OMB Facts Circular A-122

Cost Principals for Nonprofit Organizations

Expenses charged to federal awards must be necessary, reasonable, and allowable. OMB Circular A-122 *Cost Principles for Non-Profit Organizations* outlines these general cost principles and provides specific guidance on 52 selected costs categories, clearly identifying which costs can and cannot be charged to a federal award.

Understanding allowable and unallowable costs before you prepare a federal grant budget helps ensure that planned program costs will be fully covered and/or reimbursed by the federal government. Program costs not allowed under OMB A-122 guidelines need to be paid for by the grant applicant or other non-federal funder.

Unallowed Costs

- Contributions
- Entertainment costs *
- Alcoholic beverages*
- Fundraising
- Lobbying
- First-class airfare*
- Bad Debts
- Legal Costs
- Pre-award costs

* Some exceptions

Examples of allowable costs include direct program labor, materials and supplies, travel, training, and administrative costs. Federal award funds cannot be used to support political campaigns or lobbying, cannot be used to cover bad debts or operating losses, and cannot be paid to staff or contractors for fundraising or grant writing services. Modifications to an approved federal grant budget requires preapproval to ensure all costs remain allowable.

The federal government recognizes three types of program-related expenses.

1) Direct program costs typically include salaries, wages, and benefits for program staff; materials, supplies, and equipment used for program implementation; and other costs directly benefiting the program or its participants, such as incentives, training, and travel. Direct program costs are clearly identifiable to specific projects.

2) Direct administrative costs are those expenses related to direct program oversight including personnel and related overhead costs. Examples of allowable direct administrative costs include actual time the Executive Director or other senior management staff spends supervising program personnel; time the staff accountant spends preparing federal financial report; and office rent and supplies for the Executive Director and Accountant charged in proportion to administrative salary expense. Most federal funding agencies cap reimbursement of direct administrative costs at between 8% and 15% of the award amount.

3) Indirect costs include all other allowed costs that cannot be traced directly to a specific program or cost objective. Indirect costs include "Facilities" costs such as depreciation, use allowance, and maintenance costs on buildings and equipment; and "Administration" costs such as insurance; accounting, human resources, and professional services; and equipment leases that benefit more than one grant or program. To charge indirect costs to a federal award, your organization must have a federally approved indirect cost rate. OMB Circular A-122 provides general guidance on computing and using an indirect cost rate including sanctioned methods for allocating indirect costs.

Most federal agencies provide supplemental guidance on cost principles. For example, the U.S. Department of Health and Human Services Grants Policy Statement, which covers awards made under Ryan White and the Centers for

Disease Control and Prevention, discusses additional cost categories such as drug therapies and patient care. Always ask your granting agency if your award is subject to additional regulation.

Test Your Knowledge:
Can these costs be charged to a federal award?

a. board training
b. employee loans
c. credit card late fees
d. grant writer fees
e. program design costs

Answer: A = Yes, B thru D= No E = post award only

Cost Categories Covered in OMB Circular A-122 Attachment B

There's no need to guess about cost eligibility. Circular A-122 discusses use of federal funds for these 52 common cost categories. Did you know that a federal A-133 audit is an allowable federal expense?

• Advertising and public relations costs • Advisory councils • Alcoholic beverages • Audit costs and related services • Bad debts • Bonding costs • Communication costs • Compensation for personal services • Contingency provisions • Defense and prosecution of criminal and civil proceedings, claims and	• Losses on other sponsored agreements or contracts • Maintenance and repair costs • Materials and supplies costs • Meetings and conferences • Memberships, subscriptions, and professional activity costs • Organization costs • Page charges in professional journals • Participant support costs • Patent costs • Plant and homeland security costs

patent infringement • Depreciation and use allowance • Donations and contributions • Employee morale, health, and welfare costs • Entertainment costs • Equipment and other capital expenditures • Fines and penalties • Fundraising and investment management costs • Gains and losses on depreciable assets • Goods or services for personal use • Housing and personal living expenses • Idle facilities and idle capacity • Insurance and indemnification • Interest • Labor relations costs • Lobbying	• Pre-agreement costs • Professional service costs • Publication and printing costs • Rearrangement and alteration costs • Reconversion costs • Recruiting costs • Relocation costs • Rental costs of buildings and equipment • Royalties and other for use of patent and copyrights • Selling and marketing • Specialized service facilities • Taxes • Termination costs applicable to sponsored agreements • Training costs • Transportation costs • Travel costs • Trustees

