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Community Services Policy Manual	SUBJECT Financial Administration Program Accounts, Cost Categories/Budget Line Items, Allowable & Unallowable Costs COMMUNITY SERVICES BLOCK GRANT		EFFECTIVE DATE 08/01/07 END DATE n/a ISSUE DATE 08/01/07

REFERENCES

- Community Services Block Grant Agreement & Master Agreement
- Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations
- Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments
- U.S. Department of Health and Human Services, CSBG Information Memorandum, Transmittal No. 37 (12/10/99), Subject: Definition and allowability of direct and administrative costs.

PURPOSE:

This item describes the Program Accounts and Cost Categories/Budget Line Items to be used in preparation of the Grantee's CSBG "Planned Expenditures" as well as the Allowable and Unallowable Costs (Attachment A). It also provides direction from the HHS (CSBG Information Memorandum, Transmittal No. 37) regarding some costs with administrative qualities that can be identified/charged as direct program costs. (See Attachment B)

POLICY:

Program Accounts

1. Administrative Costs

This account includes costs for administering and managing the central staff and centralized functions of the agency, including but not limited to the following:

- General management of the grantee organization, such as: Strategic direction; Executive Director and executive support functions; and staff and costs related to accounting, budgeting, personnel/human resources, procurement, legal services, data processing, maintenance, etc.
- Management research activities (such as collection, storage, and retrieval of management information) are included when such activities are not part of a specific project, but are utilized as a means of central administration.

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- Costs related to the single audit, federally approved “Indirect Costs” and direct administrative costs charged by a local unit of government for public entities.
- Expenditures for the support or development of members of the governing board or policy advisory councils, agency annual meetings and annual reports.

2. Direct Program Costs

This account includes allowable services and activities that have a measurable impact on the causes of poverty in the community. This includes services and activities geared toward clients attaining meaningful education and employment opportunities, emergency assistance, adequate housing/living environments, participation in community affairs and the removal of obstacles to improved self-sufficiency. Allowable costs include, but are not limited to:

- Costs related to the support of program directors, outreach workers, and others providing assistance to clients.
- Direct assistance to eligible individuals (“Specific Assistance to Individuals”).
- Activities related to the core CSBG program purpose, which are significant and necessary to the grantee’s mission, such as: coordinating, strengthening and expanding local services and programs related to the elimination of poverty. These include but are not limited to:
 - Multi-agency strategic planning, community-wide needs assessments and dialogues on poverty. (activities formally involving multiple service providers)
 - Costs related to the support of agency Planners/Grant Writers, costs associated with non-CSBG grant applications, and portions* of Executive and Deputy Director salaries for activities related to the core CSBG program purpose.

* Since “executive” staff are generally charged to PA01-Administrative Costs, staff time reports, or activity reports, must support charges to the PA02-Direct Program account.
- Co-location of complementary services; computerization of common intake and referral systems; formalized networking to share resources and facilities; and organization of cross-sector coalitions to address specific community concerns.

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Cost Categories/Budget Line Items

The cost categories/budget line items applicable to the CSBG Expenditure Plan include:

- Salary and Wages
- Fringe Benefits
- Occupancy/Space
- Communication
- Supplies
- Equipment
- Transportation/Travel
- Consultant/Professional Services
- Specific Assistance to Individuals
- Miscellaneous

The definitions for these Line Items, as well as a description of the Allowable and Unallowable costs under the CSBG, are included in Attachment B.

Allowability of costs is also addressed in the Community Services Block Grant Agreement, the Master Agreement and applicable Office of Management and Budget Circulars.

Attachments:

- Attachment A - CSBG Allowable and Unallowable Costs
 - ▶ See updates on pages 7 and 9.
- Attachment B - HHS, CSBG Information Memorandum, Transmittal No. 37

CSBG PROGRAM

ALLOWABLE AND UNALLOWABLE COSTS

A. SALARY AND WAGES

DEFINITION: Gross compensation paid to employees in the form of cash, products, or services including vacations, holidays, sick leave and leaves of absence. Paid absences must be reimbursed uniformly for both employees paid under this agreement as well as employees not paid under this agreement but performing similar work.

ALLOWABLE COSTS:

1. Only costs that support the goals and activities of the total program
2. Rates reasonable and consistent with those paid for similar activities by the grantee
3. Rates competitive with those paid for similar services provided by other agencies for doing similar work.
4. Incentive compensation for efficient performance may be paid if it is a part of a standard agreement between the employer and employee
5. Overtime and multi-shift premiums:
 - a) When management of the grantee authorizes such costs as part of their established policies and in accordance with sound business practices
 - b) For emergencies or performance of tasks which cannot reasonably be interrupted

UNALLOWABLE COSTS:

1. Any payment over and above regular salaries and wages for the purpose of inducing employees to undertake or continue work at locations which may be isolated or in an unfavorable environment.
2. The value of donated volunteer time in providing services
3. Bonuses, non-accrued lump-sum severance payments, annuities or other deferred compensation unavailable to all employees in the organization.

