UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
OFFICE OF ACQUISITION AND GRANTS
Grants Management Division

Grants Management Division Alert #2007-02

SUBJECT: Grant Cost Analysis Policy

TO: GMD Staff

FROM: Michael J. Nelson, Director
Grants Management Division

DATE:

This alert provides the policy for use of a Cost Analysis Memo when reviewing applications for grants and cooperative agreements:

(a) Requirement. When performing a review of a new, continuation, or supplement grant or cooperative agreement, a completed Cost Analysis Memo is required (see exceptions in (c) below). Grants Online will not allow workflow to continue until the Cost Analysis Memo is completed in Grants Online. Grants Officers will review the Cost Analysis memo as part of their review of the application forwarded for approval.

(b) Purpose. The purpose of the Cost Analysis Memo is to ensure that all requested federal and non-federal funds identified on an application for federal financial assistance are allocable, reasonable, necessary, and allowable in accordance with the appropriate OMB Cost Principles and any governing NOAA or Department of Commerce statute(s).

(c) Exceptions. Cost Analysis Memo not required - for no-cost actions, actions $100,000 and less (if classified as "small grant"), and releases of funds.

Attachments: Cost Analysis Memo/Sample of Cost Analysis Memo

Cost Analysis Manual

Cost Analysis Memo

Award Number:

Action Type:

Multi-Year:

Grantee/Recipient Name:

Total Federal Estimated Amount:

Previous Obligation:

Anticipated Obligation for this Action:

New Total Obligation:

Previous Cost Share:

Anticipated Cost Share for this Action:

New Total Cost Share:

Grants Specialist:

Authority

The authority for this action is found in

Purpose

Budget Analysis

Personnel:

Fringe Benefits

Travel

Equipment

Supplies

Contractual

Construction

Other Direct Costs

Indirect Cost

Cost Share

Original Budget vs. Negotiated Budget

Recommendation

Sample Cost Analysis Memo

Cost Analysis Memo (Funded Awards Only)

Award Number: NA06OAR431xxxx

Action Type: New (Continuation/Renewal/Incremental Funding)

Multi-Year: No

Grantee/Recipient Name: WXYZ, Inc.

Total Federal Estimated Amount: $100,100

Previous Obligation: $0

Anticipated Obligation for this Action: $100,100

New Total Obligation: $100,100

Previous Cost Share: $0

Anticipated Cost Share for this Action: $100,100

New Total Cost Share: $100,100

Grants Specialist: John Doe

Authority

The authority for this action is found in 15 USC 1421.

Purpose

The purpose of this action is to provide funding in the amount of $200,100 to study atmospheric changes due to increased air temperature for a period of one year.

Budget Analysis

Personnel: $50,100

The $50,100 is to cover the salary of a principle investigator (PI) for 70% time over the one year period of performance. The salary is equal to the current salary being paid to the PI. The salary is reasonable and in line with the Grantees policies and practices and the PI's salary history.

Fringe Benefits $10,000

The $10,000 charge equates to 20% of salaries, which is the rate found on the Grantees negotiated indirect rate agreement (NICRA) dated August 23, 2005. A copy of the NICRA is attached to the grants file.

Travel $20,100

The $20,100 charge is to cover airfare during the performance of the Grant. Quotes were provided from the Grantees travel agent, showing 4 round trips from Washington, DC for the PI, each trip lasting 5 days. Per diem rates were from the GSA per diem listing. A random check of expedia.com/Travelocity.com showed airfare within 10% of quotes. Total cost for airfare and per diems is $19,100. The remaining $1,100 is to cover miscellaneous cab trips to and from the airports.

Equipment $10,000

The $10,000 is to cover the cost of small electronic measurement devices for air temperature testing. The Grantee followed their policies and practices and provided 3 quotes and shall purchase the cheapest unit.

Supplies $25,000

The $25,000 is to cover the cost of air testing filters and various office supplies. The Grantee provided historical costs of $100 per filter and will require 200 filters during the course of the grant. The remaining $5,000 will be used for office supplies, for example, toner cartridges, Xerox paper, pens, one desktop computer and one desk top printer.

Contractual $30,000

The $30,000 is to cover the cost of temporary assistance for research and secretarial needs. Researchers will follow bovine herds and need to be ready to procure air samples for testing. The Grantee also provided a cost estimate for the temporary help from a local temporary agency.

Construction $0

None

Other Direct Costs $40,000

The $40,000 is to cover the cost of environmentally safe suits to keep the PI and Researchers safe during the testing. Approximately 200 suits will be required for the grant, each costing $200. The Grantee provided catalogue estimate from the ABC, Inc., a small business the supplies uniforms.

