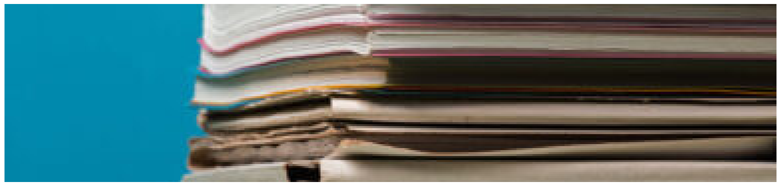
Uniform Guidance: Cost Allowability Changes



ARTICLE 11.09.15   DEAN DORTON

The Office of Management Budget (OMB) released the new Uniform Guidance in December of 2013, and it became effective on December 26, 2014. The Uniform Guidance combines previous federal cost principles OMB Circular A-21 (Colleges and Universities), A-87 (State, Local and Tribal Governments) and A-122 (Nonprofit Organizations) into one single set of uniform guidance. Among the many changes that Uniform Guidance has brought are some important changes to note on cost allowability. The revised principles can be seen at subpart E of 2 CFR 200.400-475.

If there is any ambiguity on whether a cost is allowable, the recipient should consider the general tests of allowability (Lloyd) about the applicable expense:

1. Necessary
2. Reasonable
3. Allocable
4. Conformance to limitations
5. Consistent with recipient policy
6. Consistently treated
7. Follows GAAP (unless GAAP is not applicable)
8. Not charged anywhere else
9. Sufficiently documented
10. Net of any applicable credits

In Uniform Guidance , many of the principles have remained the same or have not been materially changed. However, see below for a list of the more significant changes in the cost principles:

1. **430 – Compensation, personal services –** The new regulations have specific implications that make effort reporting more strict than in the past.A performance plan for employees must be submitted for approval to the overseeing agency in advance. Documentation of effort must be reported after the activity occurs and must be a full disclosure of all effort.
2. **432 – Conferences –** This area is more flexible than many other areas, but the associated expenses should be for the dissemination of technical information that is necessary and reasonable for successful performance under the Federal award.Expenses must be monitored to ensure that charges to the Federal award are minimized.
3. **433 – Contingencies –** Organizations can budget for contingency costs and transfer incurred amounts to allowable costs. These do not include amounts for major project scope changes, unforeseen risks, or extraordinary events – these are still not allowable.
4. **438 – Entertainment –** Costs of entertainment are now allowable if they have a programmatic purpose and are authorized either in the approved budget for the award or with prior written approval from the awarding agency.
5. **439 – Equipment and other capital expenditures –** If a cost benefits two or more projects and the proportionate allocation cannot be determined, then the cost may be allocated or transferred to benefitted projects on any reasonable documented basis.
6. **441 – Fines, penalties, damages and other settlements –** These costs are generally prohibited except when incurred as a result of compliance with specific provisions of the award or with prior written approval of the Federal awarding agency.
7. **460 – Proposal costs –** Costs of proposals (successful and unsuccessful) are allowable if treated as indirect (F&A) costs and allocated currently to all activities of the entity.

8. **461 – Publication and printing costs –** These standards have been greatly simplified.Publication costs for electronic and print media are allowable (includes distribution, handling, promotion).If the costs are not direct to the grant, then they are allowable as indirect (F&A) costs.
9. **465 – Rental costs –** There is expanded language on “less-than-arm’s-length” leases to help determine the allowable cost.
10. **468 – Service centers –** Costs of services provided by highly complex or specialized service facilities operated by the non-federal entity are allowable if they meet certain conditions. The material costs in this category must be charged directly to the applicable grant and be based on actual usage of services based on a standard schedule of rates or a methodology that is adjusted at least biennially and must take into consideration over/under applied costs of the previous periods.If costs are not material, they may be allocated to indirect costs (F&A).
11. **472 – Training and education costs –** This standard has been simplified to just say that training and education costs for employee development is allowable.
12. **474 – Travel costs –** Regulations have become stricter to attempt to prohibit abuse. Documentation must be kept on the necessity and authorization of travel.

There are also new principles or principles with new names:

1. **428 – Collection of improper payments –** The costs incurred by a non-Federal entity to recover improper payments are allowable as either direct or indirect costs, as appropriate. Amounts collected may be used by the non-Federal entity in accordance with cash management standards.
2. **440 – Exchange rates –** Costs increases for fluctuations in exchange rates are generally allowable unless it would require additional Federal funding. In that case, prior written approval would need to be obtained.
3. **448 – Intellectual property –** There are several specific standards on costs relating to securing patents and copyrights and where certain costs are allowable and unallowable.

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