

CITY OF LOS ANGELES
CALIFORNIA

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DATE: August 30, 2021

TO: All Economic and Workforce Development Department (EWDD)
Subrecipients

FROM: Catherine Bondoc, Director 
Financial Management Division

**SUBJECT: FMD DIRECTIVE NO. 22-001
ALLOWABLE COST- POLICY AND PROCEDURES**

EFFECTIVE DATE:

This directive is effective upon date of issue.

PURPOSE:

The purpose of this directive is to provide guidance on general cost principles and allowable costs under the 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Federal Acquisition Regulation Part 31.2, other applicable federal, state, and local grant rules and regulations, and City of Los Angeles contract provisions.

SCOPE:

This directive applies to all federal and non-federal awards passing-through the City of Los Angeles (City) and City-funded programs.

POLICY AND PROCEDURES:

In general, to be an allowable charge, a cost must meet the following criteria:

- Be necessary and reasonable for the proper and efficient program performance and administration of the grant;

- Be allocable to the grant. A grantee may charge costs to the grant if those costs are clearly identifiable as benefitting the grant. In order to be allocable, a cost must be treated consistently with like costs and incurred specifically for the program being operated;
- Conform to any limitations or exclusions set forth in the award;
- Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-federal entity;
- Be accorded consistent treatment;
- Be determined in accordance with generally accepted accounting principles;
- Be adequately documented; and
- Not be used to meet cost sharing or matching requirements of any other federally financed program (without prior approval from the City).

The matrix below lists the various cost items referenced in Title 2 CFR Sections 200.420 through 200.476 (consideration for selected items of cost) and whether an item of cost is:

- A - Allowable,
- AP - Allowable with prior approval,
- AC - Allowable with condition,
- U - Unallowable, or
- NS - Not specified in the Uniform Guidance, the specific CFR sections, or in the comments section.

	Cost Item	Allowability		Comments
1	Advertising and public relations	A/U	200.421	1) Unallowable if the costs are to promote other activities of the entity. 2) Costs for promotional items & memorabilia are unallowable.
2	Advisory councils	AC/U	200.422	Unallowable unless authorized by statute, the federal awarding agency or as an indirect cost.
3	Alcoholic beverages	U	200.423	
4	Alumni/ae activities	U	200.424	
5	Audit services	AC/U	200.425	Any cost of auditing a non-federal entity that is exempted (Federal expenditures less than \$750,000) from having an audit conducted under the Single Audit Act is unallowable.
6	Bad debts	U	200.426	

	Cost Item	Allowability	Uniform Guidance Section	Comments
7	Bonding costs	A	200.427	
8	Collection of improper payments	A	200.428	
9	Commencement and convocation costs	AC/U	200.429	Unallowable except as indirect costs.
10	Compensation – personal services	A/U	200.430	Incentive compensation is allowable if it is based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is determined to be reasonable and entered into in good faith between the non-federal entity and the employees before the services were rendered. Per City guidelines, bonuses are not allowable.
11	Compensation – fringe benefits	A /U	200.431	Allowable provided that the benefits are reasonable and are required by law, non-federal entity-employee agreement, or an established policy of the non-federal entity.
12	Conferences	A	200.432	Under DOL guidelines, food is allowable under this section
13	Contingency provisions	AC/U	200.433	Allowable under strict conditions. Any type of “reserve” is unallowable.
14	Contributions and donations	U	200.434	
15	Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringement	AC/U	200.435	Allowable if a specific term or condition of the federal award or a specific written direction of an authorized official of the federal awarding agency.
16	Depreciation	AC	200.436	Must be capitalized based on GAAP and no depreciation may be allowed on any assets that have outlived their depreciable lives. Use allowance method is no longer allowed. Where the depreciation method is introduced to replace the use allowance method, it must be computed as if the asset had been depreciated over its entire life. Also, the acquisition costs must be reduced by any portion of the cost of buildings and equipment borne by or donated by the Federal Government.
17	Employee health and welfare costs	A	200.437	Must be included in the organization’s written policy.
18	Entertainment costs	U/AP	200.438	Allowable where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the federal award or with prior written approval of the Federal awarding agency.
19	Equipment and other capital expenditures	AP/U	200.439	Allowable with prior written approval of the federal awarding agency or pass-through entity.
20	Exchange rates	AP	200.440	
21	Fines, penalties, damages and other settlements	U/AP	200.441	Unallowable except when incurred as a result for compliance with specific provisions of the federal award.