Indirect Cost $15,000

The $15,000 equates to 12% of the modified direct costs. According to the NICRA, travel and other costs are excluded from the indirect rate calculation. Thus, the indirect costs is as follows:

Total Direct Cost:	$185,200
Less: Travel	$ 20,100
Other Costs	$ 40,000
Modified Cost	$125,100
Times 12% rate	x .12
Total Indirect	$ 15,000

Cost Share

The $100,100 cost share will come from two sources, the Grantee will provide $80,100 of in-kind services and the remaining $20,000 will come from the State.

Original Budget vs. Negotiated Budget

The original budget was for $225,100 and was negotiated down to $200,200. The Grantee had proposed buying $25,000 of inexpensive wine for a reception. This item was eliminated from the budget since alcoholic beverages are an unallowable expense under OMB Circular A-122.

Recommendation

Based on the previous discussion, the budget for this award in the amount of $200,100 is reasonable, allowable and allocable in accordance with the cost principles. It is recommended that the Grants Officer sign this award.

GMD Cost Analysis Manual

Chapter 1 Cost Analysis: A Primer

What is Cost Analysis?

Cost analysis is a means of formally determining the appropriateness of costs in an applicant's budget. It covers such areas as:

- Obtaining cost breakdowns in budget categories;
- Verifying cost data from various sources;
- Evaluating specific elements of cost; and
- Examining data to determine the necessity, reasonableness, and appropriateness of specific costs.

From a business/financial standpoint, cost analysis determines that costs (and profits, if any) proposed are allocable, allowable and reasonable. From a programmatic standpoint, cost realism determines whether the budget plan is reasonable and sufficient to achieve the stated project goals.

To be useful in negotiating a grant award, costs analysis should be sufficiently specific so that the grants official can take a negotiating position concerning any adjustments to be made in the grants budget. It should also be organized in such a way that the reasons for these adjustments can be explained to the recipient or

grantee and a negotiated position on each adjustment established. This will help maintain the relationship between the project work plan and the grant budget and will increase the chances that expectation for the project will be realized. The same reasoning applies to programmatic costs questioned by a federal program official.

What is Cost Allowability?

Each OMB Circular on cost principles contains minor differences, but generally for a
cost to be allowable is must:

- Be reasonable for the performance of the award and be allocable;
- Conform to any limitations or exclusions in the award as to types or amount of cost items;
- Be consistent with the policies and practices that apply uniformly to both federal and other activities of the organization;
- Be accorded consistent treatment;
- Be determined in accordance with generally accepted accounting principles;
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federal finance program; and
- Be adequately documented

What is Cost Allocability?

Each OMB Circular on cost principles contains minor differences, but generally for a cost to be allowable is must:

A cost is allocable to a particular cost objective, such as a grant, in accordance with the benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- Is incurred specifically for the award;
- Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received;
- Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
- Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

What is Cost Reasonableness?

Each OMB Circular on cost principles contains minor differences, but generally for a cost to be allowable is must:

- Is the cost ordinary and necessary for the operation of the organization or performance of the award?
- Restraints or requirements imposed by such factors as accepted sound business practice, arms length bargaining,

Federal and State Laws and regulations, and terms of the award.

- Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, clients, the public at large, and the Federal Government.
- Significant deviations from the established practices of the organization which may unjustifiably increase award costs.

What does the DOC Grants and Cooperative Agreement Manual say about cost analysis?

Prior to award of a grant, the Program Officer and Grant Officer shall perform a thorough review and evaluation of the applicant's proposed budget data, documentation of which will be maintained in the official grant file. Costs charged to the financial assistance award must be allocable, allowable, and reasonable. (Chapter
9, Page 2) When the budget data provided by the applicant does not provide the level of detail sufficient for an informed analysis to be performed, the Grants Officer or Program Officer shall contact the applicant for additional information or clarification. In the unusual circumstance that an award is approved without proper and complete

budget information, a special award condition must be included in the award requiring submission of needed information within a specified time period. The

official award file must contain a written justification for approving the award prior to receipt of budget information.

The budget analysis shall include the evaluation of cost data, including a determination that the proposed costs are in accordance with applicable cost principles; the evaluation of specific elements of costs; and projection of these data to determine the effect on such factors as:

. The allowability and necessity for individual cost categories;

. The reasonableness of amounts estimated for necessary costs;

. The basis used for allocating indirect or overhead costs; and

. The appropriateness of allocating particular overhead costs to the proposed project as direct costs.

In rare instances where complete funding is not available for a proposed award at the time of funding approval, the award document will include a special award condition regarding the award being made contingent upon the availability of prospective funding and a written justification from the Grants Officer for proceeding

despite the lack of complete funding, which will be placed in the official award file. If complete funding is not available, the portion of the time being funded will need a scope of work that represents an increment of meaningful work. Also, see Chapter 20 of this Manual for establishing multi-year awards funded on an incremental basis.