B. FRINGE BENEFITS

DEFINITION: Funds allocated to cover allowances, costs and services provided by the grantee to or on behalf of its employees and not included as compensation of salaries and wages. The CSBG's percentage of the cost of each fringe benefit cannot exceed the percentage of total CSBG salaries to total program salaries.

REQUIRED COSTS:

1. All fringe benefits required by law are mandatory. If salaries are included in the budget, the following fringe benefit costs are required.
 - a) FICA (typically calculated at 7.65%)
 - b) Unemployment Compensation
 - c) Worker's Compensation
2. If Unemployment compensation is not included in the budget, the grantee must supply documentation that it is a "Reimbursing Employer" with the Bureau of Worker's & Unemployment Compensation.

ALLOWABLE COSTS:

1. Typical fringes include:
 - a) Retirement
 - b) Health Insurance
 - c) Life Insurance
 - d) Disability Insurance
 - e) Any other services cost or allowances paid by the employer as required by law, agreement or established policy.

2. Fringe benefits not required by law, such as health insurance, retirement and disability, must meet the following criteria to be allowable:
 - a) Fringe benefits must be established in policy, labor agreements, etc. prior to the time the contract is awarded.
 - b) Fringe benefits charged to the contract must be calculated in the same manner as fringes not charged to the contract for employees in similar classifications.

UNALLOWABLE COSTS include:

1. Any costs associated with an employee's personal expenditures during the course of normal employment, such as parking, clothing, meals, etc.
2. Costs or allowance paid by the grantee but not required by law, agreement, or established policy
3. Severance Pay

C. OCCUPANCY

DEFINITION: Costs arising from occupancy and use of owned or leased buildings and offices

ALLOWABLE COSTS include:

1. Depreciation of that portion of the organization's building and improvements used for the program as figured for tax purposes on grantee facilities, based on computation of valuation of property as filed with the IRS, by a generally accepted accounting procedure, with adequate property records.

Depreciation or use charge on assets donated by third parties is allowable. The value of the donated asset used to calculate these charges shall be the market value at the time of the donation.

2. Use allowances are a means of allowing compensation when depreciation or other equivalent costs are not considered. The use allowance for facilities and their improvements can be calculated at an annual rate of up to 2% of acquisition costs.
3. The actual payment of rental costs to a third party for use of the facility and property. Rates must be reasonable in light of such factors as rental costs of comparable facilities and personal property market conditions in the area, the type, life expectancy, condition and value of the facilities leased, options available, and other provisions of the rental agreement.
4. Insurance to cover loss of assets
5. Normal maintenance and repair costs
6. Operation costs, such as cost of utilities, security, janitorial service, elevator service to the extent they are not otherwise included in rental or other charges for space.
7. Costs necessary to comply with security requirements, including wages and equipment of personnel engaged in plant protection
8. Depreciation on plant protection capital assets, such as security systems, shall be included with the building as stated above.

UNALLOWABLE COSTS include:

1. Rental of facilities between plants, divisions, or organizations under common control or ownership
2. Special assessments on land that represent capital improvement, such as sewer and sidewalk assessments
3. Depreciation or use charges for assets fully depreciated by the grantee

D. COMMUNICATION

DEFINITION: Costs for written or verbal communication.

ALLOWABLE COSTS include:

1. Costs incurred for telephone calls or service, pagers, fax service, cellular phone service, wide area telephone services (WATS), centrex, postage, messenger service and similar expenses related to grantee operations. Telephones, pagers and other communication devices should be charged to this item.
2. Printing, reproduction and publication costs
3. Costs of informing or instructing groups, individuals, or the general public about grantee services
4. Costs of gaining the interest of groups or individuals to participate in a service program, including recruitment of volunteers
5. State and Federal excise taxes

UNALLOWABLE COSTS include:

1. Fundraising activities

E. SUPPLIES

DEFINITION: Consumable or non-consumable items with a unit cost of less than \$5,000. Consumable supplies are those that are consumed as they are used (pencils, paper, etc.). Non-Consumable supplies are those that are not consumed as they are used (file cabinets, chairs and other durable goods).

