



Allowable and Unallowable Costs

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July 28, 2020

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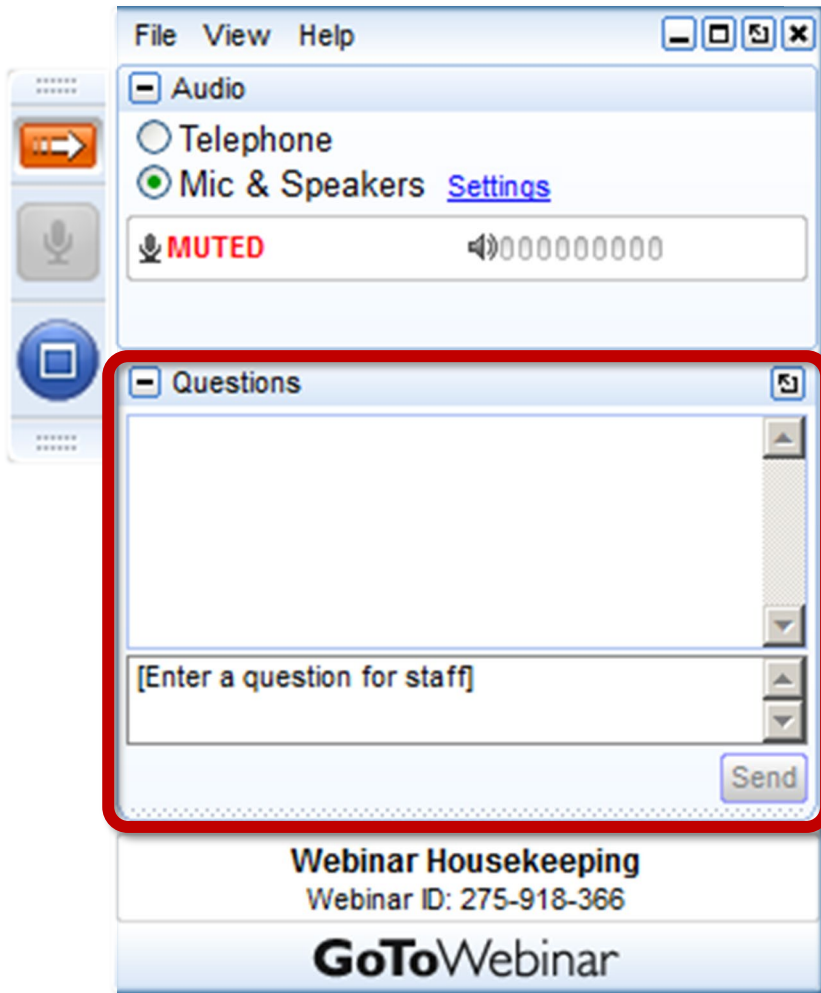
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Allowable and Unallowable Costs

Facilitated by: Allmond & Company, LLC

Presented on behalf of
U.S. Department of Housing and Urban Development
Office of Housing Counseling

July 28, 2020

Agenda



- Introductions
- Course Objective
- Cost Principles
 - The Fundamentals
 - Allowable Costs
 - Eligible Activities (CHC FY2019 Grant Agreement)
 - Allowability under Subpart E
 - Reasonable Costs
 - Properly Allocated Costs
- Applying the Cost Principles (Examples)

Introductions



- US Department of Housing of Urban Development, Office of Housing Counseling
- Allmond and Company
 - Jason L. Allmond, CPA, CGFM – Project Manager
 - Blair Clarke, CPA – Assistant Project Manager
 - Vanessa McCollum, CPA, CGFM – Manager

Course Objective



- Understand and apply the cost principles established in the Uniform Guidance (2 CFR 200) and the CHC Grant Agreement, to include:
 - Allowable Costs
 - Reasonable Costs
 - Properly Allocated Costs
- Discuss examples of grant costs.