What does OMB Circular A-21 say about Educational Institutions?

C. Basic considerations.

1. Composition of total costs. The cost of a sponsored agreement is comprised of the allowable direct costs incidental to its performance, plus the allocable portion of the allowable F&A costs of the institution, less applicable credits as described in subsection 5.

2. Factors affecting allowability of costs. The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

3. Reasonable costs. A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the

reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement; (b) the restraints or requirements imposed by such factors as arm's length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions; (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and, (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

4. Allocable costs.

A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or (3) it is necessary to the overall operation of the institution and, in light of the principles provided in this Circular, is deemed to be assignable in part to sponsored projects. Where the purchase of equipment or other capital items is specifically authorized under a sponsored agreement, the amounts thus authorized for such purchases are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally sponsored agreements.

Allocation and documentation standard.

(1) Cost principles. The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles.

(2) Internal controls. The institution's financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.

(3) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding subsection b, the costs may be allocated or transferred to benefited projects on any reasonable basis, consistent with subsections d. (1) and (2).

(4) Documentation. Federal requirements for documentation are specified in this Circular, Circular A 110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non Profit Organizations," and specific agency policies on cost transfers. If the institution authorizes the principal investigator or other individual to have primary responsibility, given the requirements of subsection d. (2), for the management of sponsored agreement funds, then the institution's documentation requirements for the actions of those individuals (e.g., signature or initials of the principal

investigator or designee or use of a password) will normally be considered sufficient.

D. Direct costs.

1. General. Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution.

What does OMB Circular A-122 say about non-profits?

2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- Be reasonable for the performance of the award and be allocable thereto under these principles.

- Conform to any limitations or exclusions set forth in these principles or in the 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 organization.
- Be accorded consistent treatment.
- Be determined in accordance with generally accepted accounting principles (GAAP).
- Not be 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.
- Be adequately documented.

3. Reasonable costs. A cost is reasonable if, in its nature or 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 costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length

bargaining, Federal and State laws and regulations, and terms and conditions of the award.

- Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.
- Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.

4. Allocable costs.

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- Is incurred specifically for the award.
- Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
- Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

B. Direct Costs

1. Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or

indirectly.

2. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently applied to all final cost objectives.

3. The cost of certain activities are not allowable as charges to Federal awards (see, for example, fundraising costs in paragraph 17 of Attachment B). However, even

though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect cost rates and be allocated their share of the organization's indirect costs if they represent activities which (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs.

4. The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs whether or not allowable and be allocated an equitable share of indirect costs. Some examples of these types of activities include:

- Maintenance of membership rolls, subscriptions, publications, and related functions.
- Providing services and information to members, legislative or administrative bodies, or the public.
- Promotion, lobbying, and other forms of public relations.
- Meetings and conferences except those held to conduct the general administration of the organization.
- Maintenance, protection, and investment of special funds not used in operation of the organization.
- Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, financial aid, etc.

What does OMB Circular A-87 say about state and local governments?

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be allocable to Federal awards under the provisions of this Circular.
- Be authorized or not prohibited under State or local laws or regulations.
- Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- 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. Except as otherwise provided for in this Circular, be

determined in accordance with generally accepted accounting principles.

- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- Be the net of all applicable credits.
- Be adequately documented.

2. 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. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the

operation of the governmental unit or the performance of the Federal award.

- The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- Market prices for comparable goods or services.

- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

3. Allocable costs.

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D, and E.

Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

- Compensation of employees for the time devoted and identified specifically to the performance of those awards.
- Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
- Equipment and other approved capital expenditures.
- Travel expenses incurred specifically to carry out the award.

3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

What is a basis for a proposed cost?

Basis is the foundation for how costs are proposed. A reasonable basis may be competitive bid, historical costs, catalogue price, quotes from a travel agent for airfare, or government reference (like the GSA per diem list).

Chapter 2 Personnel or Salaries

The GMD application package identifies the following as a review checklist for a proper budget justification:

1. Is each individual identified by name and position?
2. Are time commitments such as hours and percent of time stated for each position?
3. Are the total charges for each person listed along with an explanation of how the costs were calculated?
4. Do the combined charges for all activities of any individual exceed 100% of their time?
5. Do the time commitments and charges appear reasonable?
6. For support or executive personnel, are costs charged to salaries excluded from the indirect cost category?
7. Are all individuals employees of the applicant organization? (If not, explain)
8. Is a cost of living increase built into the budget?
9. Are salary increases justified for the grant period?
10. Are any salary/personnel costs unallowable? (i.e. Federal Employees or legislative personnel)

What information should be included in the Cost Analysis memo?

The Grants Management Specialist should review all of the personnel and salary data for cost reasonableness. Would you support paying an individual $200,000 per year? It is not important to list verbatim exactly what is in the proposal but to analyze the data.

