

Pre-Award: Grant Application- Budget Module 3

Instructor notes:

Welcome to Module #3 in which we will discuss the pre-award process of developing your grant application budget and the key cost principles associated with that activity.

Slide 2 Objectives

- By the end of this module, you should be able to successfully:
- Explain the cost principles, uniform administrative requirements and the basics of a project budget
- Cost Principles and Uniform Administrative Requirements
- Match/Cost Sharing
- Indirect Cost
- SF-424a Preparation
- Maintenance of Effort

Instructor Notes:

- During this module we will give you a basic understanding of the federal cost principles contained in 2 CFR Part 225 and the OMB Circulars-A-87 (or A-122 and A-21 depending on which grantee type you are), as well as the uniform administrative requirements in 49 CFR Part 18 and 19. These principles are the foundation upon which you will build your proposal budget and you must master as an applicant and grant manager of an FMCSA grant.
- We will cover the preparation of 424a budget form and go over a hands-on exercise to help you really understand how to put together a winning SF-424a.
- This module as provides a brief review of Maintenance of Effort.

Slide 3 Cost Principles

Instructor Notes:

We will be in Section 3.5 of the manual throughout this entire Module if you want to follow along. In this next section we will delve particularly into Section 3.5.2.

Slide 4 Budget and Cost Analysis

Direct Costs – allowable, allocable, and reasonable, in accordance with cost principles

- Costs that can be identified with a particular final cost objective/award
- Labor
- Fringe
- Equipment > \$5K
- Material and supplies
- Travel
- Consulting

Indirect Costs – approved by the cognizant agency (only in rare cases is it FMCSA)

- Costs that have been incurred for common or joint objective and cannot be readily identified with a particular final cost objective and/or agency wide activities
- General administration and management
- Application should include a current copy of Indirect Cost Rate Agreement from the cognizant agency
- CFO is the contact for agencies for which there is no cognizant agency

Match/Cost Share/MOE

Instructor Notes:

- See Page 24 of the Grantee Manual.
- For both FMCSA's formula and discretionary grant programs, a complete budget should be provided. The budget should be presented on the SF-424a and in some cases may require a more detailed budget based on the grant announcement.
- You are accustomed to providing budgets, but FMCSA is fine tuning and standardizing the look and feel of grant budgets across its programs and therefore

there may be some changes in the way that you are accustomed to developing and submitting your grant budgets.

- The budget should provide sufficient detail in regards to the proposed costs to be spent on specific activities and/or items and it should clearly identify match costs.
- It should delineate the specific activities (e.g., funds for Driver's License System Project and funds for automated knowledge-testing system), as well as by the cost category – such as labor, fringe, equipment, etc.
- The budget should be broken down to Direct costs, Indirect Costs and Match/Cost Share and at a sufficient level of detail. We will go into each of these pieces in more detail in subsequent slides.
- Fringe can be either a direct cost or indirect cost, as long as you aren't double counting the same salary and must be consistent for the entity. The Fringe rate, can either be included in the overall indirect rate, show as a percentage on Indirect Cost Rate Letter (or a SWCAP rate – State-wide Cost Allocation Plan from HHS for the state) applied to a particular base or shown as direct costs on the direct cost lines based on specific salaries for specific personnel. We will address Fringe more fully later in this Module.
- For Equipment, the \$5k is the federal threshold, but states can have a lower threshold and if they do, that is what prevails. We will get into the details of equipment later in the module.

Slide 5 Governing Regulations

Grantee Type	Regulation
State, Local or Tribal Government	Cost Principles 2 CFR Part 225 (OMB Circular A-87)
State, Local or Tribal Government, Non-profits & Institutions of Higher Education	Agency Grants Management Common Rule 49 CFR Part 18, 19, and 20 DOT Regulations for grants and other agreements
Non-profit Organization	Cost Principles 2 CFR Part 230 (OMB Circular A-122)
Institutions of Higher Education	Cost Principles 2 CFR Part 220 (OMB Circular A-21)

Instructor Notes:

- This slide is a good reference regarding the key cost principles and administrative regulations that apply to FMCSA grant budgets. As noted the cost principles can be found in these regulations and OMB Circulars. USDOT adopts the OMB circulars through rules 49 CFR 18.22(b) and 19.27.
- You should be well versed in these regulation. In this next section we provide a solid general overview, but it is your responsibility to become completely familiar with them. (FYI, Uniform Administrative Requirements is referred to as the “Agency Grants Management Common Rule”)

Slide 6 Guidance on Cost Determination

- OMB Cost Principle Circulars
 - http://www.whitehouse.gov/sites/default/files/omb/fedreg/2005/083105_a87.pdf
- OMB Circular A-87 Implementation Guide (C-10)
 - <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>
- Non profit Guide for Indirect Cost Rate Determination
 - <http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>
- Department of Interior Guidance for Preparing and Submitting Indirect Cost Proposals
 - <http://www.aqd.nbc.gov/Services/ICS.aspx>

Instructor Notes:

This slide provides you with some good links for references regarding the circulars and other related cost guidelines. Again, it is important that you become comfortable and familiar with these resources.

Slide 7 Allowable under the program statute

- Necessary and reasonable for proper and efficient performance
- Aligned with federal guidelines, regulations, federal cost principles;
- Treated uniformly and consistently under generally accepted accounting principles (GAAP)
- Authorized or not prohibited under state or local laws or regulations;
- Incurred in the period of performance on the Grant Agreement
- **Do Not** use FMCSA funds as match for any other federal award

Instructor Notes:

