Indiana State Department of Health (ISDH)
HIV Services Program (HSP)
HSP Policy # 18-12

Federal Cost Principles

BACKGROUND:

45 CFR 75 Subpart E requires recipient and subrecipients charging expenditure to federal funds to do so following the cost principles contained in federal regulations published by the Federal Office of Management and Budget (OMB). These principles govern costs that may be charged to the government by Ryan White recipients and sub-recipients.

POLICY:

Any cost charged to a Ryan White federal program must satisfy the following criteria.
1. The cost must be allowable as defined by federal regulations and/or by the terms of the particular award.
2. The cost must be allocable, that is, the program which paid the expense must benefit from it.
3. The cost must be reasonable, that is, the cost reflects what a *prudent person* might pay.

DOCUMENTATION:

Implemented policies and procedures on financial management systems that handle federally funded revenue and expenses according to federal cost principles.

GUIDANCE:

Cost Principles criteria shall be used by subrecipient to determine whether a cost can be charged or budgeted to the Ryan White grant and when reimbursing subrecipients. For a given cost to be charged to Ryan White Part B, the following criteria must be met:

1. **Allowable**
   Except where otherwise authorized by statute, costs must be: necessary, reasonable, and conform to any statutory limitations or exclusions; consistent and determined to be in accordance with Generally Accepted Accounting Principles (GAAP); not included as part of a cost sharing or matching before it can be charged to the Ryan White grant.
   Example: There is an all-grantee conference and subrecipients attend. There are no prohibitions against travel on the grant, so the staff travel costs are allowable. At the conference, staff go to dinner and order an alcoholic drink. The cost of the drink is unallowable.

2. **Allocable**
   The cost principle stipulates that any expense paid by a program must benefit that Ryan White Part B Program and it can be assigned to core, support and administrative services on some reasonable basis. A cost is allocable if:
   - the cost is incurred solely to advance the core and support services; or
   - the cost benefits both the Ryan White Part B agreement and other work of the agency, in proportions that can be reasonably estimated.

3. **Reasonableness**
   A cost is considered reasonable if a "prudent person" would have purchased this item for this price. Some questions that should be asked before purchasing the item include:
   - Was this cost necessary?
   - Did cost meet certain factors such as arm's-length bargaining, did it comply with federal and state laws and regulations, and did it meet the Ryan White Part B agreement terms and conditions?
   - Did the individual exercise prudence under the circumstance?
   - Did the individual act in accordance with institutional policies and practices and Ryan White agreements?

4. **Consistency**
   Costs incurred for the same purpose in similar circumstances must be treated the same. This is important when classifying expenses as either direct or indirect costs.
   Important reminders:
   1) Costs cannot be shifted to other sponsored agreements to meet deficiencies created by overruns.
   2) Costs cannot be transferred to an account with an unexpended balance.

EXCEPTIONS:
None for federally funded programs.

REFERENCES:
eCFR: https://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#_top

Implemented: September 1, 2018
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