For example, for item one above, the answer could be that yet, all staff are identified by name and position or no, ten positions have yet to be determined. In the case of internships, interns are not identified up front, but fellowships are identified per student.

Item two and four tie together to determine how much time is allocated per person. This would identify individuals that are dedicated 50% time on three grants, which would not be possible. For example, many projects are task driven. One individual could be associated with multiple tasks and as long as the percent of time does not

exceed 100%, then all is well. The problem develops when an individual is listed on multiple grants and their time is allocated over 100%. Grant Management Specialists should inquire with the grantee on any multiple assignments.

Item five refers to the reasonableness of time and salary. Is the 80% time and $100,000 reasonable for this person. The time assessment is a function of realism that is done by the federal program officer. Reasonableness of salary is done based on historical experience, policies and practices of the organization, market survey, or specialized costs that are germane to NOAA, such as Undersea Research Divers.

Item six is a check for salaries should not be charged as direct if they can be charged to an indirect cost element.

Item seven is a check to see if salaries are being paid to consultants and if so, then the organizations fringe benefit rate is usually lower than for employees.

Items eight and nine are a function of the policies and practices of the organization.

Item ten is self explanatory.

Chapter 3 Fringe Benefits

FRINGE BENEFITS: The budget narrative must provide a description and breakdown of the benefits received by personnel when rates are higher than 35%.

1. Are fringe benefits identified as a separate item?
2. Are all the elements that comprise fringe benefits indicated?
3. Do the fringe benefits and charges appear reasonable?
4. Are the total charges for each person listed along with an explanation of how the charges were calculated?

5. Are fringe benefits charged to federal and matching categories in the same proportion as salaries?

The key for Grant Specialists to focus on is the negotiated indirect rate agreement (NICRA). As long as the organization is using the NICRA rate and applying the appropriate base of application, then whatever the rate, there is no need to justify the costs.

For example, the NICRA has a fringe benefit rate of 50% with a base of application of direct salaries and direct salaries in the proposal are $100,000, then the fringe benefit cost would be $50,000.

The problem develops when the organization's NICRA does not support a fringe benefit rate. Grant Specialists would follow the established GMD policy as bolded above. Request support for fringe benefit costs that exceed the 35% rate. If thefringe benefit costs are such that the rate is less than 35%, note this fact in the cost analysis memo and move on to the next item.

When providing additional support for fringe rates that exceed 35%, organizations may provide their fringe benefit cost pool divided by their total salaries or their audited financial statements showing the fringe rate or their unaudited financial statements showing their fringe rate. A review must be done in these circumstances to determine if the fringe pool include costs that would be unallowable to recover such as alcoholic beverages, entertainment costs, country club or social club memberships. Note your findings on the cost analysis memo.

Chapter 4 Travel

TRAVEL: The budget narrative must provide a detailed breakdown of travel costs totaling more than $5,000 or 5% of the total project cost, whichever is greater.

1. For foreign, domestic and local travel, is each trip listed along with the destination, estimated mileage, method of travel, cost per mile and duration, number of travelers, per diem rate for meals and lodging?
2. If actual trip details are unknown, what is the basis for the proposed travel charges?
3. Is the requested travel directly relevant to the successful completion of the project?
4. Are the travel charges reasonable and realistic?
5. Contingencies or miscellaneous charges must be excluded!

Grant Specialists should review data that exceeds the $5,000 or 5% of total project costs as per GMD established policy. Total project costs include the federal share and any cost share. Cost below the GMD established policy need not be addressed in the cost analysis memo other than that costs for travel do not exceed $5,000 or 5% of total project costs. Items one thru five should be addressed in the cost analysis memo.

Item number three would be based upon the federal program officer checklist.

Chapter 5 Equipment

Equipment is generally defined in 15 CFR as tangible non-expendable personal property having a useful life of more than one year and an acquisition cost of more than $5,000 per unit.

EQUIPMENT: For any item(s} of equipment where the individual cost exceeds $5,000, a description of the item and associated costs is required.

1. Is each item of equipment listed?
2. If over $5,000 is there a description of how it will be used in the project?
3. If over $5,000 has a lease vs. purchase analysis been completed?
4. For each item of equipment, is the number of units, cost per unit and total cost specified?
5. Is each item of equipment necessary for the successful completion of the project?
6. Are the charges for each item reasonable and realistic?
7. Are disallowed costs excluded?
8. Contingencies or miscellaneous charges must be excluded!

Grant Specialists should review data that exceeds the $5,000 equipment costs as per GMD established policy. Costs below the

GMD established policy need not be addressed in the cost analysis memo other than that costs for equipment do not exceed $5,000.

As with the travel costs, all items should be addressed in the cost analysis memo. Item number five would be based upon the federal program officer checklist.

