



Can *This* be Expensed to My EDA Grant?

Important Rules about Allowable Costs

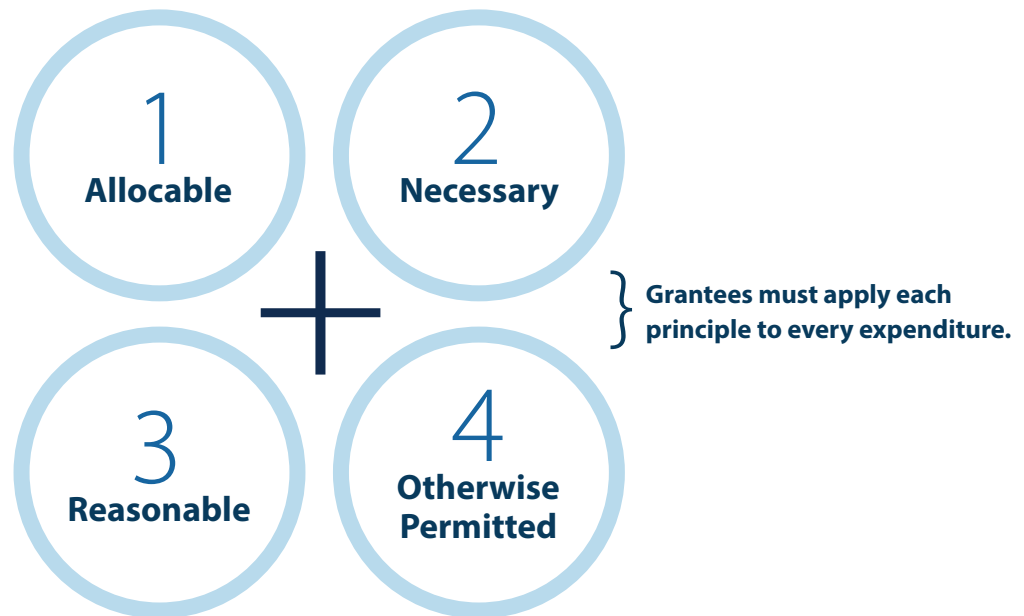
The Fundamental Four

Under the federal cost principles, expenses can be charged to a grant if they qualify as allowable. To be allowable, an expense must be:

Knowing whether a cost is allowable under a federally funded project is critical.

Grantees who incur expenses which cannot be reimbursed or are later disallowed will have to pay them with their own funds.

These costs can be prohibitive.



Getting started

To evaluate whether a cost is allowable, first use these and other screening criteria in § 200.403.

Was the cost:

- Consistent with internal policies that apply to other activities? For example, does a plane ticket charged to an award comply with the organization's own travel policy?
- Treated consistently with similar items charged for other grants?
- Adequately documented? Could an auditor follow this paper trail? See 2 CFR § 200.302 for documentation rules.
- Incurred during the approved budget period?

Questions?

- See 2 CFR 200 for factors affecting allowability of costs.
- Read [Module 4](#) of the [Grants 101 Training](#) from the Chief Financial Officers Council.
- Review the approved budget and scope of work for the project.

The Fundamental Four

Whether a good or service for an award is *allocable* dictates whether you can charge it as a direct or indirect expense within your pre-approved budget. (See the “**Direct vs. Indirect Costs**” table on page 3). A pivotal question to guide this decision is: Can you attribute a portion of this good or service to the award *without undue cost or burden*?

1 Allocable

For example, if 40% of a planner’s time was dedicated to technical review for a project and this can be easily documented, the grantee can charge 40% of her salary **directly** to the project. However, pinpointing how much benefit the work of an office administrator can be allocated to any specific project is much more difficult or costly, so that salary would typically be charged as an **indirect cost**.

To be considered an allocable cost under § 200.405, the expense **must**:

- Be incurred specifically for the award;
- Lend itself to being distributed between the award and non-award purposes using reasonable methods; and
- Be necessary to the overall operation of the Grantee.

