**Agency Uniform Guidance Roundtable Discussion-Minutes**

**Date/Time:** April 20, 2016- 9:00 am-10:15 am

**Location:** Kansas State Board of Healing Arts

**Topic:** Cost Principles

**Facilitators:** Roger Basinger & Jill Martin

**Welcome and Introductions**

Roundtable facilitators welcomed the attendees and had each attendee introduce themselves stating their name and agency. A total of 37 participants from 23 different agencies attended in person and remotely.

**Cost Principles Presentation (Roger Basinger and Jill Martin)**

Following is a summary of the Cost Principles presentation.

Mr. Basinger stated that the cost principles have not changed a whole lot between the old circulars and the new. He also encouraged participants to read the cost principles section as the presentation is just an overview.

***Fundamental Principles (200.400)***

The non-federal entity is responsible for the efficient and effective administration of federal awards and for administering funds consistently with underlying agreements, program objectives, and the terms and conditions of the federal award.

Accounting practices must be consistent with cost principles and must be adequately documented. Profits are not allowed, unless specifically authorized by the award.

***Composition of Costs (200.402)***

The total cost of a federal award is the sum of the allowable direct and indirect costs less any applicable credits.

***Factors Affecting Allowability (200.403)***

Costs must meet the following criteria in order to be allowable:

* Be reasonable and necessary for the performance of the award.
* Conform to any limitations or exclusions set forth in the cost principles or the federal award.
* Be consistent with policies and procedures.
* Be accorded consistent treatment.
* Be determined in accordance with generally accepted accounting principles (GAAP).
* Not be included as part of cost sharing or matching.
* Be adequately documented.

***Reasonable Costs (200.404)***

A cost is reasonable if it does not exceed what would be incurred by a prudent person under normal circumstances. For example, is the cost ordinary, necessary, and comparable to market prices?

***Allocable Costs (200.405)***

A cost is allocable if the goods or services involved are chargeable or assignable to that federal award in accordance with the relative benefits received. For example:

* Is the cost specifically for the award?
* Does the cost benefit both the federal award and other work of the entity and can it be distributed proportionately?
* Is the cost necessary to the operation of the entity?
* Do all activities which benefit from the entity’s indirect costs receive an appropriate allocation?

***Applicable Credits (200.406)***

Applicable credits are receipts or reduction of expenditure type transactions that offset or reduce expense items. These can include purchase discounts, rebates or allowances, insurance refunds or rebates, and adjustments of overpayments. All of these must be credited to the federal award.

***Prior Written Approval (200.407)***

The non-federal entity may seek prior approval for costs which may be difficult to determine reasonableness or allocability, or for special or unusual costs. These could include purchases such as equipment, entertainment, selling/marketing, travel, fundraising, etc.

***Classification of Costs (200.412)***

There is no universal rule for classifying a cost as either direct or indirect. A cost may be direct to some specific service or function, but may be indirect with respect to the federal award. It is important that each cost incurred for the same purpose be treated consistently as either direct or indirect.

***Direct Costs (200.413)***

Direct costs are those that can be identified specifically with a particular cost objective and can be directly assigned easily and with a high degree of accuracy. Identification with the federal award rather than the nature of the goods and services involved is the determining factor in distinguishing between direct and indirect costs. Typical direct costs include compensation and fringe benefits for employees working directly on the award and materials and other expenses incurred for the federal award.

Salaries of Administrative staff and clerical staff should normally be treated as indirect costs unless the following are met:

* Administrative/clerical services are integral to a project or activity
* Individuals involved can be specifically identified with the project or activity
* Costs are explicitly included in the budget or have prior written approval
* The costs are also not charged as indirect

***Indirect (F&A) Costs (200.414)***

For institutions of Higher Education (IHE) and major non-profit organizations, indirect costs must be classified as either facilities or administration.

Negotiated indirect cost rates must be accepted by federal awarding agencies and pass through entities unless required by federal statute or approved by a federal agency awarding head or delegate. Non-federal entities may apply for a one time extension of their current indirect cost rate up to four years. A de minimus rate of 10% may be used if the non-federal entity does not have an approved cost rate.

***Required Certifications (200.415)***

The fiscal reports and/or payment vouchers must be signed by an official who can legally bind the organization. The certificate must be signed by someone at no level lower than the Vice President or Chief Financial Officer. It also must be demonstrated that unallowable costs have been excluded.