	Cost Item	Allowability	Uniform Guidance Section	Comments
22	Food Cost	U	City Policy	Cost of food for any purpose cannot be charged to the grant. However, see Conferences 200.432.
23	Fundraising and investment management costs	U/AP/A	200.442	Allowable if fund raising costs are for the purposes of meeting the Federal program objectives with prior written approval from the Federal awarding agency.
24	Gains and losses on disposition of depreciable assets	AC	200.443	Must be included in the year in which they occur as credits or charges to the assets.
25	General cost of government	U	200.444	
26	Goods or services for personal use	U/AP	200.445	1) Unallowable regardless of whether the cost is reported as taxable income to the employees. 2) Costs of housing, housing allowances and personal living expenses are only allowable as direct costs and must be approved in advance by the federal awarding agency.
27	Idle facilities and idle capacity	AC/U	200.446	Idle Facilities: Unallowable except to the extent that: 1) They are necessary to meet fluctuation in workload requirements; 2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of unforeseen causes; 3) Allowable for a reasonable period, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities. Idle Capacity: Allowable if reasonably anticipated to be necessary to carry out the purpose of the Federal award or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards.
28	Insurance and indemnification	AC/U	200.447	Allowable: a) Costs of insurance required or approved and maintained, pursuant to the federal award; b) Actual losses incurred under nominal deductible insurance coverage if in keeping with sound management practice; Minor losses not covered by insurance which occur in the ordinary course of operations. Allowable but subject to limitations: a) Costs of insurance in connection with the general conduct of activities; b) Contributions to a reserve for certain self-insurance programs including workers' compensation, unemployment compensation, and severance pay. Unallowable: Actual losses which could have been covered by permissible insurance.
29	Intellectual Property	A/U	200.448	Costs of patents, copyrights and royalties are allowable if required by the Federal Government and by the federal award.
30	Interest	AC/U	200.449	1) Interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable. 2) Financing costs (including interest) to acquire, construct, or replace capital assets are allowable but subject to specific conditions.
31	Lobbying	U	200.450	

	Cost Item	Allowability	Uniform Guidance Section	Comments
32	Losses on other awards or contracts	U	200.451	
33	Maintenance and repair costs	A	200.452	Allowable if necessary to keep property in an efficient operational condition and: a) Does not add to the permanent value of the property; and/or Does not prolong the property's intended life.
34	Material and supplies costs, including costs of computing devices	A	200.453	City requires prior approval for computers and other electronic equipment
35	Memberships, subscriptions, and professional activity costs	A/U	200.454	Allowable: a) Costs of the non-federal entity's membership in business, technical, and professional organizations. b) Costs of the non-federal entity's subscriptions to business, professional, and technical periodicals. c) Costs of membership in any civic or community organization are allowable with prior approval by the federal awarding agency or pass-through entity. Unallowable: a) Costs of membership in any country club or social or dining club or organization. Costs of membership in organizations whose primary purpose is lobbying.
36	Organization costs	U/AP	200.455	Unallowable except with prior approval of the federal awarding agency.
37	Participant support costs	AP	200.456	Allowable with prior approval of the federal awarding agency. Participant support costs as defined in the annual plan are b) allowable.
38	Plant and security costs	A	200.457	
39	Pre-award costs	AP	200.458	Allowable if: a) Incurred directly pursuant to the negotiation and in anticipation of the Federal award where such costs are necessary for efficient and timely performance of the scope of work. b) They would have been allowable if incurred after the effective date; and b) Only with the written approval of the Federal awarding agency. Not allowable per City guidelines
40	Professional services costs	A	200.459	2) The necessity considering the non-Federal entity's capability in the particular area. 3) The past pattern of such costs, particularly in the years prior to federal awards. 4) The impact of federal awards on the non-federal entity's business. 5) Whether the proportion of Federal work to the non-federal entity's total business is such as to influence the non-federal entity in favor of incurring the cost. 6) Whether the service can be performed more economically by direct employment rather than contracting. 7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities. 8) Adequacy of the contractual agreement for the service. Retainer fees must be supported by evidence of bona fide services available or rendered. All professional services costs (including but not limited to single audit, audit and related services, and accounting) must be procured and have prior written approval from the City's program monitor.