ALLOWABLE COSTS Include:

1. Costs associated with delivery of supplies
2. Purchase cost of consumable and non-consumable supplies relevant to the grantee's operation and allowable under the CSBG program.
3. State sales taxes

UNALLOWABLE COSTS Include:

1. Consumable and non-consumable supplies for program activities not allowed under the CSBG program.

F. EQUIPMENT

DEFINITION: Any non-consumable item with an acquisition cost of \$5,000 or more (including program software) that is not attached to or included as part of the cost of a facility.

ALLOWABLE COSTS include:

1. Equipment purchases cannot be expensed directly to the CSBG grant; the costs must be capitalized and budgeted as either depreciation or use allowance. Exception: Costs (or shared costs) for purchased equipment may be charged to CSBG if an Equipment Waiver Request has been approved by the DHS Bureau of CA&EO.

Waiver Process: As part of the grantee's application process, DHS Bureau of CA&EO will accept formal waiver requests to purchase "equipment" that will benefit the agency's programs or clients. Agencies submitting a request must do so by utilizing the Equipment Waiver Request form, DHS-4328, and by providing the required documentation with the CSBG application. Purchases cannot occur unless and until a waiver has been granted.

2. Depreciation costs due to the normal depreciation as figured for tax purposes on equipment based on computation of valuation of property as filed with the IRS, by a generally accepted accounting procedure, with adequate property records and depreciation schedules.
3. Use allowance for equipment calculated at an annual rate of 6 2/3% of the acquisition cost.
4. Rental costs for equipment paid to a third party in an arms length transaction must be reasonable, using factors such as: rental costs for comparable equipment and personal property; market conditions in the area; the type, life expectancy, condition and value of the equipment leased; options available and other provisions of the rental agreement. Include such items as typewriters, computers, copiers and office furniture if the unit cost equals or exceeds \$5,000.
5. Insurance to cover loss of equipment.
6. Normal equipment maintenance and repair costs.
7. Cost of transportation or freight in delivering equipment to the grantee.

UNALLOWABLE COSTS include:

1. Rental of equipment between plants, divisions or organizations under common control or ownership.
2. The amount that rental costs under any type of "option to buy" arrangement exceed rental costs without an "option to buy".
3. Any portion of the purchase price of equipment over \$5,000. See "allowable costs" for proper method of charging equipment.

G. TRANSPORTATION

DEFINITION: Transportation costs include the costs of travel, lodging, meals and incidental expenses incurred by personnel or grantee board members in a travel status while on official business. Travel rates established by the State of Michigan will be used as a guideline in determining reasonableness of rates charged to the CSBG grant.

ALLOWABLE COSTS include:

1. Actual expenses controlled by maximum reimbursement rate for meals and lodging.
2. Per diem or mileage in lieu of actual costs if a standard reimbursement schedule exists for all employees.
3. Actual cost of a grantee owned or leased vehicle, including insurance, gasoline, oil, depreciation and all normal maintenance when the vehicle is used for an allowable CSBG activity.
4. Leased or rental vehicles at a mileage or fixed rate that includes vehicle maintenance, inspection and repair services.
5. Air travel, less than first class, when attending conferences/training.
Note: The grantee must identify the potential conference or trainer sponsor(s) for such travel when itemizing this cost. Example of sponsors include: NASCSP, CAP, NCAF, CAPLAW, etc.
6. Transportation of clients as part of grantee services.

UNALLOWABLE COSTS include:

1. Mileage reimbursement when grantee vehicle is used.

H. CONSULTANT/PROFESSIONAL SERVICES

DEFINITION: Compensation paid by the grantee to a third party under a contractual agreement for a consultant or professional services such as: Agency Audit; CPA or Accounting/Payroll services, consultants for Community/ Agency Needs Assessment, Strategic Planning, Employee Training; Software Consultants and Trainers; etc.

Note: Contracts to provide direct services for clients are to be included under the line item "Specific Assistance to Individuals."

ALLOWABLE COSTS include:

1. Professional services costs rendered by members of a particular profession who a of the grantee and who provide services relevant to the grantee's operation. The following criteria are considered:
 - a) The costs are reasonable in relation to the service rendered. If reasonableness is questioned, the Grantee must document how the price or cost was determined.
 - b) The nature and scope of the contracted services are in support of the grantee's operation and program services.
 - c) The service can be performed more economically by subcontracting.
 - d) The grantee's fees are consistent and competitive with other providers.
 - e) The contractual agreement for the service to be provided is adequate in description of the service, estimate of time required, rate of compensation and termination provisions.
 - f) The contract is secured following the grantee's contracting policies and following OMB Regulations. The dollar value and other factors would require bidding to assure reasonable cost and quality of service.
 - g) The contractual agreement adequately conforms to the Agreement between the grantee and DHS/BCAEO.
2. Management studies/consultants to improve the stability, effectiveness and efficiency of the grantee.