2 Necessary

In making purchasing decisions (and to save money), an organization considers whether a good or service is needed. Grantees can apply the same assessment in making federal grant purchases: Is this expense **necessary** to complete the scope of work under this grant or for our operations?

A Grantee also needs to gauge whether an award cost is **reasonable** by asking, “Does it exceed what would be “incurred by a prudent person” under similar circumstances?” If the cost passes the “prudence” test, additional questions to gauge reasonableness include:

3 Reasonable

- How does the price compare with market rates for similar goods or services in the area?
- Does this expenditure significantly deviate from the Grantee’s normal internal policies?

Keep in mind that an expense could be reasonable but not necessary, and vice versa.

4 Otherwise Permitted

Some expenses may meet the first three criteria but are either restricted or not permitted for public policy reasons; several of these types of costs are listed on page 3 under “Trouble Spots” and “Costs Never Allowed.” Grantees will also want to be aware of:

- Expenses requiring prior written approval (§ 200.407). Grantees can request EDA’s approval for any cost they are not sure will be allowed. Certain expenses such as travel or equipment require approval before they can be charged.
- Rules for charging compensation and fringe benefits (§ 200.431)
- Rules for charging materials and supplies (§ 200.453)

Is this cost allocable? Direct vs. indirect costs

Direct

Costs incurred by the Grantee that can be fully expensed or reimbursed, because they relate directly to executing the federal award.

***Examples:** Salaries and benefits of staff assigned to an award, contractor services and other expenses that directly relate to the performance of the project.*

Indirect

Costs that are integral to a Grantee's general operations but their direct benefit to the award cannot be efficiently tracked. Indirect expenses are subject to a set rate.*

***Examples:** Building depreciation, salaries of general personnel (e.g., administrative staff) whose work for one project cannot be easily tracked.*

* This rate will typically be set at 10% (the federal de minimis rate) or a rate outlined in a Negotiated Indirect Cost Rate Agreement (NICRA). The Grantee must first submit a cost proposal to the agency that provides most of its federal funding (aka the cognizant agency), which is typically EDA. For more information about indirect costs, please see our [website](#).

Note: State and local governments (including some EDDs) receiving less than \$35 million in federal funds annually are not required to get a NICRA or submit an indirect cost proposal unless EDA requests it. However, they do need to prepare one and keep it on file in case of an audit.

Trouble spots

While some costs can clearly be defined as disallowed, others can cause confusion. Below are a few types of costs where mistakes are more common:

- **Advertising/Public Relations (200.421):** Generally allowed for project-related outreach to the public and press but disallowed for general publicity.
- **Rentals (200.465):** Chargeable if the cost is reasonable compared to specified factors (e.g., area market conditions). Rental costs under "sale and lease back" arrangements and "less than arm's length" leases are subject to restrictions.
- **Travel (200.475):** Grantees must document that: (1) an individual's participation was necessary; and (2) costs are reasonable and conform to Grantee's internal travel policies. Federal rates are used in the absence of an internal policy. Travel by officials such as legislators or mayors must receive prior approval.
- **Equipment/Property (400.439):** Capital expenditures to buy or improve general purpose equipment or property must get prior written approval to be charged as a direct cost. These items cannot be charged as an indirect cost.
- **Lobbying (200.450):** Typically disallowed as a direct or indirect charge.
- **Entertainment (200.438):** These costs are allowable only in the rare situation where they have a direct, programmatic purpose.

Costs never allowed* (as direct or indirect)

- **Alcohol (200.423)**
- **Contributions & donations (200.434)**
- **General government costs (200.444):** Modified rule for tribes and councils of governments.
- **Cost share or matching funds for other federal awards (200.306(b)):** Unless specifically authorized by statute, which is rare.

*This list is not inclusive of all costs never allowed.

Still unsure?

If you are still unsure whether an expense is chargeable after reviewing the available information (including the CFR), consult with your EDA project officer.