



OMB's Uniform Guidance
Regulations Overview

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WIPFLI

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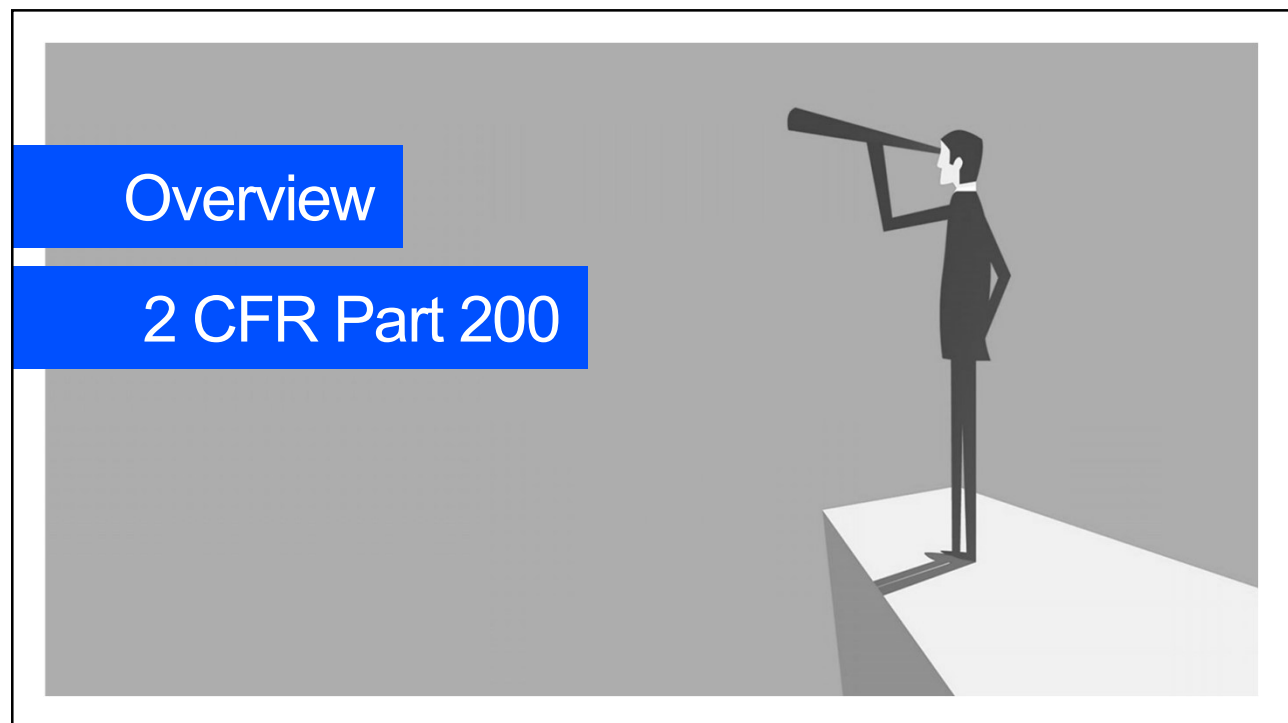
Uniform Guidance resources

- Notice of Guidance in Federal Register (Comments regarding the Summary and Description of Changes), 12/2013
- Full Text of 2 CFR Part 200, OMB Uniform Guidance for Federal Financial Assistance, 11/12/2020
- FAQ's issued 05/2021
- Federal departments' implementation
 - ▶ DHHS – 45 CFR Part 75, technical corrections 01/2021
 - ▶ DOL – 2 CFR Part 2900, updated 12/30/2015

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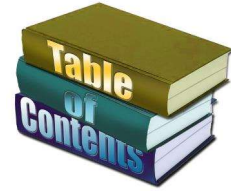
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Sub Part E: Cost Principles

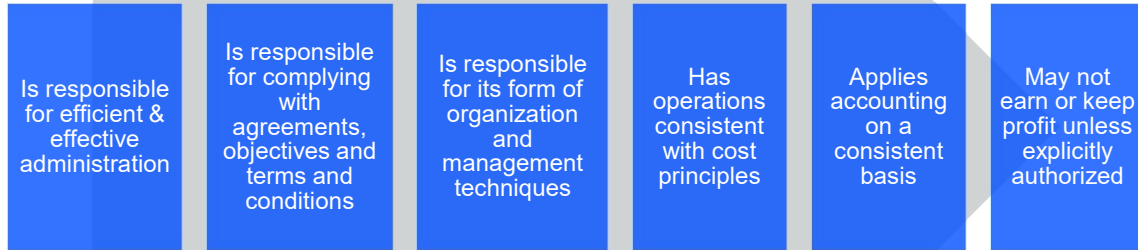
How You Spend Your \$\$

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Subpart E. Cost principles – general provisions

§200.400 Policy Guide

- The non-Federal entity:



45 CFR 75.400

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Subpart E. Cost principles – general provisions

§200.401 Application

- These principles must be used in determining the allowable costs of work performed by the non-Federal entity under federal awards.