Fundamental Principle of Reimbursement



To be reimbursed, a cost must meet these conditions:

- Allowable under Terms and conditions of the grant (i.e. eligible activity test)
 - Intermediaries, SHFAs, and MSOs may further restrict the eligibility of select costs
- Allowable 2 CFR 200 Subpart E (Cost Principles General Provisions)
 - Reasonable
 - Properly Allocated

Per 2 CFR 200.403-405

Allowable Under Grant Agreement



- HUD's Housing Counseling Program FY 2019 Grant Agreement establishes the requirement that costs be incurred pursuant to an **eligible activity**.

Per FY19 Grant Agreement, Article IV(C) *Eligible Activities*

Allowable Under Grant Agreement



Eligible Activities

- Housing counseling and group education
- Oversight, compliance, and quality control
- Supervision of housing counseling staff
- Housing Counselor training and certification
- Marketing and outreach of the housing counseling program to potential clients

Allowable Under Grant Agreement



Reasonable Nexus Test

- Can the grantee explain the connection between the cost incurred and an eligible activity?

Allowable Under Grant Agreement



Cost:

- Paper — Paper used to print disclosure forms (*Oversight, Compliance, and Quality Control*)
- Plane ticket — Plane ticket to attend training conference (*Training and Certification*)
- Salary — Salary for time spent conducting a workshop for first-time homebuyers (*Housing Counseling and Group Education*)

Reasonable
Nexus

Reasonable
Nexus

Reasonable
Nexus

Allowable 2 CFR 200 Subpart E



“Costs must meet the following general criteria in order to be allowable ... Conform to any limitations or exclusions set forth in **these principles**”

Per 2 CFR 200.403(b) Factors Affecting Allowability of Costs

General Provisions



GENERAL PROVISIONS FOR SELECTED ITEMS OF COST (§§ 200.420 - 200.475)

§ 200.420 Considerations for selected items of cost.

§ 200.421 Advertising and public relations.

§ 200.422 Advisory councils.

§ 200.423 Alcoholic beverages.

§ 200.424 Alumni/ae activities.

§ 200.425 Audit services.

§ 200.426 Bad debts.

§ 200.427 Bonding costs.

§ 200.428 Collections of improper payments.

§ 200.429 Commencement and convocation costs.

§ 200.430 Compensation - personal services.

§ 200.431 Compensation - fringe benefits.

§ 200.432 Conferences.

§ 200.433 Contingency provisions.

§ 200.434 Contributions and donations.

§ 200.435 Defense and prosecution of criminal and civil proceedings, claims, app

§ 200.436 Depreciation.

§ 200.437 Employee health and welfare costs.

§ 200.438 Entertainment costs.

§ 200.439 Equipment and other capital expenditures.

Allowable Under 2 CFR 200 Subpart E



In Subpart E, costs are classified into three types:

- Generally allowable
 - **§200.473 Transportation costs.**
Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered, are **allowable**. . .
- Conditionally allowable
 - **§200.421 Advertising and public relations.**
 - a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspaper, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.
 - b. The **only allowable** advertising costs are those which are solely for: . . .
- Generally unallowable
 - **§200.438 Entertainment costs.**
Costs of entertainment, including amusement, diversion, and social activities and any associated costs are **unallowable, except** where specific costs . . .

Unallowable Under 2 CFR 200 Subpart E



In Subpart E, many costs are explicitly disallowed, such as:

- Alcoholic Beverages
- Contributions and Donations
- Fines and Penalties
- Lobbying Costs
- Fundraising Costs

Typical Expenses for CHC Grant



Typical items for which grantees seek reimbursement that are generally allowable under Subpart E:

- Salaries
- Fringe benefits
- Travel
- Training and professional development
- Participant costs
- Materials and supplies costs, including costs of computing devices (must be properly allocated)
- Rent (must be properly allocated)

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.”

Per 2 CFR 200.404 Reasonable Costs

Reasonable Costs



- a) Ordinary and necessary for the operation of the housing counseling agency
- b) Sound business practices; arm's-length bargaining
- c) Market prices for comparable goods or services for the geographic area
- d) Acted with prudence in the circumstances
- e) No deviations from its established practices and policies

Properly Allocated



“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... **in accordance with relative benefits** received.”

