agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals
 - › If the recipient does not have a NICRA, the recipient may elect to use the de minimis rate of 10% of the modified direct total costs pursuant to 2 CFR 200.414(f)



Specific Examples: Salaries



- In general, certain **employees' wages, salaries, and covered benefits are an eligible use of SLFRF award funds**
 - › See Treasury's [Interim Final Rule](#) for details
- Charges to federal awards 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 recipient.
 - › Reasonably reflect the total activity for which the employee is compensated by the subrecipient, not exceeding 100% of compensated activities.
 - › Documentation records should be adjusted in a timely manner if there are significant changes in the employee's work activity.
 - › Comply with the subrecipient's established accounting policies and practices.



Additional Resources



Additional Resources

- [Uniform Guidance](#)
- [Treasury Interim Final Rule](#)
- [Federal Funds Office Website](#)