45 CFR 75.401

§200.402 Composition of costs

- The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs (**shared costs that benefit more than one award or project**) less any applicable credits.

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Subpart E. Cost principles – general provisions

■ §200.403 Factors affecting allowability of costs

- Be necessary and reasonable
- Conform to limitations
- Be consistent with other organization activities
- Be treated consistently
- Be determined in accordance with generally accepted accounting principles, as appropriate
- Not be included as cost or match in any other federally funded program (*current or prior*)
- Be adequately documented
- **NEW** Incurred during approved budget period

45 CFR 75.403

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Subpart E. Cost principles – general provisions

§200.404 Reasonable Costs

A cost is reasonable if, in its nature or 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 costs.

Guidelines for determining reasonable cost:

(a) Whether the cost is **ordinary and necessary for operation of the organization or the proper and efficient performance of the award;**

(b) The restraints imposed by such factors as: **sound business practices, arms length bargaining, federal state and other laws and regulations, and terms and conditions of the Federal award;**

(c) **Market** prices for comparable goods or services for the geographic area;

(d) Whether the **individuals concerned acted with prudence** in the circumstances;

(e) **Significant deviations from the established practices and policies** regarding the incurrence of costs.

45 CFR 75.404

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Subpart E. Cost principles – general provisions

§200.405 Allocable Costs

(a) A cost is allocable to a particular Federal award or cost objective, if the goods or services involved are chargeable or assignable to that Federal award **in accordance with the relative benefits received:**

- (1) Is incurred specifically for the award;
- (2) Benefits both the award and other work and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the organization and is assignable in part to the Federal award in accordance with the principles in this subpart.

45 CFR 75.405

Subpart E. Cost principles – general provisions

§200.405 Allocable Costs *(continued)*

(b) All activities which benefit from the non-Federal entity's indirect cost, **including unallowable activities and donated services**, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to a Federal award **may not be charged to other Federal awards to overcome fund deficiencies**, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.

45 CFR 75.405

Subpart E. Cost principles – general provisions

§200.405 Allocable Costs *(continued)*

- (d) Direct cost allocation principles
 - ▶ If a cost benefits two or more projects or activities in **proportions that can be easily determined**, the cost should 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 on any reasonable documented basis.

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Subpart E. Cost principles – general provisions

§200.406 Applicable Credits

(a) Must be credited to the award as cost reduction or refund, depending on the credit

- Examples: purchase discounts, rebates, insurance refunds, etc.



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Subpart E. Cost principles – general provisions

§200.407 Prior Written Approval

- Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. **In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval** of the cost. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required
(a) – (y) list of sections in 2 CFR Part 200 requiring prior approval

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Subpart E. Cost Principles – Direct and Indirect

Direct Costing

De Minimis Rate

Negotiated Rate

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Subpart E. Cost principles – direct and indirect

§200.412 Classification of costs

- There is **no universal rule** for classifying certain costs as either direct or indirect facilities and administrative (F&A) under every accounting system.
- It is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost.



45 CFR 75.412

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Indirect vs. direct

There are 2 ways to do cost allocation:

Direct Cost Method

Allocate costs based on relative benefit received
Charge shared costs to programs based on an activity or non-monetary base

Indirect Cost Rate

Used to allocate indirect or shared costs
Device for determining in a reasonable manner the proportion of indirect costs each program should bear; a ratio of indirect costs and a direct cost base

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Subpart E. Cost principles – direct

§200.413 Direct Costs

- (a) Direct costs are those that can be easily and accurately assigned to a specific award



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Subpart E. Cost principles – direct

§200.413 Direct Costs

(c) Salaries of administrative and clerical staff ***should normally*** be treated as indirect. Direct charge only if **all** of the following are met:

- (1) Administrative or clerical services are integral to the project;
- (2) Individuals involved can be specifically identified with the project;
- (3) Such costs are explicitly included in the budget or have prior written approval;
and
- (4) The costs are not also recovered as indirect.