- Again, it is useful to follow along in Section 3.5.2 of the grantee manual, pages 25-27
- Allowable costs are those costs that are specified in the program statute, ie: enforcement activities for MCSAP Basic, to include labor costs, radar guns, etc. The program statute will usually delineate what is an “allowable cost”, under the program, as well as what is “unallowable”. This is program specific and is found in the authorizing legislation and often in the grant announcement.
- “Necessary and reasonable” – we will go over this in a later slide, but in general is costs that are allowable and appropriate for the performance of the grant/program activity.
- Aligned with federal guidelines, regulations and federal cost principles is basically following the cost principles as written in the circulars and referenced previously.
- Uniformly/consistently – for instance, if Fringe is going to be a direct cost for the New Entrant program, but not for High Priority program, that is a problem, it needs to be treated the same way across all grants. Also consistently across all federal programs, you can't have fringe in indirect in one federal program and direct cost in another. The treatment of a cost needs to be universally consistent. A cost may not be assigned as a direct cost in one situation and an indirect cost in another, under like circumstances.
- Allowed under state and local law. There may be costs that are MCSAP eligible according to the federal statute, but not according to the state statute. You must be cognizant of any local prohibitions, as well as the federal ones.
- Obviously the budget costs must be incurred during the period of performance of the grant agreement (this is more of an issue with voucher submissions than in budget preparation, but it is useful to mention it more than once during this training).
- Do not use federal grant funds as match for the current or a prior period, except as specifically provided by federal law or regulation. Basically you can't double dip. If you cite something as match, it can only be used once as such and not if prohibited

by program statute. FMCSA funds can not be used as match for any other federal award and vice versa.

- In the end if you are not sure whether a cost is allowable under the program don't hesitate to call your local FMCSA resources for assistance. Better to never put it in the budget then have it taken out during the Technical Review Panel (TRP).

Slide 8 Allowable vs. Unallowable Activities

Allowable Activities

- Program Specific Elements
- Personnel Costs
- Equipment and travel
 - Does not include fixed scales
- Occupancy expenses
- Data Acquisition
- Program Level Administrative Expenses
- Real Property
 - Not the purchase of land or buildings

Unallowable Activities

- Organized Fundraising
- Lobbying
- General public relations
- Cost of governance includes types of services normally -provided to the general public such as police and fire
- Contingency Reserves for Bad Debts
- Prosecuting claims against the Federal government

Instructor Notes:

- This is the generic list of allowable and unallowable activities, however, there can be exceptions on a program by program basis.
- Just to highlight a few, such as, Program Specific Elements, such as:

- New Entrant doesn't allow intrastate safety, but other programs may
- Trooper Overtime: be sure if you propose it, it is allowed for the specific program
- CVISN won't pay for scales
- New Entrant Compliance – it is allowed but only if you are maintaining compliance.
- Most allowable or unallowable activities can be identified in regulations, policy letters, etc.
- We will go into some of these categories in greater detail in subsequent slides, but just to provide a little definition now:
 - Personnel Costs include labor, but also recruiting and screening, and training
 - Equipment and Travel includes uniforms, fuel and oil
 - Occupancy Expenses – can be allocated directly or indirectly, (but not allocated to both) based on the square footage of the facility. Mixed salary staff space costs are allocated on the basis of salary ratios. Common space is allocated as indirect.
- In all cases, if you have any questions about cost allowability, call your Division Office.

Slide 9 Unallowable Objects

- Advertising to promote the government unit
- Alcoholic beverages
- Entertainment
- Fines and penalties
- Memorabilia, promotional materials (other than marketing)
- Certain travel costs (e.g., first-class)
- Cash donations to other parties
- “Golden Parachute” severance payments
- Unused leave payments as direct costs
- Interest on borrowed capital (money) including government owned funds.
- Memberships in social, country clubs, civic or community orgs.
- Late Fees

Instructor Notes:

- While the prior slide was delineating allowable vs. unallowable activities, this is a list of possible unallowable objects.
- It is not likely that you will go to this level on the budget that you submit to FMCSA, but keep these items in consideration when you are building your budget and ultimately for when you are managing the program or submitting a voucher.
- It won't go over each of these I will just point out, in the case of **Memorabilia** – this is a grey area, pamphlets and bumper stickers may be allowed, but in most cases hats or t-shirts are not allowed. Given that this is a grey area, it is a perfect example of “when in doubt ask FMCSA prior to including in a budget and/or voucher.”
 - One of the key destinations is that it "can't have intrinsic value"
 - It is somewhat depending upon cost per item and purpose and if it can be attributed directly to the program goal.
 - All memorabilia purchases will need pre-approval from FMCSA through the Grant Manager, so you can include in the budget, with reason and recognition of the grey area, but then will need that approval prior to reimbursement on a voucher.

- Also, to clarify, **Memberships** does not include membership in a professional association that is critical to certification or is directly tied to training or other project specific needs and activities, such as AAMVA or CVSA (that type of membership is generally allowed), but FMCSA will look closely at these items to verify that it is an “allowable” type of membership.
- A-87 is very firm on what isn't allowed, but for those things that are allowed, there are grey areas in which Yes – might be No depending upon the program statute and other factors.

Slide 10 Necessary and Reasonable

- Ordinary and necessary for the operation of the grantee or the performance of the grant
- Comparable to market prices
- Incurred with prudence
- Similar to established government practices or prices
- Follows sound business practices, federal and state laws
- Two pronged standard – necessary AND reasonable

Instructor Notes:

- A cost is generally reasonable if it is:
 - Ordinary and necessary - Does it make sense for the nature of the work?
 - Comparable to market prices for comparable goods and services. Meaning, if the scales usually cost \$3,000 and all of a sudden the budget item for that is \$10,000, perhaps look at other states and then ask for an explanation.
 - Incurred with prudence under the circumstances: e.g. Mobile Command Unit, versus an SUV for traffic enforcement activities – the Mobile Command Unit is not likely to be reasonable.
 - Need - The need is transportation, must be able to keep up with the speed of trucks and be reasonable in maintenance and gas mileage, etc. But if a Chevy will do the same thing as a Mercedes, there is no reasonable need for the Mercedes.
- Necessary and reasonable is a balance between what is needed or necessary versus what is reasonable to meet that need and is there a more cost-effective way to meet that need. (Apply the man on the street or media scrutiny test) The bar can vary by state as well.