Chapter 6 Supplies

Supplies are generally defined in 15 CFR as personal property that is not equipment.

SUPPLIES: The budget narrative must provide a detailed breakdown of supply costs totaling more than $5,000 or 5% of the total project cost, whichever is greater.

1. Are supplies itemized by type of material or nature of expense?
2. For general office or business supplies, is the total charge listed along with the basis for the charge (i.e. historical use rates)?
3. For other specific supply categories, is the number of units, cost per unit and total cost specified?
4. Are the charges necessary for the successful completion of the project?
5. Are the charges reasonable and realistic?
6. Are disallowed costs (e.g. liquor, entertainment) excluded?
7. Contingencies or miscellaneous charges must be excluded!

Grant Specialists should review data that exceeds the $5,000 or 5% of total project costs as per GMD established policy. Total project costs include the federal share
and any cost share. Cost below the GMD established policy need not be addressed in the cost analysis memo other than that costs for supplies do not exceed $5,000 or 5% of total project costs.

Items one thru seven should be addressed in the cost analysis memo.

Item number four would be based upon the federal program officer signing the federal program office checklist.

Chapter 7 Contractual

1. Is each contract or sub-grant listed as a separate item? **(Separate budgets are required for sub-grants or contracts regardless of the dollar value.)**
2. Are the products/services to be acquired described along with the applicability of each to the project?
3. Do the costs appear reasonable and realistic?
4. Are any sole source contracts contemplated? If yes, is a sole source justification included with the application which describes why the proposed sole source entity is the only source capable of meeting the applicant's project needs?
5. Are disallowed costs excluded?

6. Contingencies or miscellaneous charges must be excluded!
7. Are there contracts with non-US organizations?
8. Do Grantees have a CD-512 on file for each of their sub-grants or contracts?

Grant Specialists shall review items one thru nine which should be addressed in the cost analysis memo.

Item number two would be based upon the federal program officer checklist.

Chapter 8 Construction

1. Is the construction/renovation authorized for this program?
2. Is the construction/renovation described?
3. Is the method described which was used to calculate costs?
4. Are the proposed costs presented in sufficient detail? Should include the following:
    a. A listing of work to be performed
    b. Cost detail by task or work order contemplated
    c. Is the work-being done by the applicant or outside contractors?
5. Is there a need for the type of work/costs being proposed?
6. Is the basis for the estimates of cost present? (Is there documentation to support cost estimates?)
7. Are the costs justified, reasonable, allowable, and realistic? Verify costs proposed to quotes received. (Generally, the presence of more than one bid obviates the

need for extensive tests for reasonableness due to the element of competition involved.)

Grant Management Specialist shall address items one through seven in the cost analysis memo.

One point on construction is that fee is allowed up to seven percent. Just because the 7% number is allowed, there needs to be justification for that amount. Fee is sometimes referred to as "profit".

Chapter 9 Other Direct Costs

1. Are items listed by type of material or nature of expense?
2. For each charge, is the number of units, cost per unit and total cost specified?
3. Are the charges necessary for the successful completion of the project?
4. Are the charges reasonable?
5. Are disallowed costs (e.g. liquor, entertainment) excluded?
6. Are charges which duplicate indirect cost items excluded?
7. Contingencies or miscellaneous charges must be excluded!

Grant Specialists shall review items one thru nine which should be addressed in the cost analysis memo.

Item number three would be based upon the federal program officer checklist.

Chapter 10 Indirect Costs

1. Are indirect costs requested?
2. Is a copy of the current approved rate from the cognizant agency included?
3. Is the correct rate being used? (If a lower rate than is authorized in the indirect cost rate agreement is being proposed you must explain why your organization is deviating from the approved rate.)
4. Is the rate applied to the correct base? "
5. Are charges which duplicate direct costs excluded? (If no, explain/revise.)

The key for Grant Specialists to focus on is the negotiated indirect rate agreement (NICRA). As long as the organization is using the NICRA rate and applying the appropriate base of application, then whatever the rate, there is no need to justify the costs.

For example, the NICRA has a rate of 50% with a base of application of direct salaries and fringe benefits. If the proposal was for $1,000,000, $400,000 salaries, $100,000 fringe, and $500,000 other direct costs, then the indirect cost should be $250,000.

Grant Specialists shall review items, one thru five which should be addressed in the cost analysis memo. If the organization does not have a negotiated indirect cost rate, then the Grants Specialist shall document what basis was used to determine that the indirect costs are reasonable.

What is a negotiated indirect cost rate agreement?

Indirect cost rates are established by negotiations between the appropriate cognizant federal agency and the applicant organization, based upon an indirect cost rate proposal submitted by the organization. The indirect cost rate agreement, sometimes called NICRA, is the prime document for obtaining indirect cost rate information.

