



Allowable Costs

Table of Contents

- ❖ Introduction to Allowable Costs
- ❖ Allowable Costs Specifics
- ❖ Direct and Indirect Costs
- ❖ Financial Management Standards
- ❖ Closing
- ❖ Resources

Help
is here

Learning Objectives

- ❑ Understand what allowable costs are and the factors that determine allowability
- ❑ Become familiar with State and Federal requirements
- ❑ Understand indirect costs and the available election options
- ❑ Become familiar with required financial management standards



Introduction to Allowable Costs

What are Allowable Costs?

Costs that can be paid for using grant funds.

- Costs must be necessary and reasonable based on the activities contained in the approved budget.
- Costs must be justified and explained in the budget narrative.
- Costs must be adequately documented.

What are Unallowable Costs?

Costs specified by law or regulation, federal cost principles, or the terms and conditions of an award that may not be reimbursed under a grant.

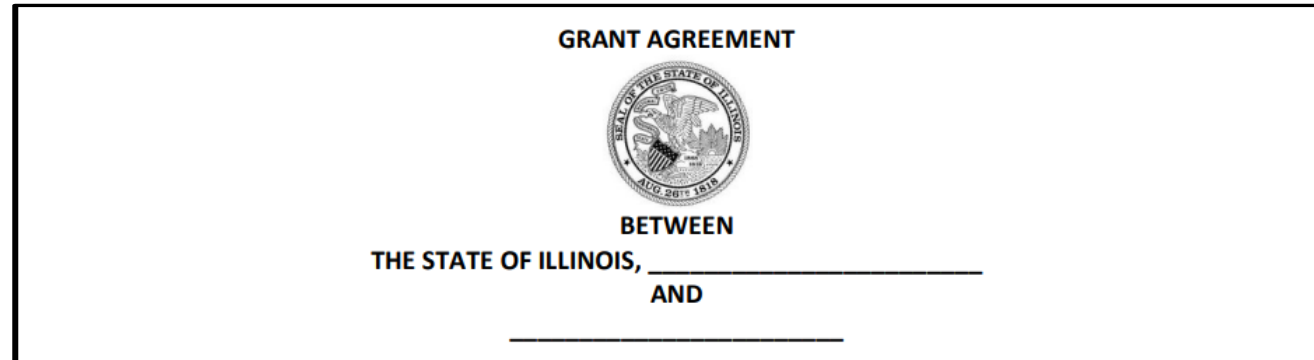
Unallowable Cost Examples:

- Entertainment costs, except where specific costs have a programmatic purpose (2 CFR § 200.438).
- Capital expenditures for general purpose equipment including vehicles, buildings, and land (2 CFR § 200.439).
- Capital expenditures for improvement to land, buildings, or equipment which materially increase their value or useful life (2 CFR § 200.439).
- Food for personal use of the grantee's employees, contractors, or consultants (2 CFR § 200.445).



Requirements per the State of Illinois Uniform Grant Agreement (UGA)

- Grantees of the State of Illinois are issued grant agreements using a standardized UGA template.
- It is important to carefully review all terms of the grant agreement for your award.
- Terms for allowable and unallowable costs are memorialized in the grant agreement in **Part I Terms: Article VII “Allowable Costs”**.
- Additional IDHS specific terms may be listed in **Part II The Grantor-Specific Terms**.
- Additional program specific terms may be listed in **Part III The Project-Specific Terms**.



Additional Examples of Typically Unallowable Costs

- **Advertising costs** – Unless necessary to meet the requirements of the sponsored agreement.
- **Alcohol costs** – Strictly unallowed.
- **Fundraising costs** – Including financial campaigns, endowment drives, solicitation of gifts and similar expenses that are typically incurred to raise capital or obtain contributions.
- **Insurance costs** – Insurance to protect against defects in the institution's materials or workmanship are unallowable. Losses which could have been covered by insurance are unallowed unless expressly allowed by the sponsor. Only when reasonable and necessary are these Insurance costs allowable.
- **Recruiting costs** – Including wanted advertising, special emoluments, fringe benefits and salary allowances incurred to attract professional personnel from other institutions.
- **Selling and marketing costs** – Only allowable as a direct cost when approved by the awarding agency and deemed necessary for the performance of the award.
- **Lobbying costs** – Strictly unallowed.