Slide 11 Allocable

- Assigned on the basis of “relative benefits received”
- Demonstrate that the program benefitted from the cost in proportion to the amount charged (for specific programs)
 - Example: Computer lab has 20 computers; 10 were paid for with grant funds. This means 50% of their use must be for grant activities
- Cost Shifting Prohibition
 - Example: A cost under grant “x” may not be assigned to grant “y,” because grant “x” funds run out and unobligated funds were available under grant “y”

Instructor Notes:

(We are on page 27 of the grantee manual if you are following along)

- A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. (relative benefits received)
- The costs must be proportionate to the grant and the purpose, but that is relative to the grant program. In the past FMCSA has not paid quite as much attention to allocability, but they are tightening up those tests more now.
- Allocability is another place where judgment comes into place for some activities, and programs, so if you are concerned then discuss it with FMCSA for clarification.
 - For example, a lap top in an enforcement vehicle that may be used for MCSAP Basic, High Priority and BEG doesn't have to be proportioned across all three programs. Although it could be. But the basic safety purpose is the same for the various programs.
 - However, for instance if there is very expensive geo-tracking software, that will only benefit about 10% of CDL activities, the grantee cannot justify the grant absorbing 100% of the cost of the software. An amount closer to 10%, based on the program benefit, is more appropriate.
- You cannot shift cost categories from FY10 to cover FY11, that is not allocable. Any cost - allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

Slide 12 Other Factors

- Must be allowable under Non-federal as well as Federal law
- Conform to Legal Limitations & Exclusions
- Consistent with Policies, Regulations and Procedures of the Organization
 - Example: Fringe benefits or per diem for travel. Cannot charge Federal funds higher costs than what are charged to non-Federal.
- Determined in Accordance with the Generally Accepted Accounting Principles (GAAP)

Instructor Notes:

- I won't go through all of these other factors, I will just highlight a few:
 - Budget costs must be allowable under Non-federal as well as Federal law – for example incidental food costs. The rule of thumb is to follow the most stringent policy. The state may allow some foods or categories that the federal government doesn't allow, but if the Federal travel policy doesn't allow the costs then the grant won't pay for it. Another example: First Class travel vs. Coach, even if grantee organization allows First Class, the grant won't pay for it.
 - Federal funds must be treated the same way as non-federal funds. This prevents the practice where some costs of an activity are charged as "indirect" if there are not enough grant funds to cover the direct cost of the activity
 - Can't change where Fringe is located – if it was in the IDC, then it must remain a charge there throughout the grant. If fringe is not in the IDC, must bill as a direct cost. Conversely, if fringe is in the IDC, you cannot charge it as a direct cost."
 - Can't charge the federal government per diem which is \$50 per day and the submit direct receipts to the state government of just \$25 for the day, so that the agency is in essence "pocketing" the difference.
- Also, be careful of "double charges", ie: charging the same item or activity as match as well as to the federal grant portion.

Slide 13 Match/Cost Sharing

- Must be listed in the budget
 - Verifiable from grantee records
 - Not included as a contribution for any federally assisted project
 - Can include waived indirect costs
 - Follow cost principles – direct project benefit/support of activity
 - Not paid by the Federal Government under another award
 - For in-kind (soft) match - application must include a letter verifying the contribution and value if from a third party

Instructor Notes:

- That is a good segue into the Match and Cost Sharing slide and Section 3.5.3 and page 28 of the grantee manual.
- Cost matching or cost sharing is the portion of project costs not born by the Federal government.
- Cost match, whether cash and/or in-kind contributions included in the budget of the award must be adhere to all of the cost principals referenced earlier and must have direct project benefit or direct support a grant activity
- Hard or cash match is something that has a direct cash value to it, labor, equipment versus in-kind or soft match which is something that has a valuation to it, versus a direct cost, such as donated services
- All match must be “earned” or accounted for within the period of performance
- If the applicant wants to ultimately change the source of match i.e. instead of matching with personnel expenses now may want to match with vehicles/equipment, that must be done through the FMCSA Grant Manager and will require written approval.
- All proposed third-party in-kind contributions (services or items), and other items counting toward the cost-sharing requirement, must be verifiable from the records of the grantee and the applicant must provide a letter verifying the contribution and its value.
- If the state is providing the match out of state funds, that doesn't require a letter, but if a non-profit is obtaining the match from another grant or other source or a donation, then a letter is necessary - such as a pledge letter from the provider of the match, confirming the amount and conditions of the match.
- 49 CFR 18.24 and 19.23 are good reference points for specific rules regarding match.

Slide 14 Indirect Costs

Instructor Notes:
(Transition slide)

Slide 15 Indirect Cost Rates

- Costs incurred by a grantee for common objectives that cannot be readily and specifically identified with a particular grant project. Include:
 - Costs of operating and maintaining facilities, equipment, and grounds;
 - Depreciation or use allowances; and
 - Salaries of administrators and organizational service operation, such as payroll, accounting, procurement and personnel
- Determined by the cognizant agency and provided in an indirect cost agreement

Instructor Notes:

- If you are following along, we are in Section 3.5.4, page 29 of the grantee manual.
- Most budgets can have indirect costs in them, however many FMCSA grantees still don't request reimbursement for their indirect costs. However, if they do, it should correlate to the rate approved by the cognizant agency and calculated properly based on the approved indirect cost rate agreement.
- Indirect costs are those costs incurred by a grantee for common objectives that cannot be readily and specifically identified with a particular grant project such as the costs of operating and maintaining facilities, equipment, and grounds; and, salaries of administrators and organizational service operation, such as payroll, accounting, procurement and personnel
- If you are including indirect costs in your budget for reimbursement or match, a copy of the Indirect Cost Negotiated Agreement signed by the cognizant agency must be provided prior to final award and budget approval, if not at time of submission.

Possible question and answers:

Q: What happens if the IDC letter doesn't cover the entire POP?

A: By the end of the current year for a grantee who's SFY ends June/xx (current year) they have to have their IDC proposal submitted to cognizant agency, for the next fiscal year, so if we require an application for FY 13 to be in grants.gov by Sept 1st, then there is a chance the cognizant agency will not have provided the approval for the IDC rate at that point for SFY 13? (6/12 SFY) ends for FY12, so they have until 12.12 to submit their proposal for their rate for their SFY 13.

Q: If a question arises regarding the 10% IDCR proxy previously used by FMCSA for MCSAP Basic MOE calculations?

A: We will address MOE questions and issues later in this module, but FYI this 10% IDCR proxy has been discontinued by FMCSA.