UNALLOWABLE COSTS Include:

1. Retainer fees for litigation.
2. Subcontracts with persons who meet the legal definition of an employee for the purpose of avoiding mandatory fringe benefits.
3. Subcontracts with agencies or individuals that have common ownership or contracts with the grantee.

I. SPECIFIC ASSISTANCE TO INDIVIDUALS

DEFINITION: Specific services provided to and for clients (such as the purchase of household supplies or furniture, payment of utility bills, or the provision of training, meals, shelter, transportation, etc.) Itemize each type of specific assistance.

Examples:

Automotive Repairs	3,000
Rent Deposits	5,000
Transportation (Grantee: Blue Cab)	2,000
Overnight Shelter (Grantee: Women's Mission)	4,000

ALLOWABLE COSTS include:

Services allowable under the CSBG program. Note: Contact your DHS BCAEO grant manager if you have questions.

Note: If the agency plans to contract with another provider to provide specific services for clients (examples above), the agency must identify both the service and the grantee's name and include the following items in its plan.

1. A copy of the contract boilerplate. The contractual agreement must adequately conform to the Agreement between the grantee and DHS.
2. A copy of the contract's scope of services: The scope must specifically identify the services to be provided to the clients. It must also indicate which entity, the agency or the grantee, will determine client eligibility. If the grantee is to determine eligibility, the CSBG eligibility guidelines must be referenced (example: CSPM Item 502-CSBG Income Eligibility Guidelines, effective date _____), and noted as an attachment.
3. A copy of the proposed contractor's budget.

UNALLOWABLE COSTS include:

Activities that are not allowable under the CSBG program. Note: Contact your DHS grant manager if you have questions.

J. MISCELLANEOUS

DEFINITION: Expenses that are not chargeable to other line items. Each cost must be itemized.

ALLOWABLE COSTS Include:

1. The cost of establishing and maintaining all accounting and other information systems required for grantee central administration, not included in other line items.
2. Advertising for: Recruitment of personnel , solicitation of bids for the procurement of goods and services, program announcements, etc.
3. **Direct costs assessed by a governmental unit (similar to indirect costs) when the grantee is a public organization; such costs are to be included in the ADMIN Budget. See Page 9.**
4. Professional liability insurance
5. Data processing for grantee management, such as payrolls, personnel records, etc.
6. Services to cover processing of checks or warrants from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.
7. Premiums on bonds covering employees who handle contract funds.
8. Health and first aid supplies
9. Employee counseling services, as generally covered by health insurance providers, including outpatient mental health services, family and marriage counseling and substance abuse counseling
10. Meeting and conference expenses.
11. Professional memberships if not covered in an agency's indirect cost rate and for memberships which have a direct relationship to the goals of the CSBG. May include costs of memberships in trade, business, technical and professional organizations, as required for affiliation with the parent body.
12. Preparing payrolls and maintaining necessary related wage records.
13. Recruitment, examination, certification, classification, establishment of pay standards and related activities
14. Costs associated with the recruitment, training and retention of volunteers for agency programs and activities. This includes recognition awards and mileage/meal reimbursement for volunteers.
15. Subscriptions, if not covered in the agency's indirect cost rate, and the subscriptions:
 - a) are considered necessary to the administration of the agency's program(s),
 - b) provide a training component that increases the knowledge and skill of the agency staff,
 - c) have a direct relationship to the agency's specific objectives, and/or
 - d) are specifically job and staff performance related.
16. The cost of employee training and training conferences.
17. **Indirect costs:**
 - a) incurred for a common or joint purpose benefiting more than one cost objective, and
 - b) not readily assignable to the cost benefited, without effort disproportionate to the results achieved.

Note: See Page 9 for acceptable calculation methods: Such costs are to be included in the expenditure plan as **ADMIN** costs and all mathematical calculations supporting the cost must be included in the plan. A copy of the current approved Indirect Cost Rate Agreement from the cognizant agency must be provided as an attachment to the expenditure plan.

