

§ 225.50 Policy review date.

This part will have a policy review three years from the date of issuance.

§ 225.55 Information contact.

Further information concerning this part may be obtained by contacting the Office of Federal Financial Management, Financial Standards and Reporting Branch, Office of Management and Budget, Washington, DC 20503, telephone 202-395-3993.

APPENDIX A TO PART 225—GENERAL PRINCIPLES FOR DETERMINING ALLOWABLE COSTS

TABLE OF CONTENTS

- A. Purpose and Scope
 - 1. Objectives
 - 2. Policy guides
 - 3. Application
- B. Definitions
 - 1. Approval or authorization of the awarding or cognizant Federal agency
 - 2. Award
 - 3. Awarding agency
 - 4. Central service cost allocation plan
 - 5. Claim
 - 6. Cognizant agency
 - 7. Common rule
 - 8. Contract
 - 9. Cost
 - 10. Cost allocation plan
 - 11. Cost objective
 - 12. Federally-recognized Indian tribal government
 - 13. Governmental unit
 - 14. Grantee department or agency
 - 15. Indirect cost rate proposal
 - 16. Local government
 - 17. Public assistance cost allocation plan
 - 18. State
- C. Basic Guidelines
 - 1. Factors affecting allowability of costs
 - 2. Reasonable costs
 - 3. Allocable costs
 - 4. Applicable credits
- D. Composition of Cost
 - 1. Total cost
 - 2. Classification of costs
- E. Direct Costs
 - 1. General
 - 2. Application
 - 3. Minor items
- F. Indirect Costs
 - 1. General
 - 2. Cost allocation plans and indirect cost proposals
 - 3. Limitation on indirect or administrative costs
- G. Interagency Services
- H. Required Certifications

General Principles for Determining Allowable Costs

A. Purpose and Scope

1. Objectives. This Appendix establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, cost reimbursement contracts, and other agreements with the Federal Government (collectively referred to in this appendix and other appendices to 2 CFR part 225 as “Federal awards”). The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. Provision for profit or other increment above cost is outside the scope of 2 CFR part 225.

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

(1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

b. Federal agencies should work with States or localities which wish to test alternative mechanisms for paying costs for administering Federal programs. The Office of Management and Budget (OMB) encourages Federal agencies to test fee-for-service alternatives as a replacement for current cost-reimbursement payment methods in response to the National Performance Review’s (NPR) recommendation. The NPR recommended the fee-for-service approach to reduce the burden associated with maintaining systems for charging administrative costs to Federal programs and preparing and approving cost allocation plans. This approach should also increase incentives for administrative efficiencies and improve outcomes.

3. Application.

a. These principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards (including subawards) except those with (1) publicly-financed educational institutions subject to, 2 CFR part 220, Cost Principles for Educational Institutions (OMB Circular A-21), and (2) programs administered