Q: Which IDC rate do you use when the grant goes over a state FY year?

A: The budget should include two IDCR, the current year and the proposed rate for the next year. However, the current applicable rate will be used for reimbursement.

Slide 16 Determining the Cognizant Agency

- Cognizant agency is the one Federal agency which is designated to review and approve grantee indirect cost rates
- Indirect cost rates approved by the cognizant agency must be accepted by other Federal agencies
- DOJ or Federal Highway Administration (FHWA) is cognizant for most of FMCSA's grantees
- OMB Circular A-87 – “cognizance is generally established based on the Federal agency providing the greatest direct dollar support that is subject to indirect costs rates”

Instructor Notes:

- Indirect cost rate agreements are established by the appropriate cognizant agency. (Federal agencies may not establish indirect cost rates unless assigned as the cognizant agency.)
- Indirect cost rates approved by the cognizant agency must be accepted by FMCSA.
- In some cases, where the grantee is a division within a larger department, the cognizant agency is at the Department-wide level (i.e., if the State Police is a Division within the Department of Public Safety, the cognizant determination should be made at the Department of Public Safety level.
- Indirect cost rates for universities and institutions of higher education are determined by either the HHS or the Office of Naval Research (ONR).
- If you are unsure of your cognizant agency and you want to establish your indirect cost rate FMCSA can assist in making this determination.
- DOJ or Federal Highway Administration (FHWA) is cognizant for most of FMCSA's grantees
- Prior to including an indirect cost rate in your budget proposal, you should apply for and preferably obtain an Indirect Cost Rate Agreement.
- OMB Circular A-87 states that “cognizance is generally established based on the Federal agency providing the greatest direct dollar support that is subject to indirect costs rates” The "greatest amount of direct dollar support" means to support directly from the federal government to the grantee, and doesn't include the pass through of funds.
- The indirect cost rate is determined on an annual basis, so you must resubmit for your rate annually and obtain an annual Indirect Cost Rate Agreement from your cognizant agency.

Slide 17

U.S. Department of Transportation

FMCSA National Training Center

What is an Indirect Cost Rate Agreement

- Document issued by the cognizant agency providing:
 - Period of coverage
 - Rate percentage
 - Rate type – final, provisional, fixed with carry forward and predetermined
 - The direct base to which the percentage is applied
 - Must be "current"
 - Fringe rate in some cases

If current agreement does not exist, FMCSA will accept a "budget placeholder rate" based upon the applicants' indirect cost rate proposal to the cognizant agency

National Training Center

Chap. 3.5.4

17

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 - *Must be "current"
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*If current agreement does not exist, FMCSA will accept a "budget placeholder rate" based upon the applicants' indirect cost rate proposal to the cognizant agency

Instructor Notes:

- All applications for which an applicant is claiming indirect costs must include an indirect cost agreement from the cognizant agency.
- The rate type is very important during budget analysis. Whether it is final or provisional. Ideally, the agreement should be for this year. If not, then the applicant

should provide the most current rate agreement and "proof" through emails, or a letter from the cognizant agency that the current rate that the applicant provided is accepted as the provisional rate for the cognizant agency and they are in the process of updating the rate.

- FMCSA wants the most current a rate as possible. Some cognizant agencies are backlogged and that can be challenging, but it is imperative that the applicant have proof that they have submitted the paperwork and the hold up is on the part of the cognizant agency. That way the cognizant agency can verify the rate, even if it is provisional and FMCSA can accept that rate, otherwise, FMCSA will not honor the indirect costs as part of the budget.
- FMCSA will use a provisional rate for reviewing the application, but will only use a final rate for reimbursement and will use the applicable rate based on the FY year of expenditure. (For those states with FY years and therefore IDC rates that span over one grant).
- A "budget placeholder rate" means an indirect cost rate based upon the applicants latest application to the cognizant agency it may be higher or lower, but FMCSA won't award any more \$ if the rate increases, and if lower agency will have to revise budget lines to reflect the approved rate and de-obligate the balance or move the balance to another line item in the approved grant budget.
- Sometimes the IDCA specifies the fringe rate, as well as the indirect cost rate. If so, the grantee must bill in accordance with the specified rate. If the fringe is not specified in the IDCA, the grantee may determine the fringe rate internally, but the grantee must indicate what is the basis for their fringe rate (SWAC) and the proof there of (we will address this later in the module.) Or in some few cases the Fringe can be wrapped into the IDCR and should be noted as such.

Slide 18 Rate Agreement Sample Format

Should include:

1. Cognizant Agency Identification
2. Rate Type
3. Period Covered
4. The direct base the rate is applied to
5. Make sure rate is allowable under the FMCSA program
6. Fringe Benefits – may have a separate rate or be charged like labor

*Sometimes agreement spells out equipment threshold (not always \$5,000)

Instructor Notes:

- Here is a sample Rate Agreement Letter – however it should be on letter head so that it is obviously from the cognizant agency. It should obviously contain:
 - 1) Cognizant Agency Name
 - 2) Rate Type – fixed, provisional, etc.
 - 3) Period Covered – 7/1/09-6/30/10
 - 4) The direct base the rate is applied to, such as salaries and wages, which is the most common, although it could also be total budget or some derivation there of.
 - 5) Make sure rate is allowable under the FMCSA program
 - 6) Fringe Benefits may have their own line item or be charged like labor
- In addition to what is shown here you may also see an explanation for the Fringe Benefit Treatment, such as "fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits include: FICA, Retirement, Group Insurance, Worker's Compensation, Unemployment Insurance.
- You should also see a definition for the equipment threshold, if it is different from the federal threshold of \$5,000.
- Also make sure that the agreement is signed at the end, with signatures from the cognizant agency and the applicant and is as current as possible.
- A sample IDCR letter is found in the Grantee Manual in Appendix F

Slide 19 What is FMCSA Looking at in the ICRA?

- Is there a current Indirect Cost Rate Agreement (ICRA) from a likely cognizant agency?
- If not, is there a prior ICRA? Is there a proposal before the cognizant agency awaiting approval?
- Does the budget include the correct indirect cost rate percentage(s) ?
- Does the budget calculate the indirect cost against the correct "direct cost base"?