	Cost Item	Allowability	Uniform Guidance Section	Comments
41	Proposal costs	A	200.460	Costs of preparing bids, proposals, or applications on potential Federal and non-Federal awards or projects, including the development of data necessary to support the non-federal entity's bids or proposals. Should be treated as indirect costs and allocated currently to all activities of the non-federal entity.
42	Publication and printing costs	A	200.461	
43	Rearrangement and reconversion costs	A/AP	200.462	(a) Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable as indirect costs. (b) Costs incurred specifically for a Federal award are allowable as a direct cost with the prior approval of the federal awarding agency or pass-through entity.
44	Recruiting costs	A/U	200.463	Allowable to the extent that such costs are incurred pursuant to the non-federal entity's standard recruitment program and with prior approval from the City's program monitor. Unallowable: a) Salaries, fringe benefits and allowances incurred to attract professional personnel that do not meet the test of reasonableness and/or do not conform to the non-federal entity's established hiring practices. b) Relocation costs incurred incident to recruitment of a new employee have been funded in whole or in part to a federal award, and the newly hired employee resigns for reasons within the employee's control within 12 months after hire.
45	Relocations costs of employees	AC/U	200.464	Allowable with prior approval from the City's program monitor and: 1) The move is for the benefit of the employer. 2) Reimbursement to the employee is in accordance with an established written policy consistently followed by the employer. 3) The reimbursement does not exceed the employee's actual (or reasonably estimated) expenses. Limitations do exist.
46	Rental costs of real property and equipment	AC/U	200.465	Allowable to the extent that the rates are reasonable: a) Rental arrangements should be reviewed periodically to determine if circumstances have changed, and other options are available; b) Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the non-federal entity continued to own the property. Unallowable: Rental of any property owned by any individuals or entities affiliated with the non-federal entity, to include commercial or residential real estate, for purposes such as the home office workspace.
47	Scholarship and Students Aid Cost		200.466	1) Costs of scholarships, fellowships, and other programs of student aid at IHEs are allowable only when: a) The purpose of the federal award is to provide training to selected participants; and b) Approved by the federal awarding agency. 2) Tuition remission and other forms of compensation paid as, or in lieu of, wages to students performing necessary work are allowable provided that: a) The individual is conducting activities necessary to the Federal award; b) Provided in accordance with established policy of the IHE; and consistently provided in a like manner to students in return for similar activities conducted under Federal awards as well as other activities; and c) Payments are reasonable compensation for the work performed and are conditioned explicitly upon the performance of necessary work. It is the IHE's practice to similarly compensate students under federal awards as well as other activities.

	Cost Item	Allowability	Uniform Guidance Section	Comments
48	Selling and marketing	U/AP	200.467	Costs of selling and marketing any products or services of the non-Federal entity are unallowable, except: a) As direct costs, with prior approval by the federal awarding agency; and When necessary for the performance of the federal award.
49	Specialized service facilities	AC	200.468	d) Costs of services provided by highly complex or specialized facilities operated by the non-federal entity, such as computing facilities, wind tunnels, and reactors are allowable with conditions.
50	Student activity costs	U/AP	200.469	Costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable, unless specifically provided for in the federal award. DOL exception: b) Unallowable unless the activities meet a program requirement and have prior written approval from the federal awarding agency.
51	Taxes	AC	200.470	Taxes that a governmental unit is legally required to pay are allowable.
52	Telecommunication Cost	AC/U	200.471	Costs incurred for telecommunications and video surveillance services or equipment such as phones, internet, video surveillance, cloud servers are allowable. Costs related to prohibited telecommunications and video surveillance services or equipment are unallowable see 200.216 Prohibition on certain telecommunication and video surveillance equipment and services
53	Termination Cost	AC/U	200.472	Reasonable costs that would not have arisen had the Federal award not been terminated.
54	Training and education costs	A	200.473	The cost of training and education provided for employee development are allowable.
55	Transportation costs	A	200.474	
56	Travel costs	AC	200.475	Allowable with the prior written approval of the Federal awarding agency or pass-through entity when they are specifically related to the Federal award.
57	Trustees	A	200.476	Travel and subsistence costs of trustees are allowable.

Subrecipients may use the matrix above as an initial tool, rather than as a final authority for deciding whether a cost would be considered allowable or not. When determining whether the cost of an item is allowable, subrecipients must also refer to the applicable sections of the Uniform Guidance, and other federal, state, and local grant regulations and City contracts.

If a cost item is denoted with two or more legend keys, subrecipients should look further into the various information sources as they may provide the additional clarity that is needed. The “NS” legend key means that information may not be readily available. The “AP” legend key means that prior written approval will be required from the City.

PRIOR WRITTEN APPROVAL:

The Uniform Guidance lists the following cost items that are allowable only with prior written approval.