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Direct allocation plans

Identify the costs to be allocated and measures of activity that will fairly allocate the costs.



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Here's an example! Let's go to lunch...

- Joe orders a salad and a glass of water – total \$7.50
- Sally orders a burger, fries and milkshake – total \$13.50
- James orders the works, appetizer, full entree meal, dessert and a glass of wine – total \$27.00

What is the best method to split the bill?

- Divide by 3?
- Everyone pay their own?
- Oh wait, James forgot his wallet? Now what?
- Allocate it based on how they had lunch the last time?



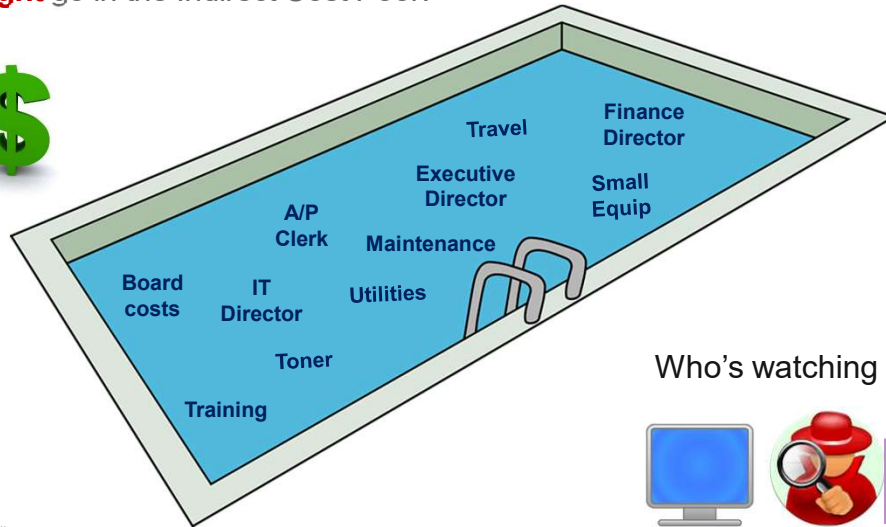
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Indirect cost pool

What **might** go in the Indirect Cost Pool?



Who's watching the pool?



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Subpart E. Cost principles – indirect

§200.414 Indirect Costs

- (c) Negotiated rate must be accepted by all Federal agencies
- (d) Pass-through are subject to the requirements in §200.332
- (e) Appendix IV Cost allocation plans for nonprofits; Appendix V & VI Cost allocation plans for units of government

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Subpart E. Cost Principles – direct and indirect

§200.414 Indirect (F&A) Costs

(f) Any non-Federal entity that **does not currently have a** negotiated an IDCR may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely

- No documentation is required to justify the 10% de minimis rate

Changes

- § 200.110 Effective/ applicability date

Two kinds of indirect cost rates

De Minimis (10%)

- Flat rate, without regard to actual expenses
- No approval required to use
- May not recover all indirect costs or may have a residual reimbursement
- Do not have to prove costs
- May only use a specific allocation base
- May use indefinitely

VS

Negotiated

- ❑ Based on actual expenses (most recent audit)
- ❑ Approved by federal negotiator (cognizant agency)
- ❑ Will allocate all costs in the cost pool
- ❑ Provide details of costs
- ❑ May choose from allowable allocation bases
- ❑ Must re-negotiate each year, but may request extension of certain rates

Indirect cost pool

De Minimis (10%) Rate

- Costs are pooled/ separated
- Pooled costs are not allocated back to programs/ grants for reimbursement
- ▶ Exception would be for management reporting, but not for cost reimbursement from funders

VS

Negotiated Rate

- Costs are pooled/ separated
- Pooled costs are allocated back to programs/ grants for reimbursement



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Subpart E. Cost principles – indirect

§200.414 Indirect Costs *(continued)*

(g) Any non-Federal entity that has a current federally negotiated indirect cost rate may apply for a **one-time extension** of the rate in that agreement for a period of **up to 4 years**:

- ▶ Must be approved by a cost negotiator;
- ▶ If approved, may not request a rate review until the extension ends;
- ▶ At end of extension, must apply for a new rate;
- ▶ Subsequent one-time extensions (up to 4 years) are permitted if approved.