Instructor Notes:

- Is there a current Indirect Cost Rate Agreement (ICRA) from a likely cognizant agency?
 - The key is to have a current Indirect Cost Rate Agreement issued from an appropriate cognizant agency, signed and to use that rate properly and to use it against the right base.
- If not, is there a prior ICRA? Is there a proposal before the cognizant agency awaiting approval?
- Does the budget include the correct indirect cost rate percentage(s) ?
 - Indirect costs should be identified in the budget if the grantee plans to be reimbursed for those costs or plan to use them as matching funds.
- Does the budget calculate the indirect cost against the correct "direct cost base"?
 - It is critical to make sure that the budget uses the correct indirect cost rate, but also against the right base (e.g. direct salaries or modified total direct costs)
- Reimbursement cannot occur until an indirect cost rate is secured; a provisional rate will suffice until a final rate can be determined, but the you must at a minimum have an approved provisional indirect cost rate before reimbursement can occur.
 - If you (the grantee) fails to submit the required IDCR documentation (indirect cost proposal, cost allocation plan, etc.) to FMCSA within 90 days of the effective date, FMCSA may amend the award to preclude the recovery of any indirect costs under the award. If FMCSA or the cognizant federal agency determines there is a finding of good and sufficient cause to excuse the grantee's delay in submitting the documentation, an extension of the 90-day due date may be approved. This provision would be written into Line 16 of your NGA and would be a special condition, that you accept at time of NGA.

Slide 20 Preparing a Grant Budget

Instructor Notes:

OK, lets now take all of these cost principles and indirect cost rate information into reality and the actual preparation of a grant budget and SF-424a.

Slide 21 Developing a Grant Budget

- FMCSA Grant Budgets consist of three components:
 - Budget narrative – provides the methodology behind your numbers
 - SF-424a Form – this breaks down the budget into object class categories
 - Line-item budget – which provides the detail behind each of the SF-424a object class categories and is program specific
 - CVSP Budget Template for the MCSAP Basic Program
- Sub-grantees should provide you with similar budgets

Instructor Notes:

- You will find the discussion of the budget narrative on pages 24-25 of the manual and the SF-424a form and instructions is in Appendix K, pages 136-137]
- Every FMCSA budget for any program should include:
 - A budget narrative (we will go into this in detail on the next slide)
 - An SF-424a Form – which is at the Object Class Category level. These categories are standard and are: Personnel; Fringe Benefits; Travel; Equipment; Supplies; Contractual; Construction; Other; and Indirect Charges-further guidance for these are found in the back pocket of the training manual. We will go into these Object Class Categories in more detail in the upcoming slides.
 - A detailed line item budget – which provides the detail behind each of the SF-424a object class categories and is program specific.
- The line-item budget is where each of these categories are broken down further so that you can see how the budget was constructed, they should also correlate to the budget narrative.
 - For instance, the Personnel item should identify who by title, how many, and the hours.
 - For Travel it should assume the number of plane trips to where for how many staff
- We will go through this in further detail in the coming slides and in the exercise that follows this section.
- Given that in the budget narrative and the Line-item budget you need to provide the base detail you will need that from your sub-grantees as well.

Slide 22 Budget Narrative

- Based on both the SF-424 Object Code Category and the line item budget. For example:

Personnel: All personnel are permanent full-time State employees unless otherwise specified. It includes one Captain, at a rate of X working on the MCSAP program 50% and seven Enforcement Officers, at a rate of Y, fully dedicated to MCSAP.

Equipment: Three patrol cars to replace the cars purchased with MCSAP funds in 2002 and have over 125,000 miles. These are at a per unit cost of \$30,000.

Instructor Notes:

- The budget narrative starts at the SF-424a Object Code Category, such as Personnel and lists what is included and then breaks it down further by line item.
 - So for example, **Personnel:** You might note that all personnel are permanent full-time State employees unless otherwise specified and then specify the number of each title of personnel and if their hours are full or partial. Such as in the slide, you might note that it includes one Captain, at a rate of X working on the MCSAP program 50% and seven Enforcement Officers, at a rate of Y, fully dedicated to MCSAP.
- The budget narrative essentially provides narrative explanation and relevance for all budget line items (within reason). This approach may differ slightly by program, but this is a general approach.
- A budget narrative is very important and can as simple as the examples noted on the slide or have a little more to it to actually link it back to the requirements of the program.
- Another example might be for **Travel** at \$6,100. You might note that this is an estimate based on the commercial high season rate for jet economy travel on X Airlines of \$500 per ticket for 5 people, 3 nights of hotel at X amount and X amount per diem for a CVSA conference.
- You want to give whatever details you can around how you developed the number and what it is based upon as well as tie it to the activity or the objectives of the grant.

Slide 23 SF-424a Overview

- Submitted for all FMCSA grant programs along with a budget narrative
- Budget items in accordance with administrative regulations and cost principles.
- Complete all line items for the SF-424a , as applicable
- Developed using a line item budget

Instructor Notes:

- All FMCSA grant programs require the submission of an SF-424a, a detailed line item budget and a budget narrative
- The budget items must be in accordance with administrative regulations and cost principles. And you need to complete all of the line items for the SF-424a. We will go over the SF-424a in detail in subsequent slides.
- We recommend that you build your budget from the bottom up.
 - Think about, how many people will it take to do this work? What kind of types of personnel? For how many hours? At what wage?
 - If you are doing enforcement actions, how many cars, computer, etc will it take? At what cost?
- By building your budget from the bottom up, you will already be creating your detailed line item budget and the basis for your budget narrative. Then you just have to roll that up into the SF-424a budget categories for the form.
- Over the next several slides we will walk through the SF-424a preparation and in turn also inform your line item budgets and budget narratives as well.

Slide 24 SF- 424a Line Items

Section A: Budget Summary

- Just use Line 1
- Column (a) list the grant name
- Column (b) the grantee CDFA Number
- Leave Column (c) and (d) blank
- Column (e) Federal amount
- Column (f) non-federal amount
- Column (g) total amount needed to support the project requested.