Allowable Personnel Costs

Personnel costs are typically the largest single cost item in a program budget. Most personnel-related costs are allowable under OMB A-122 guidelines. Allowable salary expense includes: salaries; wages; vacation and holiday pay; director's and executive committee member's fees; incentive awards; pension plan costs; allowances for off-site pay; incentive pay; and location allowances. Hardship pay; cost of living differential; sick leave pay; and other paid absences such as jury duty, military leave, and maternity leave that are part of the normal cost for salaries and wages are also allowed. Overtime pay is allowed only

under certain circumstances.

Allowable fringe benefits include: FICA and social security; contributions to retirement benefit plans; group medical insurance; worker's compensation; unemployment insurance; life insurance; and other reasonable and customary benefits. You may also charge the cost of a payroll service to a federal award. Keep in mind that fringe benefits must be charged to an award in direct proportion to the salary or wages charged to that grant and must be charged as either direct or indirect in the same manner that salaries and wages were charged.

Indirect Cost Recapture: Using a Federal Indirect Cost Rate

OMB Circular A-122 defines indirect costs as allowable costs incurred for common or joint objectives that cannot readily be traced back to a specific program or project. A federal indirect cost rate facilitates recapture of indirect costs, allowing nonprofit organizations to recover a greater portion of the total costs associated with federally-funded programs including direct program, direct administrative, and indirect costs. Without an indirect cost rate, nonprofits must generate unrestricted funds to cover indirect expenses such as human resource services, facilities maintenance, shared common space, and senior management salaries and fringe.

OMB Circular A-122 provides general guidance on authorized indirect cost recapture methods, but does not provide guidance on indirect cost rate proposal format or the submission process. Confirm eligibility to apply for an indirect cost rate and obtain proposal guidelines from the U.S. Department of Health and Human Services Division of Cost Allocation or the grant officer representing your organization's "federal cognizant agency" - the federal agency from which you receive a preponderance of your federal funding.

Allocating Shared Costs to Federal Grants

Sometimes two or more programs or departments within a nonprofit organization incur shared expenses such as office space, a shared employee, or a shared copy machine. The federal government will pay its portion of shared costs, but the awardee must be able to demonstrate that costs are fairly allocated to each funding source.

Shared direct costs that can be traced back to the program or department that benefited from the expense, are typically allocated using the actual usage method. For example, the monthly lease expense of a shared copying machine would be allocated based on the actual number of copies made by each program or department.

For shared costs such as electricity and office supplies, where actual usage may be difficult to track, other allocation methods are used. Electricity costs might be allocated on the basis of square footage of office space used by each program and shared cleaning supplies might be allocated to each department based on the relative number of full-time equivalent employees (FTEs) in each department. Allocation methods must be consistent and clearly documented in your fiscal polices and procedures manual.

OMB Circular A-122 is 55 pages long and includes Attachment A - General Principles; Attachment B - Selected Items of Cost; and Attachment C - Non-Profit Organizations Not Subject To This Circular .

FOR MORE INFORMATION VISIT THESE WEBSITES:

OMB Circulars A-110, A-122, and A-133 at
www.whitehouse.gov/omb/circulars/index.html

U.S. Department of Health and Human Services Grants Policy Statement at
www.ahrq.gov/fund/hhspolicy.htm

Grantee's Financial Reference Guide for Managing CDC Grants and Cooperative Agreements at http://genevasrsp.org/
data/files/Managing_CDC_grants.pdf

Find more information on Federal Indirect Cost Rates through the HHS Division of Cost Allocation Program Support Center at http://rates.psc.gov/

Code of Federal Regulations (CFR) at www.gpoaccess.gov/cfr/index.html

Federal Audit Clearing House at http://www.dpm.psc.gov/

HHS Administration for Families and Children has published a series of informative booklets with guidance on topics such as federal grants and sub-awardee management. Booklets are part of the Capacity Building Toolkits for Faith-Based and Community Organizations Intermediary Development Series and can be found at http://www.acf.hhs.gov/programs/ocs/ccf/resources/toolkit.html