NEW (h) Federally negotiated indirect rate, distribution base, and rate type for a non-federal entity (except Tribes) must be available publicly on an OMB-designated website.

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Types of indirect rates

- Predetermined – Based on estimated costs to be incurred during the rate period (may be longer than 1 year)
 - ▶ A predetermined rate is firm – not subject to adjustment
 - ▶ May be issued when the cost negotiator has enough information and history to confidently predict the amount of indirect costs



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Types of indirect rates

- Provisional rate – temporary rate issued for use during the fiscal year
 - ▶ Adjusted to a final rate after year-end
 - ▶ Typically given to nonprofits
- Final rate – based on actual allowable costs and applied to the previous year
 - ▶ Differences between a provisional and final rate may require adjustment to amounts charged to grants during the year



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Types of indirect rates

- Fixed rate with carry-forward – Based on estimated costs to be incurred during the fiscal year
 - ▶ Has aspects of predetermined and provisional rates but none of their drawbacks
 - ▶ Not subject to retroactive adjustment
 - ▶ The difference between estimated and actual costs is carried forward to the next year
 - ▶ Typically given to units of government

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Indirect cost rates

Bases:

- ▶ **Modified Total Direct Costs (MTDC)**
 - Total direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel and subawards up to the first \$25,000
 - Excludes equipment, capital expenditures, participant support costs and the portion of each subaward in excess of \$25,000
 - This is the required base for the 10% de minimis rate
- ▶ **Direct salaries and wages**
- ▶ **Direct salaries, wages and fringe benefits**

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Indirect cost rates

General formula:

- Indirect cost pool ÷ Base = ICR

Costs in the indirect cost pool are:

- Allowable, and
- Benefit ALL programs
- NOT in the pool: capital expenditures, losses on awards, unallowable costs, and expenditures that benefit some but not all programs

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Indirect cost rates

Applying an Indirect Cost Rate

Grant Period	07/01/18 - 06/30/19		Total
	Calendar Year Ended		
	12/31/18	12/31/19	
Direct cost base	\$400,000	\$500,000	<u>\$900,000</u>
	x	x	
<u>Indirect cost rate</u>	<u>10.0%</u>	<u>15.0%</u>	
<u>Indirect costs</u>	<u>\$40,000</u>	<u>\$75,000</u>	<u>\$115,000</u>

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Head Start administrative limits

Revenue:

Grant revenue	800,000
In-kind	200,000
Total revenue	1,000,000

Expenses:

Salaries	500,000
Fringe benefits	100,000
In-kind	200,000
Other expenses	100,000
Total expenses before indirect	900,000
Net revenue before allocations	100,000

Share of Indirect Cost

	Pool	Total Costs	15% admin limit
	(rate x expense)	(total Exp + indirect)	(total costs x 15%)
10% de minimis rate	90,000	990,000	148,500

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Indirect cost rates

What are the **advantages** of an indirect cost rate agreement?

- Provides for one method to allocate **almost all** administrative costs
- Potentially can make budgeting easier – direct salaries might be easier to estimate than the number of transactions Finance will perform
- Rate and method are federally approved

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Indirect cost rates

What are the **disadvantages** of an indirect cost rate agreement?

- Rate and method are federally approved – subject to individual cost negotiator preferences
- May lose some flexibility in how you determine the manner in which programs are charged for administrative costs
- May need to finalize and get approval for the rate every year
- Inconsistencies in charging the rate to nonfederal funding sources