What are fixed indirect rates?

Fixed indirect cost rats are established for a future period based on estimates of costs for that period, but unlike predetermined rates, they are subject to adjustments using a "carry forward" method. Although there is no adjustment of the rate for the current year, the difference between the estimated rate and the actual rate is carried forward in establishing the rate for a subsequent period.

What are predetermined rates?

Predetermined indirect cost rates are established for a future period on an estimate of costs for that period. Except under very unusual circumstances, this type of rate is not subject to subsequent adjustments. It is used only where cost experience is such that the actual indirect cost can be accurately predicted.

What are provisional rates?

Provisional indirect cost rates are temporarily established to allow reimbursement of indirect costs pending the establishment of a final rate.

What are final rates?

When the final indirect cost rate is established, the provisional rate is adjusted up or down. If the recipient/grantee final rate is less than the provisional rate, they will be required to refund the difference to the US Government.

What is an effective period?

An effective period usually covers different years and usually match the fiscal year or calendar year for an organization. A typical effective period would be from "10/1/06 to 9/30/07". You might also see the term “effective until amended".

What is a basis for application?

The basis or base of application might be "total modified direct costs" or "direct salaries and fringe benefits". The basis for application identifies what costs are to be

used to determine the indirect costs. If the organizations indirect rate is 30% on total modified direct costs then the 30% should be multiplied by the total modified
direct costs to determine the indirect cost charges.

What are modified total direct costs?

Modified total direct costs are total direct costs minus items excluded from indirect costs. For example, subaward costs over $25,000 would be excluded from the indirect costs rate. Sometimes tuition, equipment, travel costs might be excluded. A review of the negotiated cost rate agreement would state what is excluded.

What does OMB Circular A-21 say about indirect costs?

G. Determination and application of F&A cost rate or rates.

1. F&A cost pools.

(1) Subject to subsection b, the separate categories of F&A costs allocated to each major function of the institution as prescribed in Section F shall be aggregated and treated as a common pool for that function. The amount in each pool shall be divided by the distribution base described in subsection 2 to arrive at a single F&A cost rate for each function.

(2) The rate for each function is used to distribute F&A costs to individual sponsored agreements of that function. Since a common pool is established for each major

function of the institution, a separate F&A cost rate would be established for each of the major functions described in Section B.l under which sponsored agreements are carried out.

(3) Each institution's F&A cost rate process must be appropriately designed to ensure that Federal sponsors do not in any way subsidize the F&A costs of other sponsors, specifically activities sponsored by industry and foreign governments. Accordingly, each allocation method used to identify and allocate the F&A cost pools, as described in Sections E.2 and F.2 through F.9, must contain the full amount of the institution's modified total costs or other appropriate units of measurement used to make the computations. In addition, the final rate distribution base (as defined in subsection 2) for each major function (organized research, instruction, etc., as described in Section B.l) shall contain all the programs or activities that utilize the F&A costs allocated to that major function. At the time a F&A cost proposal is submitted to a cognizant Federal agency, each institution must describe the process it uses to ensure that Federal funds are not used to subsidize industry and foreign government funded programs.

In some instances a single rate basis for use across the board on all work within a major function at an institution may not be appropriate. A single rate for research, for example, might not take into account those different environmental factors and other conditions which may affect substantially the F&A costs applicable to a particular segment of research at the institution. A particular segment of research may be that performed under a single sponsored agreement or it may consist of research under a group of sponsored agreements performed in a common environment. The environmental factors are not limited to the physical location of the work. Other important factors are the level of the administrative support required, the nature of the facilities or other resources employed, the scientific disciplines or technical skills involved, the organizational arrangements used, or any combination thereof. Where a particular segment of a sponsored agreement is performed within an environment which appears to generate a significantly different level of F&A costs, provisions should be made for a separate F&A cost pool applicable to such work. The separate F&A cost pool should be developed during the regular course of the rate determination process and the separate F&A cost rate resulting there from should be utilized; provided it is determined that (1) such F&A cost rate differs significantly from that which would have been obtained under subsection a, and (2) the volume of work to which such rate would apply is material in relation to other sponsored agreements at the institution.

2. The distribution basis. F&A costs shall be distributed to applicable sponsored agreements and other benefiting activities within each major function (see Section 8.1) on the basis of modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of $25,000 shall be excluded from modified total direct costs. Other items may only be excluded where necessary to avoid a serious inequity in the distribution of F&A costs. For this purpose, a F&A cost rate should be determined for each of the separate F&A cost pools developed pursuant to subsection 1. The rate in each case should be stated as the percentage that the amount of the particular F&A cost pool is of the modified total direct costs identified with such pool.

