



<b>Policy Title:</b>	<b>Allowable Costs and Cost Principles Policy for Grants and Contracts</b>		
<b>Approval Authority:</b>	President	<b>Date Effective:</b>	July 1, 2015
<b>Responsible Office:</b>	Accounting/HR	<b>Responsible Office Contact:</b>	Vice President for Business and Finance

**1. POLICY STATEMENT/REASON FOR POLICY**

As a recipient of federal awards, Bay Mills Community College (BMCC) is responsible for ensuring that costs charged to federal grants are allowable, allocable, and reasonable in accordance with the rules and regulations as set forth by grantor agencies, the Office of Management and Budget (OMB), and College policy. The cost requirements are contained in OMB's 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E- Cost Principles§ 200.400 through§ 200.475.

**2. ENTITIES AFFECTED BY THIS POLICY**

All BMCC Departments.

**3. WHO SHOULD READ THIS POLICY**

All BMCC employees.

**4. WEB SITE ADDRESS FOR THIS POLICY**

-This policy can be found at:

<http://www.bmcc.edu/about-bmcc/governance-administration/college-policies>

**5. FORMS/INSTRUCTIONS**

No forms required.

**6. HISTORY**

-Amended: June 6, 2016

-Next Review Date: June 6, 2019

-BMCC reserves the right to revise policies at any time.

## 7. THE POLICY

### **BAY MILLS COMMUNITY COLLEGE ALLOWABLE COSTS AND COST PRINCIPLES POLICY FOR GRANTS AND CONTRACTS**

#### **POLICY STATEMENT**

As a recipient of federal awards, Bay Mills Community College (BMCC) is responsible for ensuring that costs charged to federal grants are allowable, allocable, and reasonable in accordance with the rules and regulations as set forth by grantor agencies, the Office of Management and Budget (OMB), and College policy. The cost requirements are contained in OMB's 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E - Cost Principles § 200.400 through § 200.475.

#### **PURPOSE**

The purpose of this policy is to establish consistent practices for defining, charging, and coding direct and indirect costs for federal grants and contracts to ensure compliance with federal regulations and the terms and conditions of the award.

#### **POLICY PROCEDURES AND REQUIREMENTS**

##### **I. Definition of Key Terms**

- A. Allowable – Costs directly related to the performance of a federal award and permitted under its terms and OMB guidance that must be reasonable, necessary, allocable, and treated consistently with generally accepted accounting principles.
- B. Unallowable- Costs specifically prohibited in applicable federal regulations, the terms and conditions of the grant award, and/or College policy.
- C. Allocable – A cost incurred specifically for the program or several activities, but can be distributed between them in reasonable proportion to benefits received, and is clearly necessary to the program.
- D. Reasonable – A cost that does not exceed what would normally be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.
- E. Consistent Treatment- A cost may not be assigned to a federal award as a direct cost if any cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
- F. Direct Costs – Costs specifically identified with a federal award that can be readily and specifically assigned to such award (e.g., salaries, fringe benefits, and travel).
- G. Indirect Costs/Facilities and Administrative (F&A)- Costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular federal award (e.g., administrative services, utilities, and custodial services).

##### **II. Cost Principles**

###### **A. Allowable Costs (§ 200.403)**

Costs must meet the following criteria to be allowable under federal awards:

- 1) Necessary and reasonable for the performance of the award and be allocable.
- 2) Conform to any award limitations or exclusions.
- 3) Consistent with policies and procedures that apply to both federal and other non-federal activities.

- 4) Consistently treated.
- 5) Determined in accordance with generally accepted accounting principles (GAAP).
- 6) Not included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- 7) Adequately documented.

The OMB Uniform Guidance (§200.420 through §200.475) lists costs that are allowable and not allowable as an expense on a federal award.

**B. Reasonable Costs (§ 200.404)**

The following factors should be considered to determine if a cost is reasonable:

- 1) Whether the cost is generally recognized as ordinary and necessary for the proper and efficient performance of the federal award.
- 2) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; federal, state, tribal, and other laws and regulations; and terms and conditions of the federal award.
- 3) Market prices for comparable goods or services for the geographic area.
- 4) Whether the individuals concerned acted with prudence in the circumstances.
- 5) Whether the College significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost.

**C. Allocable Costs (§ 200.405)**

To determine whether costs are allocable to the federal award, the standard is met if the cost:

- 1) Is incurred specifically for the federal award.
- 2) Benefits both the federal award and other work of the College and can be distributed in proportions that may be approximated using reasonable methods.
- 3) Is necessary to the overall operation of the College and is assignable in part to the federal award.

**D. Unallowable Costs (§ 200.420 through § 200.475)**

Below is a partial list of specific costs that have been identified as unallowable:

- 1) Advertising and public relations (Some types of advertising, such as recruitment of students, may be allowable if the cost is either in the approved budget for the federal award or with prior written approval of the federal awarding agency.)
- 2) Alcoholic beverages
- 3) Bad debts
- 4) Commencement costs
- 5) Contributions and donations
- 6) Entertainment (Except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the federal award or with prior written approval of the federal awarding agency.)
- 7) Fines and penalties

- 8) Fundraising
- 9) Goods or services for personal use
- 10) Lobbying

This list is not all-inclusive and for further details regarding the federal requirements, please review the Uniform Guidance, General Provisions for Selected Items of Cost §200.420-200.475.