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Cost allocation summary

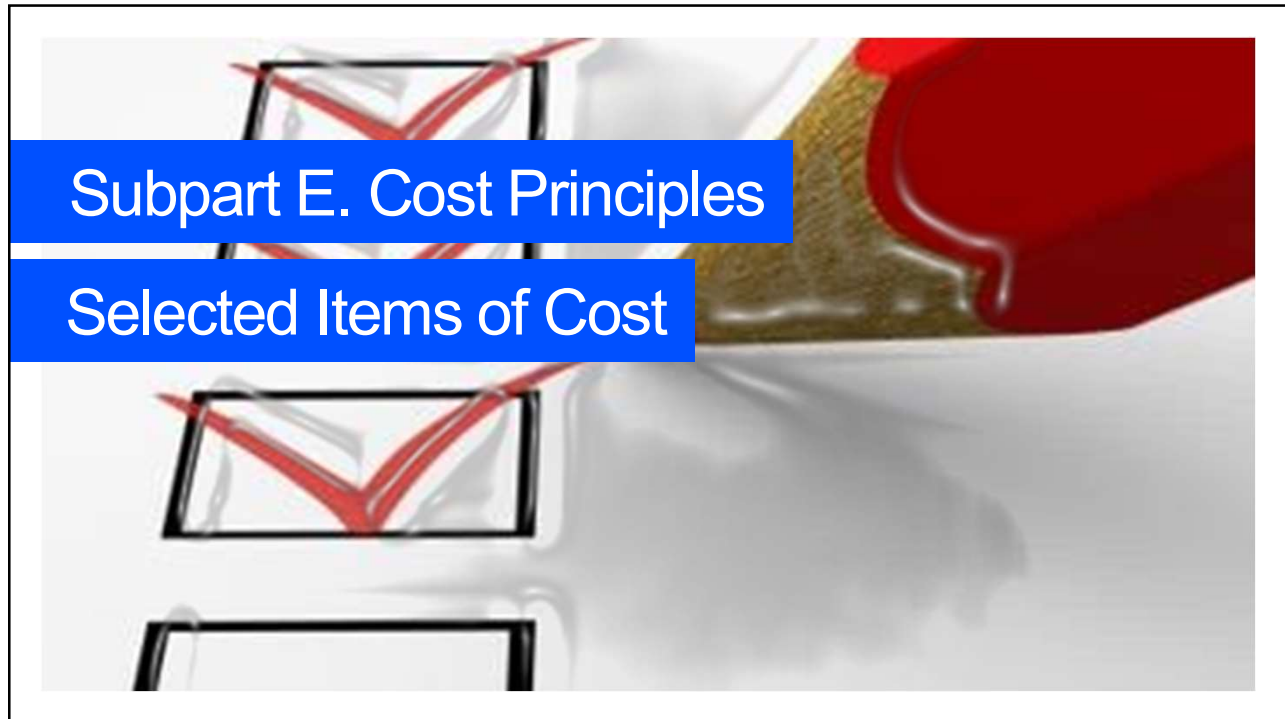
Close counts – you will never get it right.



The goal of cost allocation is fairness. Each funding source should bear its fair share of allocated costs.

Don't spend \$2 to allocate \$1.

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Subpart E. Cost principles – selected items of cost

§ 200.420 Considerations for selected items of cost.

- Cost principles apply to direct and indirect costs;
- Failure to mention a particular cost does not imply allowable or unallowable. Its treatment should be based on that of similar items;
- When there is a discrepancy between the principles in 2 CFR Part 200 and the provisions of a specific Federal award, **the award governs.**

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Subpart E. Cost principles – selected items of cost

§200.425 Audit services

- Audits in accordance with Single Audit Act are allowable
- Single Audit costs are unallowable if the entity doesn't meet the Single Audit threshold of \$750,0000
- Pass-through entity may charge an award for the cost of agreed-upon procedures to monitor subrecipients who are exempt from Single Audit Act
 - ▶ Limited in scope to activities allowed or unallowed, allowable costs, eligibility and reporting

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Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services

(a) Compensation includes all remuneration paid currently or accrued and may not be limited to salaries and wages. Allowable if:

- (1) Reasonable for the services rendered
- (2) Adheres to entity's written policies
- (3) Is supported by documentation based on these principles

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Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services (continued)

- (b) Must be reasonable – consistent with that paid for similar work, or comparable to that paid for similar work in the community
- (d) Allowable compensation for certain employees is subject to a ceiling in accordance with statute
- (f) Incentive pay for cost reduction, efficient performance, suggestion awards, etc. allowable if an agreement was in place before the work was performed

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Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services (continued)

- (i) Standards for Documentation of Personnel Services
 - (1) Records accurately reflect work performed
 - (i) Supported by a system of **internal controls** that assures charges are accurate, allowable and properly allocated
 - (ii) Part of **official records** of the entity
 - (iii) Reflect **total activity**
 - (iv) Include Federal and non-Federal activities

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Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services (continued)

- (i) Standards for Documentation of Personnel Services
 - (1) Records accurately reflect work performed
 - (v) Comply with accounting policies
 - (vii) Support distribution to two or more activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

45 CFR 75.430

Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services (continued)