J. MISCELLANEOUS (continuation)

UNALLOWABLE COSTS Include:

1. Interest on borrowed capital or temporary use of endowment funds.
2. Fund Raising:
 - a) Non-Profit Organizations: Organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests and similar expenses incurred solely to raise capital or obtain contributions.
 - b) Units of Local Government: Organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.
3. Investment and related expenses incurred solely to enhance income from investments
4. Individual staff memberships in trade, business, technical and professional organizations unless the agency can sufficiently describe the specific benefits to the agency and its customers.
5. Food and food preparation for employees.
6. Salaries and other expenses of local government bodies such as county supervisors, city council, school boards, etc., whether incurred for purposes of legislation or executive direction
7. Prosecution of claims against the State
8. Costs related to discharging general responsibilities as legal officer
9. The costs of amusement, diversion, social activities, ceremonials and incidental costs relating thereto, such as meals, lodging, rentals, transportation and gratuities, unless approved under the grant. (Example: Recreation costs provided for under the line item "Specific Assistance to Individuals.")
10. Costs resulting from violations of or failure to comply with Federal/ State/local laws and regulations
11. Contributions and donation costs for free-will offerings to individuals and agencies
12. Contingency costs related to possible future events or conditions rising from presently known or unknown causes, the outcome of which is indeterminable at the present time, e.g. pending litigation and other general business risks
13. Bad debt losses (whether actual or estimated) arising from uncollectable customer's accounts and other claims, related costs and related legal costs
14. The cost of maintaining central accounting records required for overall local government purposes, such as appropriation and fund accounts by treasurer, comptroller, or similar officials
15. Accreditation fees unless the agency can sufficiently describe the specific benefits to the agency and its customers.
16. Costs of employee recognition "gifts."
17. Promotional items, such as: a) imprinted products given away as souvenirs from conferences, events or meetings; b) high cost products like pens and commemorative items; c) custom or specialized binders, etc.

Direct Costs Assessed by a Governmental Unit and Indirect Costs

Such costs are to be Included in the “ADMIN” Category
under the “Miscellaneous” Line Item

Reference: Page 8, Item 3. Direct Costs Assessed by a Governmental Unit

The following terminology shall be used by contractors/grantees when such costs are included in a budget.

Examples:

- *“Direct Costs Assessed by the City” (.include calculation method or explanation of how costs are determined on the budget page, or the agency may note “see comment page” and then provide the specific details on that page...)*
- *“Direct Costs Assessed by the County” (.include calculation method or explanation of how costs are determined on the budget page, or the agency may note “see comment page” and then provide the specific details on that page.)*

Reference: Page 8, Item 17. Indirect Costs

Following are acceptable methods for calculating Indirect Costs. The calculations must be noted in the budget.

Example:

Contract total is \$10,000 and approved indirect rate is 4.7% of the direct BASE
(see sample BASE language below).

$$\begin{aligned} \text{Indirect Costs:} & \quad \$10,000 \div 1.047 = \$9,551 \\ & \quad \$9,551 \times .047 = \$449 \end{aligned}$$

or

$$\begin{aligned} \text{Indirect Costs:} & \quad \$10,000 \times 1.047 = 10,470 \\ & \quad \$10,000 - 470 = \$9530 \\ & \quad \$9530 \times .047 = \$448 \end{aligned}$$

Note:

Refer to the notations in the Federal Indirect Rate Approval letter with regard to what is included in the “BASE” to determine which costs the indirect rate can be applied to. A copy of the Rate Approval letter must be attached to the budget.

Sample BASE language:

1. **“BASE - Total direct costs excluding capital expenditures (buildings, individual items of equipment, alterations and renovations), subawards and flow-through funds.”** (In the example computations above, the total contract budget did not include any of these exclusions.)
2. **“BASE – Direct salaries and wages including all fringe benefits.”** (In this instance, the full approved rate would be applied against the total of the salary and fringes to determine the total indirect costs allowed to be charged to the contract/grant.)

COMMUNITY SERVICES BLOCK GRANT PROGRAM

Information Memorandum U.S. Department of Health and Human Services
Administration for Children and Families
Office of Community Services
Division of State Assistance
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

Transmittal No.37

Date: December 10, 1999

To: State Community Services Block Grant Directors, State Comptrollers, U.S. Territories, Native American Tribes and Tribal Organizations, Community Action Agencies, Community Development Corporations, and other non-profit organizations receiving Community Services Block Grant (CSBG) funds.

Subject: Definition and allowability of direct and administrative costs.

Purpose: This memorandum clarifies the definition and allowability of "direct" program and "administrative" costs under the Community Services Block Grant (CSBG) and new programmatic reporting requirements. The memo specifically addresses use of CSBG funds for planning, coordination, integration, strengthening, and expansion of public and private assistance related to the elimination of poverty.

Related References: Community Services Block Grant Act of 1998, 42 USC § 9901-9920 (1999); OMB Circular A-122; OMB Circular A-133; HHS Results Oriented Management and Accountability Guide (1999).