3. Negotiated lump sum for F&A costs. A negotiated fixed amount in lieu of F&A costs may be appropriate for self contained, off campus, or primarily subcontracted activities where the benefits derived from an institution's F&A services cannot be readily determined. Such negotiated F&A costs

will be treated as an offset before allocation to instruction, organized research, other sponsored activities, and other institutional activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

4. Predetermined rates for F&A costs. Public Law 87 638 (76 Stat. 437) authorizes the use of predetermined rates in determining the "indirect costs" (F&A costs in this Circular) applicable under research agreements with educational institutions. The stated objectives of the law are to simplify the administration of cost type research and development contracts (including grants) with educational institutions, to facilitate the preparation of their budgets, and to permit more expeditious closeout of such contracts when the work is completed. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for F&A costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of F&A cost during the ensuing accounting periods.

5. Negotiated fixed rates and carry forward provisions. When a fixed rate is negotiated in advance for a fiscal year (or other time period), the over or under recovery for that year may be included as an adjustment to the F&A cost for the next rate negotiation. When the rate is negotiated before the carry

forward adjustment is determined, the carry forward amount may be applied to the next subsequent rate negotiation. When such adjustments are to be made, each fixed rate negotiated in advance for a given period will be computed by applying the expected F&A costs allocable to sponsored agreements for the forecast period plus or minus the carry forward adjustment (over or under recovery) from the prior period, to the forecast distribution base. Un-recovered amounts under lump sum agreements or cost sharing provisions of prior years shall be carried forward for consideration in the new rate negotiation. There must, however, be an advance understanding in each case between the institution and the cognizant Federal agency as to whether these differences will be considered in the rate negotiation rather than making the determination after the differences are known. Further, institutions electing to use this carry forward provision may not subsequently change without prior approval of the cognizant Federal agency. In the event that an institution returns to a post-determined rate, any over or under recovery during the period in which negotiated fixed rates and carry forward provisions were followed will be included in the subsequent post-determined rates. Where multiple rates are used, the same procedure will be applicable for determining each rate.

6. Provisional and final rates for F&A costs. Where the cognizant agency determines that cost experience and other

pertinent facts do not justify the use of predetermined rates, or a fixed rate with a carry forward, or if the parties cannot agree on an equitable rate, a provisional rate shall be established. To prevent substantial overpayment or underpayment, the provisional rate may be adjusted by the cognizant agency during the institution's fiscal year. Predetermined or fixed rates may replace provisional rates at any time prior to the close of the institution's fiscal year. If a provisional rate is not replaced by a predetermined or fixed rate prior to the end of the institution's fiscal year, a final rate will be established and upward or downward adjustments will be made based on the actual allowable costs incurred for the period involved.

7. Fixed rates for the life of the sponsored agreement.

Federal agencies shall use the negotiated rates for F&A costs in effect at the time of the initial award throughout the life of the sponsored agreement. "Life" for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal funding agency at the time of the award. If negotiated rate agreements do not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement shall be extended through the end of the life of the sponsored agreement. Award levels for sponsored agreements may not be adjusted in future years as a result of changes in negotiated rates.

When an educational institution does not have a negotiated rate with the Federal Government at the time of the award (because the educational institution is a new grantee or the parties cannot reach agreement on a rate), the provisional rate used at the time of the award shall be adjusted once a rate is negotiated and approved by the cognizant agency.

8. Limitation on reimbursement of administrative costs.

Notwithstanding the provisions of subsection 1.a, the administrative costs charged to sponsored agreements awarded or amended (including continuation and renewal awards) with effective dates beginning on or after the start of the institution's first fiscal year which begins on or after October 1, 1991, shall be limited to 26% of modified total direct costs (as defined in subsection 2) for the total of General Administration and General Expenses, Departmental Administration, Sponsored Projects Administration, and Student Administration and Services (including their allocable share of depreciation and/or use allowances, interest costs, operation and maintenance expenses, and fringe benefits costs, as provided by Sections F.5, F.6, F.7 and F.9) and all other types of expenditures not listed specifically under one of the subcategories of facilities in Section F.

Existing F&A cost rates that affect institutions' fiscal years which begin on or after October 1, 1991, shall be unilaterally amended by the cognizant Federal agency to reflect the cost limitation in subsection a. Permanent rates established prior to this revision that have been amended in accordance with subsection b may be renegotiated. However, no such renegotiated rate may exceed the rate which would have been in effect if the agreement had remained in effect; nor may the administrative portion of any renegotiated rate exceed the limitation in subsection a.

Institutions should not change their accounting or cost allocation methods which were in effect on May 1, 1991, if the effect is to: (i) change the charging of a particular type of cost from F&A to direct, or (ii) reclassify costs, or increase allocations, from the administrative pools identified in subsection to the other F&A cost pools or fringe benefits. Cognizant Federal agencies are authorized to permit changes where an institution's charging practices are at variance with acceptable practices followed by a substantial majority of other institutions.