- (i) Standards for Documentation of Personnel Services
 - (1) Records accurately reflect work performed (continued)
 - (viii) Budget estimates alone cannot be used as support for charges but may be used for interim accounting purposes
 - A. Must be reasonable approximations
 - B. Significant changes must be entered in a timely manner
 - C. Internal control system includes review of after-the-fact charges and adjustments made so the final amount charged is accurate, allowable and properly allocated

45 CFR 75.430

Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services *(continued)*

- (i) Standards for Documentation of Personnel Services *(continued)*
 - (2) If records meet these standards, no additional documentation required
 - (3) Must comply with Dept. of Labor requirements for non-exempt
 - (4) Salaries and wages of employees used for in-kind must meet same requirements
 - (6) Cognizant agencies encouraged to approve alternative methods based on outcomes

45 CFR 75.430

Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services *(continued)*

- (i) Standards for Documentation of Personnel Services *(continued)*
 - (7) Approved blended funding – may use a performance-based measure. Must be approved by all funding sources
 - Examples of performance-based measures: child or client counts
 - (8) Entities who cannot meet these standards may be required by the Federal government to maintain personnel activity reports (PARs)

45 CFR 75.430

Subpart E. Cost principles – selected items of cost

§200.430 Compensation – personal services *(continued)*

“While many non-Federal entities may still find that existing procedures in place such as personal activity reports and similar documentation are the best method for them to meet the internal control requirements, **this final guidance does not specifically require them.**”

The focus in this final guidance on overall internal controls mitigates the risk that a non-Federal entity or their auditor will focus solely on prescribed procedures such as reports, certifications, or certification time periods which alone may be ineffective in assuring full accountability.”

Comments to the Regulations

Subpart E. Cost principles – selected items of cost

§200.431 Compensation – fringe benefits

(a) Allowable if reasonable and required by law or entity policy

(b)(3) Leave accounting methods:

(i) Cash basis – recognize when taken and paid

- Payments for unused leave when an employee terminates are allowable in the year of payment

(ii) Accrual basis – allowable costs are the lesser of the amount accrued or the amount funded



45 CFR 75.431

Subpart E. Cost principles – selected items of cost

§200.431 Compensation – fringe benefits *(continued)*

- (i) Severance Pay – allowable if required:
 - a. By law;
 - b. Employer-employee agreement;
 - c. Established policy that constitutes an implied agreement; or
 - d. Circumstances of the particular employment.

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Subpart E. Cost principles – selected items of cost

§200.432 Conferences

Definition: meeting, retreat, seminar, symposium, workshop or event to disseminate technical information **beyond the non-Federal entity**.

Allowable costs (appropriate, reasonable and necessary) paid by the host:

- ▶ Facility
- ▶ Speaker fees
- ▶ Meals and refreshments
- ▶ Local transportation
- ▶ Cost of identifying but not providing dependent care resources

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Subpart E. Cost principles – selected items of cost

§200.433 Contingency provisions

- (b) May be budgeted for foreseeable events (construction cost, IT systems).
- (c) Payments to contingency reserves are unallowable (cannot draw funds unless you have incurred an actual expense for an event you have budgeted).

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Subpart E. Cost principles – selected items of cost

§200.437 Employee health and welfare costs

- (a) Costs in accordance with documented policies for improvement of working conditions, employer-employee relations, health and performance are allowable:
 - Costs for improvement of morale specifically excluded.



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Subpart E. Cost principles – selected items of cost

§200.439 Equipment and other capital expenditures

(b) Costs of equipment, buildings and land are allowable with prior written approval.

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Subpart E. Cost principles – selected items of cost

§200.442 Fund raising and investment management costs

(a) Costs of fund raising including financial campaigns, solicitation of gifts, etc., are unallowable:

- Fund raising costs for the purposes of meeting federal program objectives are allowable with prior written approval.



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Subpart E. Cost principles – selected items of cost

§200.447 Insurance and indemnification

- (a) Costs of insurance required or approved and maintained pursuant to the Federal award are allowable
- (c) Actual losses which could have been covered by permissible insurance are unallowable

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Subpart E. Cost principles – selected items of cost

§200.449 Interest

(a) Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable:

- Financing costs (including interest) to acquire, construct, or replace capital assets are allowable, subject to certain conditions.
- *Some programs require prior approval for charging interest to grants.*

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Subpart E. Cost principles – selected items of cost

§200.452 Maintenance and repair costs

Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment which neither add to the permanent value of the property nor appreciably prolong its intended life are allowable.