Circumstance	Section
Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts	§200.201, paragraph (b)(5)
Cost sharing or matching	§200.306
Use of program income including interests earned	§200.307 City contract section 404
Revision of budget and program plans	§200.308
Real property	§200.311
Equipment	§200.313
Fixed amount sub awards	§200.333
Direct costs	§200.413, paragraph (c)
Compensation – personal services	§200.430, paragraph (h)
Compensation – fringe benefits	§200.431
Entertainment costs	§200.438 For non-DOL programs, unallowable for DOL programs
Equipment and other capital expenditures	§200.439
Exchange rates	§200.440
Fines, penalties, damages, and other settlements	§200.441
Fund raising and investment management costs	§200.442
Goods or services for personal use	§200.445
Insurance and indemnification	§200.447
Memberships, subscriptions, and professional activity costs	§200.454, paragraph (c)
Organization costs	§200.455
Participant support costs	§200.456
Pre-award costs	§200.458
Rearrangement and reconversion costs	§200.462
Selling and marketing costs	§200.467
Taxes (including Value Added Tax)	§200.470
Travel costs	§200.475

Subrecipients should thoroughly review the Uniform Guidance sections referenced above, all applicable federal, state, and local guidelines and City contract provisions to determine when prior written approval must be obtained from the City’s program monitor and assess if the circumstances require prior approval from the City. Please note that inclusion of item(s) in the budget when awarded does not constitute prior approval. Subrecipients must still follow all applicable policies and procedures outlined in this directive.

PRIOR WRITTEN APPROVAL PROCEDURES

Subrecipients must complete and submit a written request for approval to their assigned program monitor along with all necessary supporting documentation no less than 30 days before the requested action is to occur.

The EWDD will consider the following factors in its review of the requests:

- Is the purchase necessary and reasonable?
- Have the best products been selected?
- What other costs are associated with the purchase?
- If applicable, what procurement method will be used?
- If applicable, was a lease option considered in lieu of the purchase?

CORONAVIRUS RELIEF AND FISCAL RECOVERY FUNDS

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the American Rescue Plan Act (ARPA) established the Coronavirus Relief Fund (CRF) and Coronavirus State and Local Fiscal Recovery Fund, respectively. The Department of the Treasury has issued its guidance on, among others, the use of funds and eligible uses of funds found at <https://www.govinfo.gov/content/pkg/FR-2021-01-15/pdf/2021-00827.pdf>, and 31 CFR Part 35, Department of Treasury, Interim Final Rule, Subpart A—Coronavirus State and Local Fiscal Recovery Funds, Sections §35.5 Use of funds and §35.6 Eligible uses at https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf.

In addition, federal agencies regularly issue Frequently Asked Questions (FAQs) related to these funds, such as:

- Department of Labor: <https://www.dol.gov/agencies/eta/coronavirus>,
- Department of Housing and Urban Development: <https://www.hud.gov/coronavirus/cares-act-provider-relief-fund/faqs/index.html>, and
- Department of Health and Human Services: <https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/faqs/index.html>

Subrecipients administering Coronavirus Relief Fund (CRF) and Coronavirus State and Local Fiscal Recovery Fund awarded by the City must also refer to the applicable sections of the Treasury guidance and rules and the Federal agency FAQs, in addition to the Uniform Guidance, other federal, state, and local grant regulations, and City contract provisions.

REFERENCES:

- Title 2 Code of Federal Regulations (CFR) Parts 200 and 300, 2400, 2800, 2900,
- WIOA (Public Law 113-128) Sections 184(a)(3), 134(4)-(d), and 129;
- Federal Acquisition Regulation Part 31.2 Contracts with Commercial Organizations;

- 31 CFR Part 35, Department of Treasury, Interim Final Rule, Subpart A—Coronavirus State and Local Fiscal Recovery Funds, Sections §35.5 Use of funds. §35.6 Eligible Uses;
- US DOL One-Stop Comprehensive Financial Management Technical Assistance Guide (TAG), Part II Chapters 11-13, Cost Principles; Chapter 11-14 Allowable Costs;
- Workforce Services Directive 16-16; Allowable Costs and Prior Written Approval;
- Los Angeles County Directive Number CD-15-14, Cost Principles and Allowable Costs, August 25, 2015;
- City of Los Angeles Contract, Section 403, Allowable and Unallowable Costs; and
- 86 FR 4182, Document No. 2021-00827 – Coronavirus Relief Fund for States, Tribal Governments, and Certain Eligible Local Governments – Department of the Treasury.