



*Indian Health Service*  
*Division of Grants Management*  
***OMB Cost Principles***  
***State, Local and Tribal Governments***  
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# Cost Principles Training Indian Health Service



- Purpose of OMB Cost Principles
- Basic Cost Guidelines for Allowable Costs
- Direct Costs – What Are They?
- Indirect Costs – What Are They?
- Examples of Allowable and Unallowable Costs



# Purpose of Cost Principles



# Purpose of OMB Cost Principles



- ▶ Establishes standards for Federal Agencies to provide a uniform approach for determining the allowability of costs.
  - Costs must be reasonable
  - Costs must be allocable
  - Costs must be given consistent treatment
  - Costs must conform to any limitations or exclusions
- ▶ Comprehensive instructions and/or information issued by OMB to all Federal agencies.
- ▶ Cost Principles are found in 2 CFR, Part 225 (formerly OMB Circular A-87)



# Basic Cost Guidelines



# Basic Cost Guidelines



- ▶ Costs are considered reasonable to a grant project when the cost requested does not exceed the market prices for comparable goods or services.
- ▶ Costs are considered necessary to a grant project when they are recognized as ordinary and necessary to support the operation and/or performance of the grant



# Basic Cost Considerations



- ▶ Costs are allocable to a grant project when they are assigned to a specific function where costs are needed and incurred.
- ▶ Costs must be treated consistently regardless of the source of funds. This applies to grantees that have grants with other Federal agencies or other awards under different grant programs within the same agency.
- ▶ Costs must be adequately documented.



# Definition for Direct Costs



# Direct Costs – What are they?



Costs that can be specifically identified or assigned to a particular cost objective under a project. Costs that are incurred for the same purpose under other grant projects must be treated consistently as a “direct cost.”



# Examples of Direct Costs



- Personnel costs – compensation of employees for the time they devote specifically to carry out the performance of the grant project;
- Supply costs – materials identified specifically to carry out the performance of the grant project;
- Equipment – defined as a unit threshold of \$5,000 or more;
- Travel Costs – expenses for travel that are incurred specifically to carry out the grant project;
- Training Costs – expenses for employee development that will directly benefit the grant project.



# Definition for Indirect Costs



# Indirect Costs



## What are Indirect Costs?

- Costs that are incurred for a common or joint purpose benefitting more than one cost objective

## Examples of Indirect Costs:

- Paper/pens;
- Administrative support not specifically hired to support the grant project;
- Rental costs where the space is not rented specifically to support the grant project.

# Allowable Costs





# Allowable Costs under A-87



This list provided under this training is not intended to be all-inclusive. Refer to the cost principles for additional information.

Also, if the cost principle fails to mention a particular item of cost does not imply that is allowable or not allowable. Costs that are not mentioned in the cost principles are subject to review and approval. The cost must be used to meet specific purposes of the grant project.



# List of Several Allowable Costs that May Prove Helpful to Grantees



- ▶ Accounting – cost of establishing and maintaining accounting and other information systems
- ▶ Advertising – cost allowable only when incurred to recruit personnel and any other specific purpose necessary to meet the requirements of the project
- ▶ Audit services – if specifically approved by the Chief Grants Management Officer as a direct cost to an award (if it is not included as an indirect cost in a cost allocation plan or rate)



# List of Several Allowable Costs that May Prove Helpful to Grantees

- ▶ Cultural-related activities (agency specific) – allowed only when incurred to specifically promote wide-spread participation from the American Indian /Alaska Native population in all activities that will carry out the grant programs.
- ▶ Equipment – defined as \$5,000
- ▶ Incentives – allowed; however, there is an agency-specific requirement threshold of \$30, per item. Prior approval required from GMO for items that exceed the threshold.

# Unallowable Costs





# Examples of Unallowable Costs



- Contingency costs – events which cannot be foretold with certainty as to time, or with assurance that the events will happen.
- Contributions and donations – cash, property, and services regardless of the recipient.
- Entertainment costs – amusement (parks), tickets to shows/sports events, social activities, etc.



# Why are Costs Questioned?



Costs that are not adequately documented under the budget justification will be questioned.

In such cases, the awarding office (DGM) will request additional information to support the costs outlined in the grant application and/or carryover request.

This process is a requirement of the OMB Cost Principles and the administrative requirements that govern our grants.



# References to Support Guidance Provided Under this Training



- ▶ OMB Cost Principles for State, Local, and Indian Tribal Governments (2 CFR, part 225, formerly OMB Circular A-87);
- ▶ HHS Grants Policy Statement, Rev. 1 /07



For additional information regarding IHS Grant Cost Principles please contact your assigned GMS directly or you may call the DGM main line of (301) 443-5204.

If you find further assistance is needed please contact:

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*The Division of Grants Management would like to take this opportunity to thank you for being a part of this Grants Management sponsored training. DGM is dedicated to Empowering our IHS grant community with the required knowledge and training needed for continued compliance of IHS policies, Indian laws, and HHS legislative and regulatory requirements.*