



Cost Principles Activity

Distribute copies of the “Cost Principles” handout. Working in teams, ask participants to review one of the following scenarios at their table. After they have come to their determination using the definition of cost principles, ask teams to share their scenarios and their answers with the larger audience.

1. ABC Child and Family Services’ Head Start program received from its regional office an award of quality improvement funds to purchase two buses. The manufacturer notified the grantee that shipping will be delayed. The grantee will not take possession of the buses in the grant year. The director wants to issue a check to cover the costs of the buses before they are delivered or else use the funds in this grant year to cover the costs for Head Start supplies and other incidental items they could use during the next grant year. If they do this, the following year’s grant funds could be used to cover the costs for the buses.

- Consider whether this is reasonable, allowable, and allocable.

Answer: *The proposed new costs would not adhere to the limitations and exclusions outlined in the grant award; therefore these new costs would not be allowable. Further, any cost allocable to a particular award or other cost objective under these principles may not be shifted to other federal awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award.*

2. John Jacobs, a certified public accountant, completes monthly documentation of the time he volunteers as a board member at ABC Child and Family Services, including the time he spends driving from his home to the board meetings and back. John reports his time at an hourly rate of \$200, which is equal to what his employer charges clients for his services. Given his high level of education and many years of experience, he believes this is a reasonable value for his services.

- Consider whether this is reasonable, allowable, and allocable.

Answer: *These costs aren’t reasonable or allowable. The \$200/hour rate isn’t reasonable for the provision of executive level decision-making, the function provided by a board member. The cost isn’t allowable because it isn’t accorded consistent treatment. All board members should be “priced” at the same hourly*

rate for the function they provide the organization. Generally, organizations use the same rate of pay they provide to an executive director.

3. ABC Child and Family Services operates Head Start center-based services for 6 hours each day. It also provides child care for an hour before and an hour after its Head Start day. The child care is not compliant with the Head Start Program Performance Standards. A review of payroll records indicates that 90 percent of the salaries for the teacher and assistant teacher in each classroom is charged to the Head Start grant.

- Consider whether this is reasonable, allowable, and allocable.

Answer: *This is a violation of the allocable provision because the 90-percent charge to Head Start grant exceeds the benefits to the grant and isn't distributed in reasonable proportion to the benefits received. A reasonable allocation would be 75 percent if the program operates an 8-hour day.*