

A wooden gavel with a dark handle and a light-colored head, resting on a stack of three books. The books have worn, brown leather covers. The background is a plain, light-colored wall.

**OFFICE OF
MANAGEMENT AND
BUDGET (OMB)
CIRCULAR A-87
ALLOWABLE COSTS**

OMB Circulars A-87

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- Available at:
 - <http://www.whitehouse.gov/omb/circulars/a087/2004/>
- Federal Register 2 CFR Part 225

OMB A-87 ALLOWABLE COSTS – GENERAL OVERVIEW

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- **PURPOSE**

- Establish **principles and standards:**

- ✦ **Determining costs** for federal awards carried out through:

- Grants,
- Cost reimbursement contracts and;
- Other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).

OMB A-87 ALLOWABLE COSTS – GENERAL OVERVIEW

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- POLICY

- Circular establishes principles and standards to:
 - ✦ Provide a **uniform approach** for determining costs and;
 - ✦ To promote **effective program delivery, efficiency, and better relationships** between governmental units and the federal government
- Principles for determining allowable costs only
- Designed to provide that federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law

OMB A-87 ALLOWABLE COSTS – GENERAL OVERVIEW

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- Federal agencies responsible for administering programs:
 - Issue regulations to implement the provisions of OMB A-87 and its appendices
 - ✦ Department of Education
 - Education Department General Administrative Regulations (EDGAR)
 - Title 34, Code of Federal Regulations (CFR), Parts 74-86 and 97-99

OMB UNIFORM GUIDANCE

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- Current OMB circulars that apply to State, Local and Indian Tribal governments:
 - OMB Circular A-102 Common rule
 - OMB Circular A-87 Cost Principles
 - OMB Circular A-133 Single Audit

OMB UNIFORM GUIDANCE SUPER CIRCULAR

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- Final version issued December 26, 2013
- Effective for state and local governments for years beginning after December 26, 2014
- Streamline and consolidate the format of these with circulars that apply to Institutions of Higher Education, Hospitals and Non-Profit Organizations
- Streamline the language from existing OMB circulars into one document

OMB UNIFORM GUIDANCE

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- Reforms to Cost Principles (Circulars A-21, A-87, and A-122)
 - Uniform set of cost principles for all grant recipients
 - Eliminate duplicative language
 - Clarify where there are important substantive policy variances across entities
 - Update language to reflect 21st Century business practices (i.e.. electronic submissions of information)

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **OMB Circular A-87**
- Attachment A General Principles for Determining Allowable Costs
- Some of the factors that affect allowability of a cost:
 - Necessary and reasonable
 - Allocable
 - Authorized
 - Adequately documented

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **OMB Circular A-87**
- To be allowable under Federal awards, costs must:
 - Be **consistent** with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **OMB Circular A-87**
- To be allowable under Federal awards, costs must:
 - Be accorded **consistent treatment**. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- Example:
 - OPEB allocation
 - Supplies
 - Central Printing
 - Software

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- Direct cost
 - Can be identified specifically with a particular final cost objective
 - ✦ Federal grants fund specific activities related to meeting the goals of the project

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- Direct cost
 - Typical direct costs chargeable to Federal awards specific to the performance of award:
 - ✦ Teacher salary/benefits
 - ✦ Cost of instructional materials acquired, consumed, or expended
 - ✦ Equipment and other approved capital expenditures
 - ✦ Professional development
 - ✦ Transportation
 - ✦ Contracted services

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- Indirect Cost:
 - Incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable
 - ✦ Grant activities generate operational costs such as supervision and payroll, but are not directly related to conducting the grant activities
 - ✦ Benefit several activities and programs

CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- Indirect Cost:
 - ✦ Typical indirect costs:
 - Accounting
 - Payroll
 - Auditing
 - Personnel Management
 - Purchasing
 - Employee Relations
 - Facilities

Indirect Cost

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- Indirect rate plan is approved by Federal Government and LEA specific rate is established by DPI
 - Based on audited financial data collected from PI-1505 annual reports
 - ✦ High level functions
 - Those rates are posted

Indirect Cost

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- LEA specific rate is established by DPI
 - Each LEA has the opportunity to file an adjustment to the rate
 - ✦ Certain line items that are pulled into the indirect cost rate calculation may be categorized as direct cost for the calculation, but may not be included as a direct cost for the program . This effectively reduces the indirect rate

Indirect Cost

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- LEA specific rate is established by DPI
 - ✦ Examples
 - Principal's Costs – may be allowed as a direct cost but is always pulled into the calculation of the rate as a direct cost. To be sure it is included as indirect an adjustment would need to be made.
 - Other indirect costs that may be categorized as direct costs for the rate calculation (depending on how they are tracked)
 - Bookkeeper
 - IT Staff
 - General supplies
 - Copying/Printing
 - Postage
 - Phone

DIRECT OR INDIRECT NOT BOTH



TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- **Attachment B Selected Items of Cost**
 - 8. Compensation for personal services
 - Reasonable for services rendered
 - Representative of labor market
 - Conforms to established policy of the governmental unit consistently applied to both Federal and non-Federal activities
 - Reasonable to the extent consistent with that paid for similar work in other activities of the governmental unit.
 - Comparable to similar work performed

TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- Selected Items of Cost
 - 8. Compensation for personal services
 - ✦ Fringe Benefits
 - Compensation in addition to regular salaries and wages:
 - Leave
 - Employee Insurance
 - Pensions
 - Unemployment Benefit Plans

TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- Selected Items of Cost
 - 8. Compensation for personal services
 - ✦ Fringe Benefits
 - Allowable if:
 - Reasonable
 - Required by law
 - Required by governmental unit-employee agreement
 - Established policy of the governmental unit

TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- **Compensated Absences (current employee)**
 - ✦ Accumulated sick leave
 - ✦ Accumulated vacation
- Allowed if:
 - ✦ Established written leave policies
 - ✦ Equitably allocated to all related activities
 - ✦ Accounting basis selected for costing each type of leave is consistently followed

TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- **Compensated Absences**
 - ✦ Accumulated sick leave
 - ✦ Accumulated vacation
- Cash or Accrual
 - ✦ School Districts use a modified accrual basis of accounting
 - ✦ Compensated absences are an expenditure when payment is due
 - ✦ Accordingly, eligible when payment is due not when absence is earned or accumulated
- Direct or Indirect depending on time spent on project

TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- Lump sum payouts for unused vacation or sick leave when an employee retires or terminates employment
 - Paid upon separation or in future years
 - Allowable in year of payment provided allocated as a general administrative expense to all activities of the governmental unit or component.
 - ✦ **INDIRECT COST**
 - One-time in nature or tend to distort normal annual operating expenses

TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- Lump sum payouts for unused vacation or sick leave when an employee retires or terminates employment
 - Where is this coded?
 - ✦ 291000 Termination Benefits
 - Expenditures to employees upon separation of service for unused leave such as sick leave or vacation.
 - ✦ Function 290000 is considered a direct cost in the indirect rate calculation
 - Include this amount in indirect cost (adjustment)

TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **OMB Circular A-87**
- Lump sum payouts for unused vacation or sick leave when an employee retires or terminates employment
 - Where is this coded?
 - ✦ Function of Individual
 - ✦ Object 150? Leave Payments
 - ✦ Object 296? Other taxable employee benefits
 - When pulling this individuals salaries and benefits into the grant claim, be sure NOT to include this amount.
 - Pulled into the rate as a direct cost
 - ✦ Include this amount in indirect cost (adjustment)

POST RETIREMENT HEALTH BENEFITS

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- **OMB Circular A-87**
- Cost of health insurance or health services not included in a pension plan for retirees, spouses, dependents and survivors
 - Pay as you go
 - ✦ Function 29200, object 292
 - Actuarial cost method
 - ✦ Function of Individual, object 218

POST RETIREMENT HEALTH BENEFITS

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- **OMB Circular A-87**
- Pay as You Go
 - Actual payments to retiree or beneficiaries
 - ✦ (i.e.. payment of health insurance premium on retiree)
 - Circular is silent on allocation treatment

POST RETIREMENT HEALTH BENEFITS

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- **OMB Circular A-87**
- **Pay as You Go**
 - Per response from DOE
 - ✦ Further removed from active work than those receiving terminal leave and severance
 - ✦ No benefit to current programs for payment to people not actively working under these programs
 - ✦ Logical to conclude pay as you go must be allocated to all activities of the government unit
 - INDIRECT COST
 - Pulled into the rate as a direct cost
 - Include this amount in indirect cost (adjustment)

POST RETIREMENT HEALTH BENEFITS

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- **OMB Circular A-87**
- **Actuarial Cost Method**
 - Current benefits accrued and accrued liability is funded
 - GAAP/GASB - Funded (cash paid) within six months after the end of that year
 - ✦ For State aid - 30 days after year end (consistent accounting method)
 - ✦ Claims filed within 90 days
 - Only amount up to ARC may be allowed in the current year.
 - Excess over the ARC is allowed as a contribution in a future period
 - ✦ How many districts would do this?
 - Implicit Rate Subsidy reduces the health insurance cost of active employees

CASH MANAGEMENT

33

- **OMB Circular A-87**
- **Funding OPEB or Post Retirement Health Benefits**
 - ✦ **Example:**
 - Each payroll a % or dollar amount is set up as a fringe benefit to the individual and a liability for an OPEB contribution
 - The individual's salaries and fringe benefits are included on an IDEA or Title I grant claim.
 - The school district does not make the contribution to the OPEB trust until July 30th (30 days after year-end)
 - What if the district decides not to make the contribution or makes a lesser contribution amount?