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Subpart E. Cost principles – selected items of cost

§200.453 Materials and supplies costs, including computing devices

(a) Costs for materials and supplies necessary to carry out an award are allowable.

(c) Charging computing devices as direct costs is allowable for devices that are essential and allocable, but not solely dedicated to the performance of the award.



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Subpart E. Cost principles – selected items of cost

§200.460 Proposal costs

- Proposal costs are the costs of preparing bids, proposals, or applications on potential Federal and non-Federal awards or projects.
- Costs incurred in the current year of both successful and unsuccessful proposals **normally should be treated as indirect (F&A) costs** and allocated currently to all activities.
- No proposal costs of past accounting periods will be allocable to the current period.

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Subpart E. Cost principles – selected items of cost

§200.465 Rental costs of real property and equipment

(a) Rental costs are allowable to the extent that rates are reasonable. Rental arrangements should be reviewed periodically to determine if circumstances have changed, and other options are available.



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Subpart E. Cost principles – selected items of cost

§200.465 Rental costs of real property and equipment *(continued)*

(b) Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property.

(c) Rental costs under "less-than-arm's-length" leases are allowable only up to the amount that would be allowed had title to the property vested in the organization.

A less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.

45 CFR 75.465

Subpart E. Cost principles – selected items of cost

§200.465 Rental costs of real property and equipment *(continued)*

(c) *continued*

Such leases include, but are not limited to those between:

- (1) Divisions of the non-Federal entity;
- (2) The non-Federal entity under common control through common officers, directors, or members; and
- (3) The non-Federal entity and a director, trustee, officer, or key employee of the non-Federal entity or an immediate family member, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

45 CFR 75.465

Subpart E. Cost principles – selected items of cost

§200.465(c)(4) Rental costs of real property and equipment (continued)

<p>Family members include one party with any of the following relationships to another party:</p>	<ul style="list-style-type: none"> ▪ (i) Spouse, and parents thereof; ▪ (ii) Children, and spouses thereof; ▪ (iii) Parents, and spouses thereof; ▪ (iv) Siblings, and spouses thereof; ▪ (v) Grandparents and grandchildren, and spouses thereof; ▪ (vi) Domestic partners and parents thereof, including domestic partners of any individual in 2 through 5 of this definition; and ▪ (vii) Any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship
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Subpart E. Cost principles – selected items of cost

§200.465 Rental costs of real property and equipment (continued)

REVISED (d) Rental costs under leases required to be **accounted for as a financed purchase under GASB standards or a finance lease under FASB standards** allowable up to amount that would be allowable had the NFE purchased the property on date lease agreement was executed.

NEW (e) Rental or lease payments allowable under lease contracts where NFE is required to recognize an intangible right-to-use lease asset (per GASB) or right of use operating lease asset (per FASB) for GAAP financial reporting.

45 CFR 75.465

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Subpart E. Cost principles – selected items of cost

RENUMBER §200.472 Termination costs

- (a) Costs of items usable in other work not allowable.
- (d) Rental costs under unexpired leases are generally allowable if:
 - (1) The amount is reasonable.
 - (2) Effort is made to terminate, assign or otherwise reduce the cost.
- (e) Settlement expense including accounting, legal, clerical or similar costs are generally allowable.

45 CFR 75.471

Subpart E. Cost principles – selected items of cost

RENUMBER §200.475 Travel costs

- (a) Costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied consistently.
- (b) Documentation must justify:
 - (1) Participation is necessary for the federal award; and
 - (2) Costs are reasonable and consistent with entity policy.



45 CFR 75.474

Subpart E. Cost principles – selected items of cost

§200.475 Travel costs *(continued)*

(c)(1) Temporary dependent care costs resulting from travel to conferences are allowable provided that:

- (i) Costs are a direct result of travel;
- (ii) Costs are consistent with the travel policy; and
- (iii) Costs are temporary during the travel period.

45 CFR 75.474

Subpart E. Cost principles – selected items of cost

§200.475 Travel costs *(continued)*

(e) Commercial airfare:

(1) Costs in excess of the basic least expensive unrestricted class are unallowable except when they would:

- (i) Require circuitous routing;
- (ii) Require travel during unreasonable hours;
- (iii) Excessively prolong travel;
- (iv) Result in additional costs; or
- (v) Not be adequate for traveler’s medical needs (medical needs must be documented)



45 CFR 75.474

What is your action plan?



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Questions

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