



MONTANA DNRC-FORESTRY DIVISION SUBAWARD PROGRAM

FAQs ABOUT ACCOUNTING FOR COSTS

WHEN BILLING TO MY SUBAWARD, HOW DO I DETERMINE WHETHER A COST IS ALLOWABLE OR UNALLOWABLE?

(1) Any expense you charge to your subaward must be necessary, reasonable, and allocable:

- **necessary** to accomplish your project objectives;
- **reasonable**, in that the cost does not exceed what a prudent person would incur under the circumstances prevailing at the time that the decision was made to incur it; and
- **allocable**, in that the cost is chargeable or assignable to the subaward it benefits.

(2) Further information on what costs are allowable under a specific subaward is provided in the request for application, your project proposal, the subaward agreement, and instructions from your DNRC program manager.

(3) If these resources do not clarify your allowable costs, refer to the Uniform Guidance, also known as “2 CFR 200.” The Uniform Guidance is a set of provisions issued by the federal Office of Management and Budget and online at <https://www.efcr.gov/>. The section on cost principles can be found in Title 2, Part 200, Subpart E (2 CFR 200.400-475). It addresses such everyday costs as compensation, fringe benefits, public relations, materials and supplies, and travel.

(4) If the allowability of a cost cannot be determined through steps # 1-3, consult your DNRC program manager to gain approval, prior to incurring the cost.

WHAT ARE SOME COMMON EXAMPLES OF UNALLOWABLE COSTS?

Again, Subpart E of the Uniform Guidance provides detailed instruction about the allowability of costs. For instance, here are a few costs that are generally always unallowable:

- alcoholic beverages (2 CFR 200.423).
- donations and contributions to other entities (2 CFR 200.434).
- entertainment (2 CFR 200.438).
- goods or services for personal use (2 CFR 200.445).
- lobbying (2 CFR 200.450).

Subpart E also states that costs are unallowable if not adequately documented (2 CFR 200.403). Documentation (showing costs were both incurred and paid) includes the following examples: itemized receipts, vendor invoices, inspection certificates, financial reports or ledgers that clearly show expenditures, payroll records, copies of checks, and bank statements.

WHAT ARE SOME BASICS TO KNOW ABOUT DIRECT AND INDIRECT COSTS?

Direct costs can be identified specifically with activities under your subaward, i.e.:

- compensation of employees for the time they spend on the subaward.
- the cost of materials or services acquired specifically for the subaward.
- travel expenses incurred specifically for the subaward.

If a cost benefits both the subaward and other projects in your organization, a proportion of it can be charged as direct to the subaward in relation to the benefits received. Your method of allocating expenses among multiple projects should be reasonable, sound, and clearly documented.

Indirect costs often benefit the organization as a whole. Common examples include the following:

- depreciation on buildings and equipment.
- costs of operating and maintaining facilities.
- general administration and general expenses.
- personnel and accounting administration.

Indirect costs can also be expenses that benefit more than one subaward, but cannot be easily split or allocated among them.

Note that any cost covered in your indirect cost pool should not also be charged directly to the subaward — this would be considered double-charging. Make sure to know what's covered in your indirect rate and treat costs consistently as direct or indirect.

WHAT ARE SOME BEST PRACTICES FOR ASSESSING TRAVEL COSTS?

When traveling by car for the subaward: The best practice for determining a value for the costs of operating a vehicle is to use the federal mileage reimbursement rate, a widely accepted standard rate updated annually by the IRS. This rate, which was set at 53.5 cents per mile in 2017, is meant to cover all costs of operating a vehicle, including expenses such as maintenance and repairs, gasoline, oil, and insurance.

When billing meals and lodging for employees in travel status to the subaward: DNRC procedure is to reimburse meals and lodging at the state of Montana per diem and lodging rates, found at <https://sfsd.mt.gov/SAB/EmployeeTravel>.

If you believe your circumstances warrant an exception to these procedures, talk to your DNRC program manager to obtain approval prior to incurring the expense.

WHAT ARE SOME BEST PRACTICES FOR REQUESTING REIMBURSEMENT FOR COMPENSATION OF EMPLOYEES WHO WORK ON THE SUBAWARD?

When requesting reimbursement for the costs of compensation of employees who work on the subaward, don't just charge what the employee is paid — i.e. their salary or their wages per hour. Charge the total amount that you, as the employer, pay for the employee. That means factoring in such costs as employer payroll taxes (Social Security and Medicare); insurance costs (life, health, unemployment, and worker's compensation); and certain pension costs. For more discussion of this topic, see 2 CFR 200.431.

WHAT ARE SOME BEST PRACTICES FOR DETERMINING THE VALUE OF VOLUNTEER LABOR TO BE COUNTED AS MATCH?

Values claimed for volunteer services must be consistent with the costs of similar work performed in your organization or the local labor market. If your organization does not have volunteer service rates readily available, consider using the Montana-specific average cost per hour found at http://www.independentsector.org/volunteer_time.

AT WHAT POINT DO MY SUBAWARD FUNDS LOSE THEIR FEDERAL IDENTITY? IN OTHER WORDS, WHEN DO THEY NO LONGER HAVE TO BE MANAGED OR ACCOUNTED FOR AS FEDERAL FUNDS?

Your funds are passed from the federal government, to Montana DNRC-Forestry Division, to you: that is, from federal agency, to recipient, to subrecipient. At all three stages, the funds are considered federal and must be handled and accounted for in compliance with all grant rules in the Uniform Guidance.

However, once you pay out funds as salaries/wages/benefits to an employee, or make a payment to a vendor, contractor, or beneficiary — that is, once funds are under the control of an employee, vendor, contractor, or beneficiary — they are no longer considered to be federal and no longer subject to the administrative and fiscal requirements of the Uniform Guidance.

It should be noted that these entities may still have project goals to accomplish or contractual obligations to meet. As the subrecipient, your responsibility is to ensure that these subaward goals and obligations are fulfilled.

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