SEVERANCE PAY

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- **OMB Circular A-87**
- Payments in addition to regular salaries and wages made to workers whose employment is being terminated
 - Required by law
 - Employer-employee agreement
 - Established written policy
 - Coded to
 - ✦ Function 291000, Object 296

SEVERANCE PAY

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- **OMB Circular A-87**
- Normal turnover
 - INDIRECT COST
 - Function 290000 is considered a direct cost in the indirect rate calculation
 - Include this amount in indirect cost (adjustment)
- Abnormal or mass severance pay
 - Considered on a case-by-case basis
 - Must be approved by cognizant Federal agency

RETIREMENT BENEFITS – PAY AS YOU GO

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- **OMB Circular A-87**
- Supplemental pension type benefits
 - Not funding a trust
 - Function 292000, object 292
 - INDIRECT COST
 - ✦ Function 290000 is considered a direct cost in the indirect rate calculation
 - Include this amount in indirect cost (adjustment)

HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **OMB Circular A-87**
- Current Employees – for future retirement
- Established to fund district's OPEB liability
 - Considered an OPEB benefit
 - Valued in OPEB study
 - School District has an established OPEB trust
 - Funded based on actuarial study
 - Allocated in the ARC
 - Coded as an OPEB contribution (object 218)

HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **OMB Circular A-87**
- Current Employee – for future retirement
- Established to fund district's OPEB liability
 - Not included in actuarial valuation
 - ✦ Funded 100% each year
 - Placed in a custodial agreement
 - Allowable as direct cost to employee
 - Forfeitures
 - Function of individual, object 219

HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **OMB Circular A-87**
- Retiree
- Established to provide for retiree's current (pay as you go) medical expenditures
 - Not included in actuarial valuation
 - ✦ Funded 100% each year
 - Placed in a custodial agreement
 - Function 292000, object 292
 - Indirect Cost
 - ✦ Function 290000 is considered a direct cost in the indirect rate calculation
 - Include this amount in indirect cost (adjustment)

HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **OMB Circular A-87**
- Current employees
 - Not OPEB
 - Employees may use funds during employment
 - Funds are put into a custodial agreement
 - Allowable as direct cost to employee
 - HRA Forfeitures
 - Function of individual, object 249

HEALTH REIMBURSEMENT ACCOUNTS

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- **OMB Circular A-87**
- **Current Employee**
 - An identified amount to be used
 - Medical costs are paid as incurred and claimed
 - Only amount of actual medical costs paid is allowable as direct cost to employee
 - Function of individual, object 249

YEAR END ADJUSTMENTS

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- **Be Sure Appropriate Costs are Included in Claims**
 - Self-Funded Health Insurance
 - Post Employment Health Benefit Less Implicit Rate Subsidy
 - HRA Medical Payments

UNEMPLOYMENT

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- **OMB Circular A-87**
- Allowable
- Allocated in a consistent manner with the pattern of benefits attributable to the individual(s) or group(s) of employees chargeable to federal award and other activities
- **Function 270000, Object 730**
 - Function 270000 is considered a direct cost in the indirect rate calculation
 - Include this amount in indirect cost (adjustment)

WORKERS COMPENSATION

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- **OMB Circular A-87**
- Allowable
- Allocated in a consistent manner with the pattern of benefits attributable to the individual(s) or group(s) of employees chargeable to federal award and other activities
 - Function of individual, object 254

AUDIT FEES

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- **OMB Circular A-133**

- The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, are allowable.
 - ✦ The charges may be considered a direct cost or an allocated indirect cost, as determined
- Unallowable cost - The cost of auditing when Federal awards expended are less than \$500,000 and is thereby exempted from having a federal single audit under OMB Circular A-133.

AUDIT FEES

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- OMB Circular A-87
 - The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, are allowable.
 - Other audit costs are allowable if included in a cost allocation plan or indirect cost proposal, or if specifically approved by the awarding agency as a direct cost to an award.

AUDIT FEES

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- What does the reform say about audit fees charged to a federal award?
 - This language allowing costs of other audits has been in place for years, it is not consistent with the Single Audit Act, and so recommended deleting it.
 - Instead, the COFAR recommends language that allows the costs of a financial statement audit that does not currently have a Federal award when included in the indirect cost pool as part of a cost allocation plan or indirect cost proposal.
 - ✦ These audits may be useful to the Federal agency negotiating an indirect cost rate, and the COFAR does not believe them to be in conflict with the Single Audit Act.

AUDIT FEES

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- What does the reform say about audit fees charged to a federal award?
- Final –
 - A reasonably proportionate share of the costs of audits required by, and performed in accordance with, the Single Audit Act are allowable. However, the following audit costs are **unallowable**:
 - ✦ Any costs of auditing a non-Federal entity that is exempted from having an audit conducted under the Single Audit Act and Subpart F—Audit Requirements of this Part because its expenditures under Federal awards are less than \$750,000 during the non-Federal entity's fiscal year.
 - The costs of a financial statement audit of a non-Federal entity that does not currently have a Federal award may be included in the indirect cost pool for a cost allocation plan or indirect cost proposal.

AUDIT FEES

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- To be included as indirect
 - ✦ Function 230 000 includes audit costs (231 700) which are indirect costs. If they stay in the direct cost base, the indirect rate is lowered
- Wisconsin Department

OTHER

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- Obligations versus reporting versus single audit
- General Federal Award Guidance

http://sms.dpi.wi.gov/sms_fedaidsneral Funding

QUESTIONS?

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