Policy Summary:

1. For CSBG program reporting requirements, the HHS Office of Community Services (OCS) defines "direct" program and "administrative" costs in accordance with three criteria: (i) meeting Congressional intent for the program; (ii) achieving consistency with HHS audit and financial management standards; and (iii) ensuring a common basis for relating expenditures to the CSBG Results Oriented Management and Accountability System (ROMA).

a. "Direct" program costs can be specifically identified with delivery of a particular project, service, or activity undertaken by a grantee to achieve an outcome intended by the funding program. For CSBG, such direct costs derive from the funding objectives specified in the reauthorizing statute, and from the goals and outcome measures in the ROMA system required by that statute. Direct program costs are incurred for the service delivery and management components within a particular program or project. Therefore, direct program costs include expenditures on some activities with administrative qualities, including salaries and benefits of program staff and managers, equipment,

training, conferences, travel, and contracts that expressly relate to the delivery of an individual program or service funded by a specific grant source.

b. "Administrative" costs, in the context of CSBG statutory reporting requirements, are equivalent to the familiar concepts of "indirect" costs or "overhead." As distinguished from program administration or management expenditures that qualify as direct program costs, administrative costs refer to central executive functions that do not directly support a specific project or service. Rather, administrative costs are incurred for common objectives that benefit multiple programs administered by the grantee organization, or the organization as a whole, and as such are not readily assignable to a particular program funding stream. Administrative costs relate to the general management of the grantee organization, such as strategic direction, Board development, Executive Director functions, accounting, budgeting, personnel, procurement, and legal services.

2. Under the CSBG reauthorization and national ROMA goals, eligible programmatic activities explicitly include efforts to coordinate and strengthen a range of local programs and services that combat poverty. These efforts often entail planning and management functions that facilitate integrated approaches among more categorical public, private, and non-profit entities within a community. They also provide additional resources to enhance or supplement the activities of programs that receive other Federal, State, local, and private funding. OCS considers such functions to constitute a core CSBG program purpose, significant and necessary to the grantee mission, pursuant to Congressional intent. Use of CSBG funds to augment and coordinate other programs is an allowable cost. Furthermore, although some of these functions have administrative qualities, related expenditures that can be specifically identified with a programmatic activity to coordinate and strengthen other programs and services should be categorized as direct program costs, because they achieve an outcome intended by the Congress in the express language of the CSBG reauthorizing statute.

Background

New reporting requirements in the CSBG reauthorization, and potential confusion with terminology used in OMB Circular A-122 and the cost accounting field, necessitate some clarification for grantees and auditors regarding (1) the definition of different cost categories in the CSBG program and (2) the character and allowability of CSBG expenditures to coordinate and link multiple anti-poverty programs.

The CSBG reauthorization requires that HHS report to Congress on use of CSBG funds by grantees, including a breakdown of expenditure by "direct" and "administrative" functions. 42 U.S.C. § 9917(b)(2)(B) (1999). The statute also requires that HHS define "direct" and "administrative" costs for those purposes. 42 U.S.C. § 9917(b)(3). In addition, OMB Circular A-122, Cost Principles for Non-Profit Organizations uses similar terms, with different meanings, in providing guidance on setting indirect cost rates and charging expenditures to grants. OMB Circ. A-122 Attach. A §§ B and C(3) (1998). OCS is promulgating this information memorandum to clarify the definitions of costs for programmatic reporting requirements under the CSBG statute; the memo does not modify the requirements of OMB Circular A-122 or how grantees define costs for the purposes of establishing indirect cost rates for the CSBG program.

CSBG funds may be used to undertake a very broad range of activities, including linking and strengthening other anti-poverty programs and services. For example, CSBG funds may support planning, coordination, and capacity-building to improve the effectiveness of other community programs and organizations. CSBG funds also may be used to enhance and supplement other federally-funded programs. 42 U.S.C. § 9901(2), 42 U.S.C. § 9908(b)(1)(C), 42 U.S.C. § 9908(b)(5). The relatively unusual flexibility to fund coordination and enhancement programs, which sometimes have managerial and administrative qualities, may generate questions regarding the character of those expenditures under the costing definitions. Therefore, OCS is providing guidance regarding what constitutes a direct or administrative cost in those circumstances. Furthermore, OCS is reaffirming that such expenditures are allowable costs under the CSBG statute.