Instructor Notes:

- Turn to the copy of a SF-424a and instructions in your manual, Appendix K, page 136.
- We will start with Section A: Budget Summary.
- Only use Line 1, the other lines are for if you applying for multiple programs and the budget should be at the grant level, not the per project level (for instance for MCSAP)
- If it is a project-based grant, such as perhaps some CDL grants, the award is at a project level and so there should be a separate budget, SF-424a and award per project. If you have multiple projects within one award, but separate budgets, then use the other lines or separate sheets, as long as there is a summary SF-424a. If it is separate awards, then there must be an SF-424a for each award, at a minimum.
- Column a is to list the program level, such as Arizona MCSAP Basic Program
- Column b is the grantee CDFA number
- Then skip columns (c) and (d) because FMCSA won't use these at this time. It would be for amendments and FMCSA is not requiring a new SF-424a submission for amendments at this time, they are just looking for the Amendment Template, which we will cover in Module 7
- Then Column (e) is the request from FMCSA
- Column (f) is the match amount – doesn't include the MOE.
- Then Column (**g**) will represent the total program amount, both federal and match amount together.
- We will go through this in detail in the upcoming Budget Exercise, but you can follow along with that as well if you like.

Slide 25 SF- 424a Line Items

Section B: Budget Categories

- Personnel
- Fringe Benefits
- Travel
- Equipment
- Supplies
- Contractual
- Construction
- Other
- Indirect Charges

Instructor Notes:

- This slide pertains to Section B: Budget Categories, also referred to as the Object Class Categories . Lines 6a-k. We will go over these categories in detail in the next few slides
- In this section you will only fill out Column 1 and then the total column. Even if you filled out multiple Lines in Section A, they need to roll up into an award summary level budget which will be in Section A.
- This is also the Column where you will need to track the 10% budget changes that will trigger an amendment. It is 10% of the overall grant award amount, but changes across object class categories (we will get into that further in Module 7), an amendment will be required.
- If you have sub-grantees we recommend that you require them to submit an SF-424a, detailed budget and budget narrative to you as well, so that you can provide that as back up detail to your summary budget.

Slide 26 SF-424a Line Item Budget –Section B

- **Personnel:**
 - Wages and salaries paid to employees of the grantee organization directly involved in implementing activities in the approved project plans, including overtime
 - Not sub-grantee personnel
 - Not vendor personnel – from temp agencies or consultants
- **Rule of Thumb** – If the grantee issues a W-2 to the employee they go in the Personnel line
- **Fringe Benefits:**
 - The cost of benefits paid to the personnel on the grant

Instructor Notes:

- Object Class Budget categories are found in Appendix A, page 74 in the grantee manual. It may be advantageous to follow along as we go through each of these Cost Object Categories specifically.
- Personnel is a fairly obvious category, it is the wages and salaries paid to employees of the grantee organization directly involved in the grant, including overtime. Personnel should be evident from wage records and time sheets.
 - In the detailed budget include a break down of all persons charged to the grant by title and salary costs. This will need to be maintained for vouchers and must be available upon request throughout the grant for monitoring purposes. The organization must be able to track overtime costs by employee and make available upon request as well.
 - One key distinction is that sub-grantee personnel should not be listed in personnel, but in the "contractual" line item.
 - Vendors or contractors are also considered "contractual"
- Fringe benefits are defined as cost of benefits paid to the personnel on the grant, including the cost of employer's share of FICA, health insurance, workers' compensation, vacation, etc. This would include fringe benefits associated with overtime costs. Rates can be the summed actual rates for all employees or an approved organizational rate. Only Fringe Benefits associated with personnel paid out of direct costs would be placed here.
 - If the fringe is part of the indirect cost rate, it shouldn't be included here. However, it can be noted on the IDCR letter as a specific percentage of salaries and wages and not imbedded in the IDCR and that is ok. The key is just not to inadvertently double count fringe.

- Fringe does not cover severance or short term disability Such payments shall be allocated to all activities of government as an indirect costs.
- Generally fringe shouldn't include an additive rate, however it may be included in FMCSA budgets where FHWA is the cognizant agency.
- You will be required, per the grant award terms and conditions to provide a semi-annual certification for non-full time dedicated grant personnel. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge for the work performed by the employee."

Slide 27 SF-424a Line Item Budget – Sect. B Cont.

- **Travel:**
 - Travel costs of personnel that are reasonable and necessary to effectively manage and carry out grant activities.
 - Charged on an actual basis, or per-diem based on state/local policy
 - No sub-grantee travel

- **Equipment:**
 - Non-expendable personal property that has a useful life of more than one year and a **per-unit** cost of \$5,000 or more (federal) or state defined amount (if less than \$5,000).
 - Necessary for the operation of the grant.

Instructor Notes:

- Travel is defined as the travel costs that are reasonable and necessary to effectively manage and carry out grant activities expended by the type of personnel covered in 6a (Personnel). It includes:
 - Air travel, should be obtained at the lowest possible customary standard (coach or equivalent fare).
 - Travel costs may be charged on an actual basis, or on a per-diem or mileage basis in lieu of actual costs. And be reasonable
 - This line item does not include travel expenses of the sub-grantee, which are included in the “Contractual” line item.
 - Grantees should provide copy of their travel policy so that FMCSA can make sure they are adhering to it when they approve costs on a voucher.
- Equipment is non-expendable personal property that has a useful life of more than one year and a **per-unit** cost of \$5,000 or more (federal). Or the state defined amount if it is less than \$5,000.
 - Shipping, delivery, and installation, if necessary, are a normal part of the cost of equipment and should be included in the budgeted amount
 - For the most part computers, faxes, printers, cell phones etc., all have a per unit costs below \$5,000 and thus would be considered supplies unless otherwise defined as equipment by state law.
 - Equipment does not include associated costs such as fuel, repairs, leasing or mileage. Those are either contractual, other or travel.
 - The equipment costs should pass the reasonable and necessary test. So for instance, if a modest SUV will do the job, just as well as a fully loaded luxury

or special purpose vehicle, then that is what should be included, versus the higher luxury or cost vehicle.