[STATE OF ILLINOIS CODE](#)

[UNIFORM GUIDANCE:
UNALLOWABLE COSTS](#)

Factors Affecting Allowability of Costs:

The below listing details the criteria used to determine cost allowability under [2 CFR § 200.403 : Factors affecting the allowability of costs.](#)



- a) Be **necessary** and **reasonable** for the performance of the award and be allocable thereto under these principles.
- b) Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c) Be **consistent** with policies and procedures that apply uniformly to both Federally-financed and other activities of the non-Federal entity.
- d) Be accorded **consistent treatment**. A cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the award as an indirect cost.
- e) Be determined in accordance with **generally accepted accounting principles (GAAP)**, except, for state and local governments and Indian tribes only, as otherwise provided in this part.
- f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. (also see [2 CFR § 200.306\(b\)](#)).
- g) Be **adequately documented**. See also [2 CFR § 200.300](#) through [2 CFR § 200.309](#) of this part.
- h) Cost must be incurred **during the approved budget period**. The awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to [2 CFR § 200.308\(e\)\(3\)](#).

Reasonable Costs

A cost is deemed reasonable if it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time that the decision was made to incur the cost. The below listing details reasonable cost specifics that your organization should consider:



- a) Be generally recognized as ordinary and necessary for grant operations and performance.
- b) Have established restraints and requirements in place (Internal Controls).
- c) Be comparable to market prices for goods or services.
- d) Indicate the individuals acted with prudence for the circumstances.
- e) Not significantly deviate from established practices and policies.

Allocable Costs

A cost is **allocable** to a specific state or Federally funded award or other cost objective if the goods or services involved are chargeable or assignable to that state or Federally funded award or cost objective in accordance with relative benefits received. Allocable costs must:

1. Be incurred **specifically** for the state or Federally funded award.
2. Benefit both the state or Federally funded award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using **reasonable** methods.
3. Be **necessary** to the overall operation of the non-Federal entity and assignable in part to the state or Federally funded award in accordance with the principles in this subpart.

Note: Any cost allocable to a particular state or Federally funded award under the principles provided for in this part may not be charged to other state or Federally funded awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the grant awards, or for other reasons.



UNIFORM GUIDANCE:
ALLOCABLE COSTS

Prior Approval

Determining the reasonableness and allocability of costs can sometimes be difficult to determine. ***In order to avoid the disallowance of a cost or dispute based on unreasonableness or non-allocability, your organization may seek the prior written approval of the cognizant agency.***

The below costs require specific prior approval:

- **Program Income (2 CFR § 200.307)** – If the Federal awarding agency does not specify in its regulations or terms and conditions, the Federal awarding agency may need to provide prior approval for how program income is to be used.
- **Equipment (2 CFR § 200.313)** – Equipment must be used by the non-Federal entity in the program or project for which it was acquired as long as it is needed. The non-Federal entity must not encumber the property without prior approval of the Federal awarding agency.
- **Selling and Marketing Costs (2 CFR § 200.467)** – Costs of selling and marketing any products or services of the non-Federal entity are unallowable, except as direct costs, with prior approval by the Federal awarding agency when necessary for the performance of the Federal award.
- **Good or Services for Personal Use (2 CFR § 200.445)** – Costs of goods or services for personal use of the non-Federal entity's employees are unallowable regardless of whether the cost is reported as taxable income. Costs of housing and other personal living expenses are only allowable as direct costs and must be approved in advance by a Federal awarding agency.



*Note:
Refer to the prior approval button for additional costs that
require specific prior approval.*

UNIFORM GUIDANCE:
PRIOR APPROVAL

Transfer Costs

The transfer of costs between awards, for any reason, is not permissible. Grant funded programs have unique activities and periods of performance.



Key Consideration Points:

- Organizations may wish to transfer costs between awards and contracts; this is not permissible.
- Cost transfers are typically unallowable except in specific circumstances.
- Cost transfers cannot be used for overspending on a grant. Organizations should reconcile grant expenditures against approved budgets.

Treatment of Profits and Program Income

Programs implemented by grant awards may be structured to earn income such as fees for services to offset program costs. Grantees are not allowed to earn profits from grant award activities.



Key Consideration Points:

- “**Program Costs**” mean all allowable costs incurred by Grantee and the value of the contributions made by third parties in implementing the award within the period of performance.
- Typically, program income is deducted from total allowable costs to determine net allowable costs.
- With prior approval from IDHS, program income may be added to the total award amount and utilized for the program purposes within the terms of the grant agreement.
- With prior approval from IDHS, program income may be used to meet match or cost-share requirements of the award.



UNIFORM GUIDANCE:
PROGRAM INCOME

Determining Types of Costs – Indirect and Direct

What are direct costs?

Direct Costs are costs that can be identified specifically with a final cost objective. For example, supplies necessary to conduct program objectives would be considered a Direct Cost.