***Cost Allocation Plans and Indirect Cost Proposals (200.416)***

For states, local governments, and Indian Tribes, certain services such as motor pools, purchasing, IT, accounting, etc. are provided to operating agencies on a centralized basis. The Central Service Cost Allocation Plan, allowing for separate indirect cost rates, provides a process where central services can be assigned to these agencies.

***Interagency Service (200.417)***

The cost of services provided by one agency to another within the government unit may include allowable direct costs of the service plus a pro-rated share of indirect costs.

***Cost Accounting Standards and Disclosures Statement (200.419)***

* The following applies to institutions of higher education:
* If over $50 million in federal funding is received within a fiscal year, a disclosure statement must be prepared and submitted describing the cost accounting practices.
* Amendments for indirect costs must be submitted six months in advance.

***Considerations for Selected Items of Cost (200.420)***

* The cost principles apply to both direct and indirect costs.
* If there is a discrepancy between the provisions of a specific federal award and the cost principles, the federal award governs.
* Non-compliance with other requirements could result in unallowed costs, even if such costs are allowed per the cost principles.

***Advertising and Public Relations (200.421)***

Advertising costs are unallowable with the exception of the following:

* Recruitment costs of personnel
* Procurement of goods and services
* Disposal of scrap or surplus material
* Program outreach and other specific costs necessary to meet the requirements of the award

All of the above costs must be required for the performance award in order to be allowable.

Public relations costs are unallowable with the exception of the following:

* Specifically required for the federal award
* Costs of communicating with the public and press regarding the award
* Communicating with the news media or public officers regarding matters of public concern

***Audit Services (200.425)***

The following are allowable costs under audit services:

* A reasonably proportionate share of audit costs required by and performed in accordance with the single audit act
* Cost of financial statement audit for a non-federal entity that does not currently have a federal award, may be included as indirect costs.
* Costs of agreed upon procedures engagements to monitor subrecipients (with certain stipulations)

However, the cost of auditing an entity that is exempt from having an audit under the single audit act due to having less than $750,000 in federal expenditures is unallowable.

***Compensation-Personal Services (200.430)***

General provisions include focusing more on internal controls and reducing administrative burden of documenting time and effort. Federal agencies may also approve methods for blended funds.

Personnel activity reports are no longer required. However, charges to federal awards must be based on records that accurately reflect the work performed. If budget estimates are used, adjustments must be made to reflect the actual work performed.

***Compensation-Fringe Benefits (200.431)***

The cost of fringe benefits are allowable if they are reasonable, are required by law, or an established policy of the non-federal entity. Fringe benefits include sick leave, vacation, holidays, retirement costs, and family friendly leave. Fringe benefits are allowable if they are provided under established written leave policies, are equitably allocated to all related activities, and the accounting basis selected for costing each type of leave is consistently followed.

***Conferences (200.432)***

A conference is defined as a meeting, retreat, seminar, symposium, workshop or event whose primary purpose is the dissemination of technical information. Costs include facility rental, speaker fees, meals, local transportation, and cost of identifying locally available dependent care. However, these costs must be necessary and reasonable for the performance of the award.

***Employee Health and Welfare Costs (200.437)***

Costs incurred in accordance with the non-federal entity’s documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable. However, employee morale costs (which used to be allowed per the old guidance) are generally disallowed.

***Equipment and Other Capital Expenditures (200.439)***

Capital expenditures for *special* purpose equipment are allowable as direct costs as long as items with a unit cost of $5,000 or more receive prior approval from the federal awarding agency. Cost of equipment disposal is also allowed if instructed by the federal awarding agency.

Capital expenditures for *general* purpose equipment, buildings and land are unallowable except with prior written approval of the federal awarding agency. Equipment and other expenditures charged as indirect costs are also unallowable.

***Publication and Printing Costs (200.461)***

Costs for electronic and print media are allowable. If costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities. Also, the costs for publishing research results may be charged before closeout if the costs are not incurred during federal award period.

