

SANDY RECOVERY DIVISION

SUBJECT: Allowability and Allocability of Costs

NUMBER: 2.10.27

EFFECTIVE: June 2016

REVISED: May 2020

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APPROVAL:



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Purpose

This policy sets forth the standards for determining the reasonableness, allowability, and allocability of costs incurred as part of CDBG- DR-financed activities. This policy is consistent with guidance found in 2 CFR Part 200 for governmental subrecipients, non-profit subrecipients, and educational institutions.

Policy

Allowable Costs (§200.403)

In accordance with §200.403, a cost must meet the following criteria in order to be allowable, unless otherwise authorized by statute:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
 - Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
 - Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity.
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- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Be determined in accordance with generally accepted accounting principles (GAAP), except as otherwise provided.
- Not be included as a cost of any other federally-financed program in either the current or a prior period.¹
- Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

Reasonable Costs (§200.404)

Pursuant to §200.404, 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. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.

¹ While 2 CFR 200.403(f) prohibits the use of federal funds to meet a cost sharing or matching requirement of any other federally-financed program, the Housing and Community Development Act [42 U.S.C. 5305(i)] expressly allows “payment of a non-Federal share in connection with a Federal grant-in-aid program” as an eligible CDBG-DR cost. Use of CDBG-DR funds for this purpose is allowable as long as it is used for an otherwise eligible CDBG-DR activity under FR-5696-N-01 (March 5, 2013). See also §200.306 Cost sharing or matching.

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- The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- Market prices for comparable goods or services for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Allocable Costs (§200.405)

The expenditure has been authorized by the grantee through approval of the budget for the activity. Any obligations by the subrecipient on such activities exceeding the approved amount may be disallowed by the grantee based upon the provisions of the Subrecipient Agreement.

Pursuant to §200.404, a cost is allocable if it can be traced to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received. This means that the cost:

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

In accordance with the guidance found in 2 CFR 200, the composition of direct and indirect costs must be clear and consistent in like circumstances. Direct costs must be identified specifically with a particular activity. Indirect costs are those incurred for common objectives and cannot be readily identified with a particular cost objective (Appendix IV; 2 CFR §200)(e.g., salaries of executive officers, accounting and auditing, other costs of general administration). The subrecipient's indirect costs must be supported by an indirect cost proposal/cost allocation plan prepared in accordance with 2 CFR §200, subpart E and the guidance set forth in appendices IV, V and VI. Alternately, the subrecipient may opt for the de minimus 10% indirect cost rate, pursuant to 2 CFR 200.414.

In accordance with §200.405(c), costs allocable to a particular Federal award under the principles provided for in 2 CFR 200 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. This does not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

Prohibited Costs

The expenditure is prohibited under Federal, state, or local laws or regulations. Pursuant to 24 CFR 570.207(b), the following activities are among those that may *not* be assisted with CDBG-DR funds unless authorized as a special economic development activity under 24 CFR 570.203, or when carried out by Community-Based Development Organizations (CBDOs) under the provisions of 24 CFR 570.204, or when the other special conditions noted in the following section after each category are met:

- **Purchase of construction equipment** (unless purchased for use as part of a solid waste disposal facility, which is eligible under 24 CFR 570.201(c) or compensation for the use
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of such equipment through leasing, depreciation, or use allowances pursuant to OMB Circulars A-21, A-87, or A-122 as applicable for an otherwise eligible activity).

- **Personal property, furnishings, fixtures, or motor vehicles** (unless these items constitute part or all of a public services activity under 24 CFR 570.201 (e), are eligible as firefighting equipment under 24 CFR 570.201(c), or are necessary in the administration of activities assisted with CDBG-DR funds).
- **Operating and maintenance expenses** (except for expenses associated with public service, interim assistance activities, or office space for program staff employed in carrying out the CDBG-DR program).
- **Income payments** (this prohibition does not preclude emergency grant payments made over a period of up to 3 consecutive months to the provider of such items as food, clothing, housing, or utilities).

Additional prohibited expenditures can be found at 2 CFR 200.420 – 2 CFR 200.475 (General Provisions for Selected Items of Cost).

Additional Requirements

The expenditure is consistently treated and utilizes the same procedures in calculating costs as for its non-Federally assisted activities.

The cost is net of all applicable credits. Any credits such as purchase discounts or price adjustments must be deducted from total costs charged. The subrecipient is not allowed to make a profit from any costs charged to CDBG funds.

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Source Documentation

The general standard is that all accounting records must be supported by source documentation (2 CFR Part 200). Supporting documentation is necessary to show that the costs charged against CDBG-DR funds were incurred during the effective period of the subrecipient's agreement with the grantee, were actually paid out (or properly accrued), were expended on allowable items, and had been approved by the responsible official(s) in the subrecipient organization. The source documentation must explain the basis of the costs incurred as well as show the actual dates and amount of expenditures.

- With respect to payrolls, source documentation should include authorizations for rates of pay and benefits. For staff time charged to the CDBG-DR program activity, time records should be maintained consistently and available upon demand. If an employee's time is split between CDBG-DR and another funding source, there must be time distribution records supporting the allocation of charges among the multiple sources. Canceled checks from the employees, insurance provider, etc., or evidence of direct deposits will document the actual outlay of funds.
 - A Certificate of Time Allocation form is required to be completed every 6 months and provided to HUD upon request. The form(s) must include a list of all subrecipient personnel who charged time to the CDBG-DR Grant. Each subrecipient supervisor must complete the form for all personnel in their particular domain who charge time to the Grant.
 - The document includes separate lists of:
 - All personnel whose time is 100% dedicated to the Grant program
 - All personnel who charge less than 100% of their time to the Grant program:
 - This list must outline the # of hours that each employee spends on each program as indicated on employee's timesheets

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- With respect to the cost of space and utilities, space costs must be supported by documentation such as rental or lease agreements. Utility costs will be supported by bills from the utility companies. If the cost of space or utilities is split between the CDBG-DR program and other sources, there must be a reasonable method in place to allocate the charges fairly among the sources. Any questions regarding allocations and/or allocation methodology should be referred to the Sandy Recovery Unit of the Department of Community Affairs for guidance. Sub recipients should keep in their administrative files, documentation of the methodology used to allocate costs.
 - With respect to supplies, documentation would include purchase orders or requisition forms initiated by an authorized representative of the subrecipient, an invoice from the vendor (which has been signed-off by the subrecipient to indicate the goods were received).
 - All source documentation need not be located in the CDBG-DR project files, but it must be readily available for review by the grantee, HUD, or other authorized representatives at all times.
 - The subrecipient must ensure that either (a) an encumbrance/obligation is recorded whenever a contract is signed, or a purchase order is issued or (b) up-to-date information on the status of all obligations is otherwise readily accessible.
 - The subrecipient must maintain a complete, accurate, and up-to-date record of the receipt and use of CDBG-DR-generated program income.
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