What does OMB Circular A-87 say about indirect costs?

F. **Indirect Costs**

1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Attachments C, D, and E.

3. Limitation on indirect or administrative costs. In addition to restrictions contained in this Circular, there may be laws that further limit the amount of administrative or indirect cost allowed. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be

shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

What does OMB Circular A-122 say about indirect costs?

C. **Indirect Costs**

1. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Direct cost of minor amounts may be treated as indirect costs under the conditions described in subparagraph B.2. After direct costs have been determined and assigned directly to awards or other work as appropriate, indirect costs are those remaining to be allocated to benefiting cost objectives. A cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to an award as a direct cost.

2. Because of the diverse characteristics and accounting practices of non-profit organizations, it is not possible to specify the types of cost which may be classified as indirect cost in all situations. However, typical examples of indirect cost for many non-profit organizations may include depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive

officers, personnel administration, and accounting.

3. Indirect costs shall be classified within two broad categories: "Facilities" and "Administration." "Facilities" is defined as depreciation and use allowances on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. "Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable). See indirect cost rate reporting requirements in subparagraphs D.2.e and D.3.g.

Chapter 11 Financial Capability

What are Credit Checks?

A credit check will be performed on individuals, for-profit, and non-profit applicants.

NOAA uses the services of Dunn and Bradstreet to procure a supplier evaluation report, which identifies the credit worthiness of an organization. The credit check is valid for one year, the date of which is to be entered into the Grants database.

What is the debt list?

A review will be conducted of the accounts receivable listing for each DOC Finance Office and of the credit report for delinquent debts to the Federal Government. This is currently being satisfied by checking the NIST debt listing.

What are Name Checks?

Name checks are intended to reveal if any key individuals associated with the applicant have been convicted of or are presently facing criminal charges such as fraud, theft, perjury, or other matters which significantly reflect on the applicant's management honesty or financial integrity. The name check is valid for three years.

See Chapter 21 of the DOC Grants and Cooperative Agreement Interim Manual for further detail.

Generally, the Sole Proprietorship, partnership, corporation, joint venture and nonprofit organizations are required to fill out the name check forms. The following are exempt from this requirement:

- Officials of state and local government;
- Officials of accredited colleges and universities;
- Officials of economic development districts designated by EDA, to include those entities whose designations are pending;
- Officials of Fishery Management Councils.

- All elected officials of state and local governments who are serving in capacities other than their elected capacities when applying for assistance are also exempt.

What is the list of parties excluded from procurement and non-procurement programs?

The list maintained by the GSA of parties excluded from procurement and nonprocurement programs will be checked to assure that the recipient has not been debarred or suspended on a government-wide basis from receiving financial assistance. No awards shall be made to applicants who have been excluded from participating in Federal financial assistance programs. (See 15 CFR Part 26).

The web site to check this list is as follows:

http://epls.arnet.gov/epls/servlet/EPLSSea rch Main/ 1

Enter the name of the applicant and search the database. Attach a copy to Grants Online.

What is past performance?

Past performance is the history of performance for each Grantee and their activities.

Past performance can include governmental and non-governmental work. Past performance includes achievement of the program description; whether the work was performed within budget; whether financial reports were submitted on time.

What are pre-award accounting system surveys?

The Grants Office, in cooperation with the OIG, may arrange for a pre-award survey of the applicant's financial management system in cases where the recipient has had no prior Federal support, the operating unit has reason to question whether the financial management system meets Federal financial management standards, or the recipient is considered high risk. If a pre-award survey is not conducted, a special award condition should be incorporated into the award to require the recipient to obtain a certification from a certified independent public accountant that the recipient's accounting system is adequate to meet the Federal financial management standards.

What is the A-133 audit check report?

A check of the A-133 audit web site would yield information that is disclosed under audit. Specific information regarding material weaknesses or significant findings are what needs to be documented.

Chapter 12 Cost Share or Match

1. Is a match (non-federal share) required for this program? If yes, does the application meet the matching requirements?
2. Are the sources of match clearly identified? (i.e. cash or in-kind)
3. Does the application provide adequate documentation to support in-kind contributions?

4. Does the application exclude matching contributions, cash or in-kind, used for other programs?
5. Does the application exclude federal funds used as match?
6. Are all matching contributions necessary for accomplishing the project?
7. Are all matching contributions in compliance with federal cost principles?

Grant Management Specialist shall address items one through eight and should rely on the federal program officer checklist to answer item number 7.

Chapter 13 Small Grants

This deviation is only for applications where the Federal Share is $100,000 or less, and administered under 15 CFR Part 14, (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, other Non-Profit and Commercial Organizations). These organizations do not need to provide NOAA with a budget narrative, unless required by statute or program announcement.