Definitions of CSBG Direct Program Costs and Administrative Costs

The CSBG reauthorization requires that HHS provide a programmatic report to Congress that includes use of CSBG funds by grantees by expenditures on "direct" and "administrative" functions. 42 U.S.C. § 9917(b)(2)(B) (1999). For the purpose of this programmatic report, OCS offers guidance on defining these terms to help ensure consistency among grantees in assigning costs to these categories --

Direct Program Costs for CSBG Reporting. Direct program costs can be identified with delivery of a particular project, service, or activity intended to achieve an objective of the grant award. For the CSBG award, those purposes and eligible activities are specified in the reauthorizing statute and reflected in the national ROMA performance measures. Direct program costs are incurred for the service delivery and management components within a particular program or project. Therefore, direct costs include expenditures on some activities with administrative qualities, including salaries and benefits of program staff and managers, equipment, training, conferences, travel, and contracts, as long as those expenses relate specifically to a particular program or activity, not to the general administration of the organization.

Administrative Costs for CSBG Reporting. In the context of CSBG statutory reporting requirements, administrative costs are equivalent to typical indirect costs or overhead. As distinguished from program administration or management expenditures that qualify as direct costs, administrative costs refer to central executive functions that do not directly support a specific project or service. Incurred for common objectives that benefit multiple programs administered by the grantee organization, or the organization as a whole, administrative costs are not readily assignable to a particular program funding stream. Rather, administrative costs relate to the general management of the grantee organization, such as strategic direction, Board development, Executive Director functions, accounting, budgeting, personnel, procurement, and legal services.

Contrast with OMB Circular A-122 Definitions. OMB Circular A-122 establishes general principles for determining the costs of Federal grants for non-profit organizations. In contrast, the new CSBG reporting requirement focuses on developing a better understanding of the specific relationship between CSBG funding and program operations, particularly in the context of ROMA objectives.

The Circular provides grantees with guidance on accumulating direct and indirect costs in order to ascertain the total or "full costs" of a grant program. Circular requirements ensure that a grantee is internally consistent in the manner it charges costs to Federal grant sources, so that costs charged to a grant as "direct" costs do not duplicate the same or similar costs included and charged to a grant through an approved indirect cost rate. Furthermore, indirect costs may be classified within the subcategories of "administrative" costs and "facilities" costs. The Circular permits grantees substantial latitude in defining and grouping these costs, dependent on an organization's structure, number of programs operated, funding sources, and accounting systems.

Therefore, "administrative" costs as defined under the OMB Circular A-122 are not necessarily interchangeable with "administrative" costs for CSBG program reports. If the Circular's definitions were used for CSBG programmatic reporting requirements, the latitude provided in the Circular could result in "direct" and "administrative costs" being overstated or understated for purposes of CSBG program reports. For example, the Circular permits grantees to include all facility costs, including maintenance and operations, as a separately identified category in calculating their indirect cost rates. However, for CSBG program reports, facility costs attributable to the operation of direct program activities should be reported as "direct" costs, and facilities costs associated with general management of the organization should be reported as "administrative" costs. The same principle for assigning a direct cost in CSBG program reports applies to any other costs included in an organization's approved indirect cost rate that can be identified with delivery of a particular activity to achieve an objective of the CSBG award.

Thus, in CSBG program reports, grantees might deviate from the definition of "administrative" costs used in developing an indirect cost rate under OMB Circular A-122. Again, such a recasting for purposes of a CSBG program report does not in any way modify the requirements of the Circular or the classification of costs in a grantee's approved indirect cost rate. Claims for actual expenditures on Federal grant programs must remain consistent with the classification of costs used in the approved indirect cost rate.

Optional Supplemental Cost Information. In reporting on the distribution of CSBG expenditures between direct and administrative costs, CSBG recipients might also wish to include information on the distribution of overall agency spending between direct and administrative costs. Such information on the relative proportion of overall agency expenditures could provide a more accurate picture of agency operations and help to interpret the role of CSBG funds in supporting agency programs.

Allowability of CSBG Expenditures on Coordination and Strengthening Activities

The purpose of the CSBG award differs from most other grants because it does not focus on funding a particular service; CSBG does not function solely as a "stand alone" program. Rather, CSBG funding can support (1) creation of new programs and services, (2) augmentation of existing programs and services; and (3) organizational infrastructure required to coordinate and enhance the multiple programs and resources that address poverty conditions in the community.

The requirements for allowable costs are unique to each Federal program and are found in the laws, regulations, and provisions of grant agreements pertaining to the program. OMB Circ. A-133 Compliance Supp. 3(A) (1997). In addition, allowable costs should comply with several

general criteria: (1) reasonable and necessary for performance and administration of the award; (2) conforming to limitations or exclusions set in the award or OMB Circular A-122 Attachment B; (3) consistent with the uniform policies and procedures of the organization; (4) allocated consistently as direct or indirect in like circumstances; (5) in accordance with generally accepted accounting principles; (6) not used to match the cost-sharing or matching requirements of another federally-funded program, or charged as a cost to such a program; and (7) documented adequately. See e.g. OMB Cir. A-122 Attach. A § A(2).