**E. Prior Written Approval (§ 200.407)**

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 BMCC Project Director should seek the prior written approval of the federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. 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.

**F. Direct Costs (§ 200.413)**

Typical direct costs charged to federal awards at Bay Mills Community College include:

- 1) Salaries, wages, and proportional fringe benefits of personnel directly engaged in the sponsored project.
- 2) Salaries of administrative and clerical staff only if all of the following conditions are met:
  - a. Services are integral to the project or activity;
  - b. Individuals involved can be specifically identified with the project or activity;
  - c. Costs are explicitly included in the budget or have the prior written approval of the federal awarding agency; and
  - d. Costs are not also recovered as indirect costs.
- 3) Travel and transportation expenses.
- 4) Professional development.
- 5) Cost of equipment, materials, supplies, and services.
- 6) Consultant fees.
- 7) Other allowable costs per the terms of the agreement.

**G. Indirect Costs/Facilities and Administrative (F&A) (§ 200.414)**

Indirect costs cannot be directly assigned to a particular grant award, but they are needed to support the programs at Bay Mills Community College. Some examples of indirect costs include accounting, human resources, purchasing, and departmental administration. BMCC charges indirect costs to federal awards based on the negotiated indirect cost rate approved by the U.S. Department of Health and Human Services. In many cases, the federal awarding agency limits the amount of indirect costs that may be charged to the federal grant and the College's general fund has to support a portion, or perhaps all of the indirect costs.

At Bay Mills Community College, the costs of facilities are charged based on a space cost allocation plan. Some examples of space costs are electricity, gas, snowplowing,

maintenance, cleaning, repairs, insurance, and lease costs. The total budgeted space costs are divided by the total square footage to get a rate per

square foot. Each program is charged based on the space occupied. Any over-recovery or under-recovery of cost is carried over to the next year's budget. BMCC has a few federal grants that will not pay for space costs. The College's general fund supports the space costs for these grants.

### **III. Procedures/Guidelines for Monitoring Federal Awards**

At Bay Mills Community College, the Project Director, Grant Accountant, and Vice President for Business and Finance regularly monitor federal grant awards. This helps to: confirm the availability of funds to complete the project, ensure costs are consistent with the project schedule, discover any errors in the budget or actual expenditures that need to be corrected, avoid over-spending, and verify that corrections, if any, have been completed in a timely manner.

#### **A. Responsibilities of the Project Director (PD)**

- 1) Understands BMCC's policies and procedures, the federal grant award terms and conditions, and federal regulations.
- 2) Ensures that all disbursements from the federal award are:
  - a. Reasonable and necessary to accomplish the project goals
  - b. Allowable per the terms of the award and applicable regulations
  - c. Properly authorized and documented
  - d. Within the period of availability
  - e. Reviewed timely and documented
- 3) Examines the grant financial statements and general ledger on a regular basis (e.g. monthly) to ensure that all expenditures charged are correct and appropriate.

#### **B. Responsibilities of the Grant Accountant**

- 1) Develops an understanding of each grant, which includes the purpose, terms and conditions of the grant award, applicable federal regulations, and cash management requirements.
- 2) Examines the general ledger for each grant to verify that charges are allowable and for the purposes and objectives set forth in the terms and conditions of the award.
- 3) Prepares, documents, and processes monthly journal entries for each grant.
- 4) Distributes the financial statements and general ledger to the Project Directors for review.
- 5) Meets with Project Directors, as needed, to discuss spending, budgetary changes, and federal regulations.
- 6) Serves as a resource to the Project Director on the interpretation of federal regulations.

#### **C. Responsibilities of the Vice President for Business and Finance**

- 1) Conducts a thorough review of the general ledger each month after all entries have been posted and inquires of the Grant Accountant if numbers are not as expected or unusual transactions are made.

- 2) Reviews the financial statements and compares the actual expenditures to the budget line items; discusses over or under-spending of line items with the Grant Accountant or Project Director, as needed.
- 3) Serves as a resource to the Grant Accountant and Project Directors on interpretation of federal regulations and this Policy.

**Contact(s):** Vice President for Business and Finance

**Related Form(s)**

- None

**References**

§§ 200.403 Factors affecting allowability of costs, 200.404 Reasonable costs, 200.405 Allocable costs, 200.407 Prior written approval, 200.413 Direct costs, 200.414 Indirect (F&A) costs, and Subpart E - Cost Principles, Federal Register, Vol.78, No. 248/Thursday, Dec. 26, 2013/Rules and Regulations).

**Relevant Policy or Procedure(s):** None

**Approved by:** President

**Date:** Effective July 1, 2015