- All equipment budget items need detailed justification and FMCSA pre-approval for reimbursement

Slide 28 SF-424a Line Item Budget – Sect. B Cont.

- **Supplies:**
 - Consumable materials costing less than \$5,000 per unit or an organization's equipment threshold whichever is less
 - Copy paper, pens and pencils, computers, computer supplies, cell phones, faxes, radar guns, ticket writing devices, uniforms, materials needed to conduct trainings, promotional items (must be pre-approved) etc.
- **Contractual:**
 - Consultants, vendors, sub-grantees, inter-agency transfer of funds, temp agencies.
 - Exception: Departments of the same government that submit a collaborative application
 - Fuel and Vehicle Maintenance provided by a vendor

Instructor Notes:

- Supplies are consumable materials that cost less than \$5,000 (or the state definition of equipment) per unit
 - They include things such as copy paper, pens and pencils, computers, cell phones, radar guns, uniforms, etc.
 - The supplies must be needed to perform activities associated with the grant implementation
 - Computers are often in supplies, but can be in "Other" sometimes depending upon the circumstances
 - Promotional items are not allowed unless pre-approved by FMCSA General Law (See 2 CFR 225 (former OMB-A87), Appendix B, 1. f. (3). Check eligibility with FMCSA first.
- Contractual, as referenced earlier is where your sub-grantee costs go, as well as vendors and consultants.
 - **Exception:** Departments of the same government that submit a collaborative application may include all costs within each Object Class Category, rolled up into one total, as long as, each Department includes a separate budget breakdown using different columns on the same SF-424a or by submitting a separate SF424a for each Department. For example: DOT with two departments one MVSO and another Technology, but not one is DOT and the other DPS. Still to be worked out further.

- Fuel provided by a vendor under contract to the grantee organization would be included in contractual, however, if it is on a credit card, just through any gas station, that could be in "Other" or in travel if associated with a trip.
- Vehicle Maintenance provided by a vendor under contract to the grantee organization, would be part of contractual
- All contracts must be within the POP and there should be a contract, MOU or some binding document in place for all sub-grantees, vendors, etc. which receive federal funds through the grantee.

Slide 29 SF-424a Line Item Budget – Sect. B Cont.

- **Other:**
 - Direct costs such as rent, utilities, leased equipment, transportation expenses, communications costs, tuition for training, printing, etc.
- **Total Direct Cost:**
 - Total of lines “a” through “h” on the SF-424A .
- **Indirect Costs**
 - Based on the approved indirect cost rate and applied to the correct base.
 - For instance 15% of the Personnel and Fringe lines combined.

Instructor Notes:

- "Other" are costs that don't fit anywhere else, but must be directly related to the operation of the grant, such as rent for buildings used to conduct grant activities and that aren't disallowed under the specific program. It could include computers or transportation expenses if they aren't captured elsewhere.
 - Just be careful that “Other” doesn't become too large of a pot of expenses and that the other categories have been considered first.
- Indirect costs should be based on the indirect cost rate agreement as we discussed earlier and should be based on the “direct cost base” to which the indirect cost rate percentage is to be applied to determine the indirect cost claim.
- An organization is not entitled to invoice for the entire amount of indirect costs in the budget. It must correspond with the direct costs base invoiced.

Slide 30 Indirect Cost Sample

- Salaries and Wages Base
- Includes Fringe
- Based on a 15% Indirect Cost Rate

Budgeted Expenses:

Direct Costs:.

Salaries & Benefits	\$630,000
Travel	\$90,000
Supplies	\$60,000
Contracts	\$70,000
Total Direct Costs	\$850,000

Indirect Costs 15%

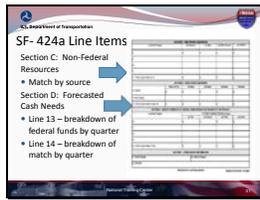
What would the calculation be:

- A. \$127,500
- B. \$117,000
- C. \$94,500

Instructor Notes:

- Let's go through a quick example of how to represent the indirect costs in your budget submission.
- What would you think is the correct answer for the indirect costs on a salary and wage basis and a rate of 15%?
- The correct answer is C \$94,500. If the base is salary and wages, which is \$630,000, you multiply that by the indirect cost rate of 15% in order to get your answer.

Slide 31 SF- 424a Line Items



Section C: Non-Federal Resources

- Match by source

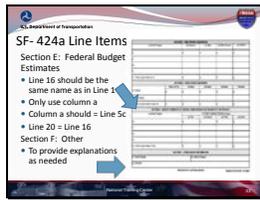
Section D: Forecasted Cash Needs

- Line 13 – breakdown of federal funds by quarter
- Line 14 – breakdown of match by quarter

Instructor Notes:

- Section C: Non-Federal Resources is where an applicant can break down the match if there are multiple sources, state, in-kind, etc.
- If it is a State and only using their funds, then just fill in column a (Applicant)
- If it is a local and there are state or in-kind funds, then those should go in the requisite columns and then the total.
- Section D: Forecasted Cash Needs are just a guesstimate of how the program activity will drive the use of funding. For MSCAP, if it is unlikely that the award will occur until the 2nd quarter, then the 1st quarter may show "0", but then more in the following quarters and if the funds are not likely to be fully expended until the "5th or 6th quarter, they are not shown, so these lines do not necessary need to add up to the full award amount, but shouldn't reflect more than the award amount.

Slide 32 SF- 424a Line Items



Section E: Federal Budget Estimates

- Line 16 should be the same name as in Line 1
- Only use column a
- Column a should = Line 5c
- Line 20 = Line 16

Section F: Other

- To provide explanations as needed

Instructor Notes:

- In Section E: Federal Budget Estimates, only use Line 16, because it correlates to Line 1, in Section A, and you shouldn't have used more than Line 1 in Section A. If you did use more than Line 1, roll up those lines in this section.
- Since all FMCSA programs are single year obligation period it should just reflect the one year assumption. This is really more relevant to multi-year grants, which FMCSA is not. It has multi-year expenditure periods, but this pertains to the funding or obligation years.
- This section also pertains just to the Federal Amount, not the full budget (so for MCSAP it represents just the 80%, not the 80% federal plus the 20% local match).
- Section F isn't used very often but can be used for extraordinary factors or elements and explanations.