Per 2 CFR 200.405 Allocable Costs

Properly Allocated



- While there is no universal rule for classifying certain costs as either direct or indirect under every accounting system...
 - If a grantee can delineate that a cost uniquely benefits their housing counseling program, they can be reimbursed for that good/service as a direct cost.
 - Note: costs incurred for the same purpose must be treated consistently in like circumstances either as a direct or an indirect cost.

Per § 200.412 Classification of costs.

Properly Allocated



Some direct costs serve multiple programs and need to be properly allocated.

- There are multiple ways a grantee can calculate the proportion reimbursable from each funding source, such as :
 - **Program Expenses.** The grantee divides the cost of their housing counseling program by agency's total budget.
 - **Square Footage.** The grantee divides the square footage dedicated to the housing counseling program by agency's total square footage being occupied by the agency.
 - **Labor Allocation.** The grantee divides the number of hours spent on housing counseling activities by the total number of hours worked in the building.
- Each of these approaches is a reasonable method of allocating costs and results in a percentage to be reimbursed from the CHC grant. These are some acceptable approaches and are not meant to be exclusive.

Properly Allocated



Example of an allocation methodology that properly divides the proportional benefit across different grants:

- Rent of \$2000/month
 - Grantee divided the square footage dedicated to each program by agency's total square footage.
 - 25% to Housing Counseling (\$500)
 - 50% to Youth Mentorship (\$1000)
 - 15% to HeadStart (\$300)
 - 10% to Fatherhood Initiative (\$200)

Applying the Cost Principles



- **In order to be reimbursable, the Uniform Guidance demands that costs be:**
- Allowable under Terms and conditions of the grant (i.e. eligible activity test)
- Allowable 2 CFR 200 Subpart E (General Provisions For Selected Items of Costs)
- Reasonable
- Properly Allocated

Per 2 CFR 200.403-405

Applying the Cost Principles: Examples



- Travel Costs (§200.474)
- Compensation - personal services (§200.430)
- Advertising and public relations (§200.421)

Travel Costs



Travel costs are allowable when they are directly attributable to specific work under an award or are incurred in the normal course of administration of the organization.

Travel Costs – Examples



- **Travel to monitor subgrantees.**
 - Allowable under Uniform Guidance (Subpart E) and Grant Agreement (Eligible Activity)
- **Travel for an employee who is providing counseling to a homebound client.**
 - Allowable under Uniform Guidance (Subpart E) and Grant Agreement (Eligible Activity)
- **Travel to a counselor training conference.**
 - Allowable under Uniform Guidance (Subpart E) and Grant Agreement (Eligible Activity)

Travel Costs – Examples



- Remember: All costs must not only be allowed under Uniform Guidance and the grant agreement, but also **be reasonable and properly allocated**.
- Travel to monitor subgrantees, in a limousine.
 - Is not reasonable, and thus disallowed.
- Travel for an employee who is providing counseling to a homebound client, seeking mileage reimbursement of \$4.00/mile.
 - Is not reasonable, as mileage rates tend to be \$0.50/mile.
- Travel to a counselor training conference, flying first-class.
 - Is not reasonable, as employee should fly economy.

Salaries



Is it permissible per the Uniform Guidance (Subpart E)?

- Yes, per 2 CFR 200.430

Are the costs connected to an Eligible Activity per the Grant Agreement?

- Yes, connected to Housing Counseling and Education

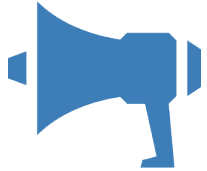
Are the costs reasonable?

- Must be consistent with the job position, experience of counselor, market rates, etc.
- Must align with the work being done (e.g. Executive Director performing intake responsibilities cannot be reimbursed at rate of senior management)

Properly allocated?

- Salaries of staff who serve multiple areas may be billed as direct costs when it is relatively easy to attribute or accurately allocate that time spent to housing counseling activities.

Advertising



The term advertising costs means costs of media and corollary administrative costs. Advertising media include:

- Magazines
- Newspapers
- Radio and Television
- Direct mail
- Exhibits
- Electronic or computer transmittals, etc.

