United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

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Department of the Interior Guidance (DIG) Release 2013-06

Subject: **Financial Assistance Cost Review Guidance**

References: OMB Circular A-21, Cost Principles for Educational Institutions, relocated to 2 CFR, Part 220
OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, relocated to 2 CFR, Part 225
OMB Circular A-122, Cost Principles for Non-Profit Organizations, relocated to 2 CFR, Part 230
Federal Acquisition Regulation (FAR) Subpart 31.2, Contracts with Commercial Organizations, codified at 48 CFR 31.2

1. **Purpose**: The purpose of this document is to establish uniform procedures and guidance for reviewing and evaluating proposed costs included in financial assistance applicant budgets. This DIG provides procedures to be conducted in accordance with the applicable Office of Management and Budget Cost Principles. The DIG does not limit the flexibility of bureaus/organizations in conducting additional analysis; rather, it provides minimum procedures that should be undertaken in conducting a cost review.

2. **Effective Date:** Effective immediately upon release.

3. **Background and Explanation:** A cost review is defined as a review of a budget to ensure that costs are necessary, reasonable, allowable, allocable, and adequately supported. At the pre-award stage an applicant's budget request is reviewed for compliance with the governing cost principles and other requirements and policies applicable to the type of recipient and the type of award. Any resulting award will include a budget that is consistent with these requirements. Bureaus and offices have the discretion to create or adopt detailed budget formats for analyzing specific items of cost.

4. **Applicability:** It is the Department of the Interior policy that a cost review be conducted for every project selected for funding. The form and extent of the cost review will be based on the individual grantee and project. Details regarding the reviews conducted should be documented, regardless of the complexity and depth of the review.

A. Grants management specialists/contract specialists should do the following when documenting cost reviews:

- Detail the extent and findings of cost reviews. Document all cost reviews performed even if the evaluation found no questionable areas.

- Indicate budget revisions and clearly label revised budgets to differentiate them from the initial budgets.

B. The following are steps the grants management specialist/contract specialist and/or technical representatives should follow in performing a cost review:

- Verify that budget is in compliance with program statute or Funding Opportunity Announcement for budget criteria; and consistent with the limits on the types of expenses (e.g. no construction allowed), spending caps on certain expenses (e.g. travel limited to $10,000), and overall funding limits (e.g. total costs cannot exceed $300,000 per year).
- Verify that budget detail agrees with the budget summary, and that figures add up correctly.
- Ensure the budget information is complete and that costs are allowable and allocable in accordance with Federal cost principles.
- Require revisions of budgets that include costs that are not reasonable, allowable, allocable, or necessary.
- Compare the proposed budget to the narrative or work plan to determine whether the budget is reasonable from a programmatic perspective. Technical staff should review and provide input.
- Examine staffing requirements (technical staff should review and provide input) for the project and determine whether the proposed number of personnel is appropriate to meet the project objectives.
- Review personnel budget category to determine if the salary ranges proposed are reasonable.
- Determine whether the amount budgeted for supplies is reasonable.
- Review travel costs to ensure that the destination(s) and the number of trips planned are necessary to complete the scope of work, and that the number of travelers and nights per traveler per destination is allocable to the scope of activities and purposes of award.
- Determine whether the project's objectives support equipment purchases or if other options should be considered, such as equipment rental or loan of government property. If purchasing equipment is the best option, the grants management specialist or contracts specialist must ensure during award close-out that the recipient requests and receives disposition instructions in accordance with 43 CFR 12.72 and 12.934.
- Review the "other" cost category to determine whether these costs are consistent with the proposed work plan and are necessary to complete the program activities.
- Review the purpose of proposed contracts and sub-awards under the grant to verify that
  (a) the contract or sub-award support appears allocable to the objectives of the project/program; and
  (b) the proposed costs appear reasonable.
- Determine whether the awardee will generate program income under the award. If so, refer to 43 CFR 12.64 or 12.924, as appropriate, to determine how the recipient should handle program income. If the bureau/office wishes the recipient to handle program income differently than prescribed in 43 CFR 12.64 or 12.924, or wishes to authorize the program income alternatives, then the grants management/contract specialist should include the applicable term and condition to be included in the assistance agreement.

- Ensure that no unallowable costs, such as lobbying, entertainment expenses, etc., are included. Staff should develop a general list of allowable and unallowable costs to either publish in the Grants.gov application instructions or Federal Register announcement.

The negotiation process may be minimal or may involve negotiating all aspects of the grant award with the applicant. It may also involve explaining to the recipient that the budget must be changed to comply with regulations; or require a comprehensive give-and-take negotiation of all aspects of the award, including the scope of work, the budget and the terms and conditions.

5. <u>Additional Information</u>:

If you have any questions about this DIG, please contact Anita Hairston, Financial Assistance Program Manager, Office of Acquisition and Property Management, at (202) 513-0871.

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Office of Acquisition and Property Management and
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