DIRECT COST EXAMPLES
Salaries and Wages
Fringe Benefits
Materials and Supplies
Travel Expenses
Communication Expenses

What are indirect costs?

Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

INDIRECT COST EXAMPLES
Costs of operating and maintaining facilities
General administration and general expenses
Property Insurance
Administrative support (clerical)

Note: Some costs may be classified as direct or indirect depending on percentage allocation to an award. For example, salaries of program personnel are typically treated as direct costs, however, administrative personnel such as accountants who work on multiple programs, may be included as indirect costs.



STATE OF ILLINOIS
CODE

UNIFORM GUIDANCE:
INDIRECT COSTS

Direct and Indirect Costs Cont.

Your organization has 5 indirect cost rate election options. Elections can be made through the GATA Grantee Portal:

#	ELECTION OPTIONS	KEY POINTS
1	Federal: Negotiated Indirect Cost Rate Agreement	<ul style="list-style-type: none">• Available to grantees that receive awards directly from a Federal awarding agency and have negotiated an indirect cost rate with its Federal cognizant agency.
2	State: Negotiated Indirect Cost Rate Agreement	<ul style="list-style-type: none">• Requires an indirect cost rate election made by the State of Illinois Centralized Indirect Cost System and submitted through the CARS System.
3	10% De minimis Rate	<ul style="list-style-type: none">• Modified Total Direct Cost provides guidance on included and excluded expenses as part of the MTDC calculation <u>2 CFR § 200.1</u>
4	Restricted Rate Programs	<ul style="list-style-type: none">• “Special Indirect Cost Rate” listed in NICRA• Complies with other statutory policies
5	No Rate	<ul style="list-style-type: none">• This option certifies to all State of Illinois agencies that the grantee will not seek indirect cost reimbursement from any State of Illinois award.• All State of Illinois grantees can select the “no rate” option.



[GATA GRANTEE PORTAL](#)

Per the Uniform Grant Agreement, the financial management system of your organization must meet the following standards:



1. Accounting System (2 CFR § 200.302)

- Each grantee must have an accounting system that enables accurate tracking of transactions for funded awards as well as time reporting of staff administering the grant awards.
- If a grantee receives multiple sources of grant funding, these are to be tracked separately. Methodology may include separate account numbers, assigning distinct work breakdown structures, or subledgers for each grant award.
- Accounting systems are to be maintained on an ongoing basis and balanced at a minimum quarterly.

2. Source Documentation

- Accounting records must be supported by source documentation, such as canceled checks, bank statements, and invoices. All supporting documentation should be clearly identified with the award and general ledger accounts which are to be charged or credited.



STATE OF ILLINOIS UGA

UNIFORM GUIDANCE:
FINANCIAL MANAGEMENT

The financial management system of your organization must meet the following standards:



3. Internal Control (2 CFR § 200.303)

- Establish and maintain effective internal controls over all cash, real and personal property, and other assets.
- Grantee must provide reasonable assurance that the non-Federal entity is managing the grant award in compliance with Federal statutes, regulations, and the terms attributed to the Federal award.

4. Budget Control

- The approved budget for the grant award describes the financial aspects of the project as approved during the grant award process.
- Records of expenditures by cost category must be maintained for each award. The approved budget should be reconciled with expenditures at a minimum quarterly.

5. Cash Management (2 CFR § 200.305)

- For non-Federal entities, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury and the disbursement by the non-Federal entity by the payment method provided (electronic fund transfers, warrants, etc.).



Grantee Reminders:

Understanding allowable cost requirements is vital to the successful implementation of grant awards

In order to avoid the disallowance of a cost, your organization has the option to request prior approval

Allocable costs must be necessary to the overall operation of the award and adequately documented

Review your specific funding notice for any cost restrictions or limitations on the award

A cost cannot be claimed as both a direct and indirect cost

Indirect cost elections are done through the GATA Grantee Portal



Resources for Federal and State requirements

- Uniform Grant Agreement : [STATE OF ILLINOIS UGA](#)
- Sample IDHS Grant Agreement: [Sample IDHS Grant Agreement](#)
- Illinois Administrative Code: [44 Ill. Admin Code 7000](#)
- Illinois General Assembly: [ILGA.GOV](#)
- Subpart E - Cost Principles: [Uniform Guidance](#)
- Grant Accountability and Transparency Act: [Indirect Cost Rate Election Manual](#)
- A Guide for Indirect Cost Rate Determination: [Indirect Cost Guidance](#)



Questions?