Advertising



Advertising to potential housing counseling program clients

- **Is it permissible per the Uniform Guidance (Subpart E)?**
 - Yes, per 2 CFR 200.421
- **Are the costs connected to an Eligible Activity per the Grant Agreement?**
 - Yes, connected to Outreach and Marketing
- **Are the costs reasonable?**
 - Depends on what they buy, what it costs, etc.
 - What would a prudent person do?
- **Properly allocated?**
 - Yes, the costs solely benefit the housing counseling program, so can be itemized as direct

Keep in Mind



- Importance of CFR 200 Requirements.
- Importance of the NOFA Grant Agreement.
- Importance of documentation of all costs (will be checked during performance reviews)

References



- OMB's Uniform Guidance (2014)
 - <https://www.grants.gov/web/grants/learn-grants/grant-policies/omb-uniform-guidance-2014.html>
- HUD's Housing Counseling Program Handbook (7610.1)
 - https://www.hud.gov/program_offices/administration/hudclips/handbooks/hsggh/7610.1
- U. S. Department of HUD, Housing Counseling Program, FY 2019 Grant Agreement
 - mailed directly to grantees

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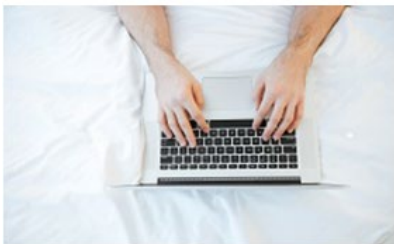
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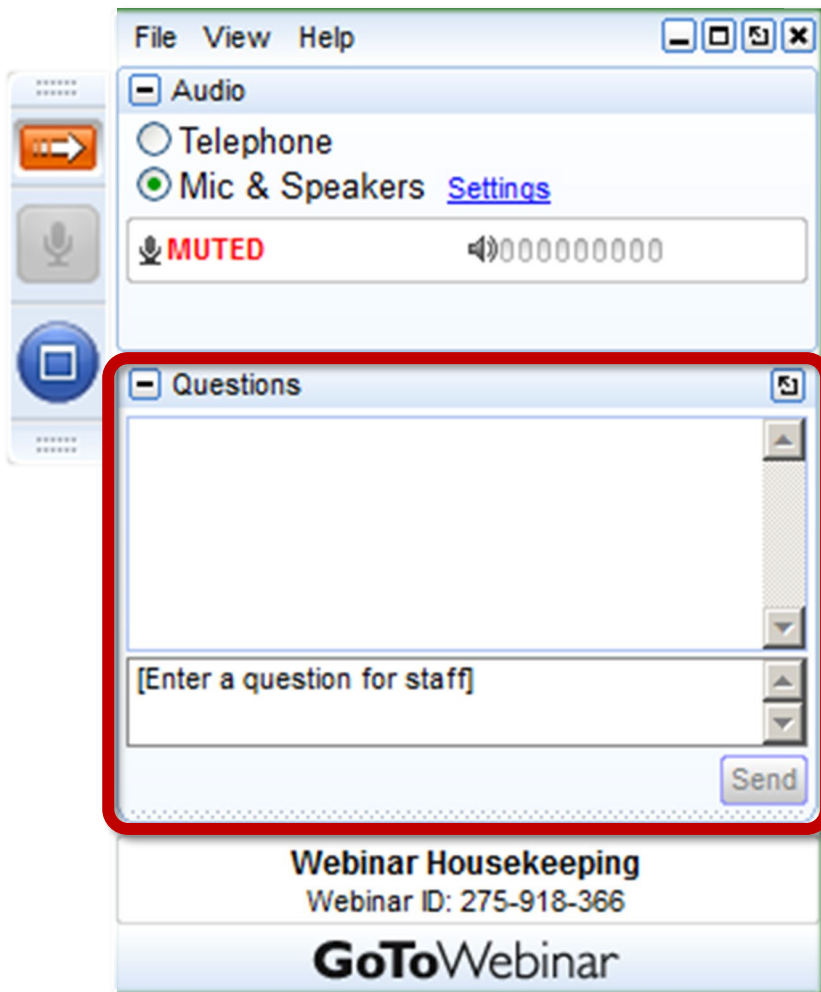
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