Within this framework, use of CSBG funds to both coordinate and expand local services and programs related to the elimination of poverty meet the standards for allowable costs. These activities comprise the largest spending category for the CSBG award. They often entail planning and management functions that facilitate shared resources and integrated approaches among multiple categorical services and programs within a community. They also leverage, enhance, and supplement the impact of programs supported by other Federal, State, local, and private funding sources.

The CSBG reauthorizing statute specifically targets "the strengthening of community capabilities for planning and coordinating the use of a broad range of Federal, State, local, and other assistance (including private resources) related to the elimination of poverty, so that this assistance can be used in a manner responsive to local needs and conditions." 42 U.S.C. § 9901(2)(A). The statute requires grantees to develop linkages that fill identified gaps in services and support innovative community and neighborhood-based initiatives. 42 U.S.C. § 9908(b)(3)(B). The statute also requires that grantees "coordinate, and establish linkages between, governmental and other social services programs to assure the effective delivery of such services to low-income individuals and to avoid duplication of such services" 42 U.S.C. § 9908(b)(5).

The statutory mandate for coordination is reinforced by the goals and outcome measures established in the ROMA performance-based management system, now made compulsory by the CSBG reauthorization. 42 U.S.C. § 9908(12). Two of the six ROMA goals are "developing partnerships among supporters and providers of services to low-income people" and "increasing the capacity of local agencies to achieve results." Office of Community Serv., U.S. Dep't of Health and Human Serv., ROMA Guide 2-8 (1999).

These coordinating and strengthening programs may include, but are not limited to: multi-agency strategic planning; community-wide needs assessments; co-location of complementary services; computerization of common intake and referral systems; formalized networking to share resources and facilities; and organization of cross-sector coalitions to address specific community concerns.

The CSBG reauthorizing statute also explicitly permits the use of CSBG funds to augment existing community-based programs. The legislation calls for "the broadening of the resource base of programs directed to the elimination of poverty" 42 U.S.C. § 9901(2)(E). It also provides funds to "make more effective use of . . . other programs related to the purposes" of the CSBG legislation. 42 U.S.C. § 9908(b)(1)(C). For example, CSBG funds can be applied to "support development and expansion of innovative community-based youth programs" 42 U.S.C. § 9908(b)(1)(B).

CSBG funds do remain subject to the standard grant policy prohibition against "cost shifting." This policy prohibits using funds from one grant award to pay for program costs instead of the funds already provided for those same costs within another current-year Federal grant award. However, the policy does not prevent using funds from one grant award to pay for program costs in excess of the amounts provided for those costs in the other current-year award. Specifically, CSBG funds may not be used in place of the amounts provided by another current-year Federal grant award for (1) direct or administrative expenditures that were included as line items in that other grant award, or (2) costs that were included in developing the indirect cost rate. However, CSBG funds may be used to pay for costs of such program activities above and beyond the levels financed by another Federal grant award.

Therefore, consistent with Congressional intent and HHS grants policy, CSBG funds may supplement other grant awards by paying for expansion and enhancement of existing services and programs that already receive Federal, State, local, or private funding for those activities. Outcomes of these CSBG expenditures should be accounted for in the ROMA performance-based management system.

Cost Allocation for CSBG Coordination and Strengthening Activities

Because funding the coordination and enhancement of multiple community-based programs is an explicit objective of the CSBG statute, grantee expenditures on projects, services, or activities in these areas constitute appropriate objects for the purposes of assigning direct costs, as well as administrative costs.

Such grantee programs to "coordinate and strengthen" may entail planning and management functions with some characteristics that resemble typical administrative costs, but should be treated as direct costs. For example, CSBG funds can be used to create and maintain a computer network among multiple service providers in a community. CSBG funds can be applied to develop and operate a one-stop family center that houses multiple service providers and programs funded by other sources. CSBG funds can pay for community-wide needs assessments and multi-service strategic planning. CSBG funds also can finance compilation, publication, and distribution of information to help clients make better use of services and programs funded by other sources. The objective of these CSBG-funded coordination programs is to connect and make more effective use of the underlying services and programs, pursuant to the CSBG statutory mandate. Therefore, these activities constitute a core CSBG program purpose, significant and necessary to the grantee mission, and an outcome intended by the funding program to which direct costs should be assigned.

The allocation between direct and administrative costs for these programs should be determined in accordance with the grantee's standard procedures for recovering eligible costs, either through calculation and application of the grantee's indirect cost rate, or through direct charges to the grant award.

HHS Reviews

This memorandum was reviewed by staff in the HHS Office of Grants and Acquisition Management.

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