***Travel Costs (200.474)***

Travel costs include transportation expenses, lodging, subsistence and related items incurred by employees on official business of the non-federal entity. They may be charged on an actual cost basis, per diem, mileage basis, or combination and must be in accordance with the entity’s written travel policies. Travel costs of government officials are only allowable with prior written approval. Temporary dependent costs resulting from travel to conferences and meet specified standards are allowable.

***Unallowable Costs***

The following costs are unallowable, unless specifically provided for in the award:

* Advisory councils (200.422)
* Alcoholic beverages (200.423)
* Alumni activities (200.424)
* Bad debts (200.426)
* Contributions and donations (200.434)
* Lobbying (200.450)
* Losses on other awards or contracts (200.451)
* County club/social dining club memberships (200.454)
* Student activities (200.469)

The following costs are generally unallowable, but may be allowable with prior written approval of the federal awarding agency:

* Entertainment costs (200.438)
* Fines, penalties, damages (200.441)
* Fundraising & Investment Management (200.442)
* General Government (200.444)
* Goods or services for personal use (200.445)
* Organization costs (200.455)
* Selling and marketing (200.467)

***Key “Musts” to Remember***

* Costs ***must*** be reasonable and necessary for the performance of the award.
* Costs for the same purpose (in like circumstances) ***must*** be treated consistently as either direct or indirect.
* Allocable costs ***must*** be distributed proportionately among all activities which benefit.
* Federal agencies and pass-through entities ***must*** accept the Federally approved indirect cost rate (unless another rate is required by statute).
* Time and distribution records ***must*** be supported by a system of internal controls which accurately reflects the work performed.
* Costs ***must*** be adequately documented.

**Case Studies**

Several case studies were discussed regarding the allowability of certain costs in different situations. The following was discussed regarding the case studies:

Two of the case studies involved determining the allowability of food costs. There was some discrepancy amongst participants as to whether or not food costs were allowable. Highway Patrol stated that they submit a written request to the federal awarding agency before charging an award for any food costs.

There was also discussion regarding whether or not funds from one grant could be used transferred to another. One agency stated they were given permission to do this by the federal awarding agency as the grants were similar in nature.

**Other Items Discussed**

***Indirect Costs***

Mr. Basinger mentioned that we have had the issue come up as to whether or not agencies should use their indirect cost rate or the subawarded agency’s indirect cost rate. He stated at this point we have not received a clear cut answer. However, the Federal Reporting team’s stance is that since the agency is responsible for monitoring the other agency regarding federal expenditures, that this would be considered a subrecipient relationship. Therefore, the agency receiving the funds would use their federally approved indirect cost rate or the de minimus rate if no such rate exists.

Mr. Basinger also mentioned an example of one state agency who had recommended that indirect costs be 10% in their grant budget. However, this could be considered coercing which is not allowed per the Uniform Grant Guidance.

***GASB 68***

Mr. Basinger mentioned that the Federal Reporting team attended a conference call hosted by NASACT (along with other states) regarding GASB 68 and its confliction with the Uniform Grant Guidance regarding pension plan costs. The Uniform Grant Guidance states that GAAP has to be followed, which is essentially GASB 68. However, for several states, there is a difference between the GASB 68 computed retirement expense and what the state actually contributed to the pension fund. NASACT has proposed writing a letter to the OMB regarding this issue to see if states can go back to the way it was reported previously. Mr. Basinger stated that we would let the agencies know once we get a resolution.

***SEFA***

One agency asked about the extra column added to the DA89 regarding whether or not the particular CFDA number followed the new or the old guidance. The agency stated the problem with this is that there may be some CFDA’s where a part adheres to the old guidance and the other part has to adhere to the new guidance. Mr. Basinger stated that we are looking into an alternative to this and that we would get back to the agencies after speaking with our Auditor contact.

**Announcements/Follow Up**

At the end of the meeting, Mr. Basinger mentioned the following items:

* UGG webinar regarding Management and Auditors perspective will be coming up on May 18th and will tentatively be held in the Eisenhower building. Some agencies have already expressed interest in attending this. However, an additional email with details on the time and location will be sent out soon.
* The next roundtable is planned for the month of July and the topic will be on SEFA. This will go into more detail than what was discussed at the ASTRA meeting.
* The Federal Reporting team hopes to have the DA89 and certification on the website by July 1st. A notification email will be sent out to agencies on July 15th with a due date of August 15th.

**Meeting Adjourned 10:15 am**