Slide 33 Maintenance of Effort

Instructor Notes

As the final section to this presentation, we will give you a brief overview of Maintenance of Effort (MOE), what it is and the basic parameters for it.

Slide 34 MOE Overview

- **Definition:** a statutory requirement to ensure grantees maintain a certain level of expenditure (exclusive of federal funds) for eligible program activities as a precondition of award. Usually an average aggregate level of grantee expenditures over a prescribed period of time.
- **Rationale:** to ensure Federal funding supplements State funds and does not supplant, or replace it
- **Applicability:** MCSAP Basic/Incentive

Instructor Notes:

- As the final section to this presentation, we will give you a brief overview of Maintenance of Effort (MOE), what it is and the basic parameters for it.
- Now you can turn to Section 3.5.6 of the grantee manual, page 30.
- Many grant programs throughout the federal government have a "maintenance of effort (MOE)" requirement or disallow the supplanting of local funds.
- MOE is essentially the requirement that a grantee maintain the average aggregate expenditure of its local (state, local, non-profit, etc.) funds, exclusive of Federal funds for the grant activity. MOE requirements state that a grantee may not "replace" local funds with federal grant funds for the same activity – this is also called “supplanting”
- At FMCSA MCSAP Basic/Incentive grantees are required to calculate MOE and show how they are not supplanting funds or certify against supplanting, based upon state expenditures for eligible activities. (We will cover this in more depth in the coming slides).
- BEG and CDLPI/CDLIS were previously also subject to MOE, but based upon the recent FY12 MAP-21 legislation this is no longer the case.

Slide 35 MOE Overview, Continued

- MOE is required based on FMCSA program authorizing legislation
 - MCSAP – 49 U.S.C 31102-31104
- It is based on the lead agency's MCSAP eligible activities
- If the grantee does not expend their MOE by the end of the grant period of performance, the grantee must reimburse all federal monies received from the grant.

Instructor Notes:

- MOE is required based on FMCSA program authorizing legislation and here are listed the specific authorizing language. It is important to read this language and understand the parameters of the requirement by program
- As I noted in the prior slide, MCSAP was previously based on a revolving calculation basis, however due to the recent legislation, MCSAP is now a locked calculation
- MCSAP requires an MOE certification and listed here are the links to the key requirements and templates for calculating MOE by program.
- If the grantee does not expend their MOE by the end of the grant period of performance, the grantee must reimburse all federal monies received from the grant. Therefore it is critical that MOE is calculated at the outset, at time of application and the expenditure thereof is monitored throughout the year.

Slide 36 MOE Overview – MCSAP New Rules

- MCSAP is based on the average expenditure for FY 2004 and 2005.
- May exclude State expenditures for government sponsored pilot or demonstration programs and State match amounts.
- The expenditures are those of the lead State agency responsible for implementing MCSAP
- May request a waiver for one fiscal year if the Secretary determines there are extreme extenuating circumstances.

Instructor Notes:

- The MCSAP MOE calculation is based on the average expenditures for MCSAP for FY 2004 and 2005.
- It still pertains to all actual costs incurred which were eligible for reimbursement under MCSAP (see 350.311), including indirect costs apply to MOE, incurred by the lead State agency.
 - However, the only indirect costs that apply are those based upon an official indirect cost rate received from a cognizant agency and based upon an official indirect cost rate agreement letter.
- It does not include MCSAP-eligible expenses which were reimbursed by another Federal grant or associated State match requirement
- But it does include MCSAP-eligible expenses beyond the amount which was reimbursed by a non-MCSAP Federal grant and associated match
- When making this initial MOE calculation you must subtract any amount of MCSAP basic/incentive grant funding reimbursed for these expenses in FY2004 or FY2005. But once you have calculated this MOE amount it will be the MOE amount to which you are held for all subsequent funding years and additional calculations will not be necessary.

Slide 37 MCSAP MOE Helpful Hints

- Reflect all MCSAP eligible expenses, such as part time staff, vehicle maintenance costs, etc.
- **Don't** include MCSAP-eligible expenses reimbursed by another Federal grant or associated State match
- **DO** include MCSAP-eligible expenses incurred beyond the amount which was reimbursed by a non-MCSAP Federal grant and associated match

Instructor Notes:

- Some helpful hints for mastering the MCSAP MOE calculation are:
 - Note that under Personnel expenses, the State does not have to provide each line item of detail.
 - Be sure to reflect all MCSAP eligible expenses, even proportionate expenses, such as part time staff, vehicle maintenance costs
 - The inclusion of the subtotal amount for Payroll costs is sufficient for MOE calculations, but detailed information may be reviewed during MCSAP reviews or other audits.
 - **Remember do not** include MCSAP-eligible expenses incurred that were reimbursed by another Federal grant or associated State match requirement
 - **DO** include MCSAP-eligible expenses incurred beyond the amount which was reimbursed by a non-MCSAP Federal grant and associated match

Slide 38 Wrap Up and Knowledge Check

Instructor Notes:
(Transition Slide)

Slide 39 Summary

- Now that you have completed this module, you should understand :
 - The federal cost principles, uniform administrative requirements and the basics of a project budget
 - Cost Principles and Uniform Administrative Requirements
 - Match/Cost Sharing
 - Indirect Cost
 - SF-424a Preparation
 - Maintenance of Effort

Instructor Notes:

- Now that you have completed this section, you should understand:
- What are the basics of the federal cost principles and where to find the key requirements
- And how the use of them applies to your grant budgets
- What are your responsibilities in terms of match and cost sharing
- What are indirect costs and how to use them in your budget and understand a indirect cost rate agreement
- How to prepare and understand the budget and the SF-424a in its entirety, and,
- The basics of Maintenance of Effort, particularly around the MCSAP program, used as an example.
- Attached at this link is a Knowledge Check, feel free to take this “quiz” and then check your answers to determine how well you understood and synthesized this information. The answers can then be found at the link listed at the bottom of the slide.

Slide 40 Check Your Knowledge

- Module 3 Knowledge Check
- Module 3 Knowledge Check Answers