



# Grant Cost Accounting

## GOVERNMENT CONTRACT REGULATORY COMPLIANCE

Defined by the Office of Management and Budget (OMB), a grant is “an award of financial assistance from a federal agency to a recipient to carry out a public purpose of support or stimulation authorized by a law of the United States”. Grants can be awarded to individuals, businesses, and non-profit organizations for various purposes, with some common general uses including research and development, social services, education, health care and medical research.



### **Federal Grant Requirements and Accountability for Costs**

When a grant is awarded, a formal agreement is established between the grantor and grantee, outlining the purpose, scope, and conditions of the grant, including requirements to comply with all relevant federal, state, and local laws, regulations, and policies that apply. Federal grants are governed by the Code of Federal Regulations (2 CFR 200) which include administrative requirements, cost principles, and audit requirements, commonly referred to as the Uniform Guidance. Often, recipients are required to submit regular progress reports, financial statements, and other documentation to demonstrate compliance with grant requirements, proper use of funds, and progress made towards the grant's objectives. Audits may also be required by the granting entity to verify that the funds are used appropriately and in compliance with the grant agreement and regulations.

## Cost Allowability and 2 CFR 200:

Grant recipients must implement appropriate financial management and internal control systems to ensure proper use and tracking of grant funds. The costs charged against the grant must be reasonable, necessary, and related to the grant's purpose. Costs that are not allowed or are otherwise deemed unreasonable will not be reimbursed. The cost principles at 2 CFR 200 Subpart E, along with specific terms of the grant agreement, govern what costs can be charged to federal awards and are designed to ensure that federal funds are used efficiently and effectively while promoting consistency and transparency in cost accounting for grant recipients. The key principles of grant cost allowability under 2 CFR 200 are as follows:

- **Reasonableness:** Costs must be reasonable and necessary for the performance of the grant objectives, considering what a prudent person would do under similar circumstances.
- **Conformance with limitations:** Costs must comply with any specific limitations or exclusions set forth in the grant agreement or the Uniform Guidance.
- **Consistency:** Grant recipients must apply their cost accounting practices consistently and follow the same accounting treatment for similar types of costs.
- **Allocability:** Costs must be allocable to the specific grant project or activity, meaning they benefit the grant program and are proportionately distributed based on the relative benefits received.
- **Allowable costs:** The Uniform Guidance includes specific lists of allowable and unallowable costs. Allowable costs may include direct costs (those directly attributable to the grant program) and indirect costs (overhead costs shared by multiple programs).
- **Reasonable methods of allocation:** When costs cannot be attributed directly to a specific grant, they must be allocated using reasonable and equitable methods.
- **Documentation:** Grant recipients must maintain documentation that supports the costs charged to the grant, including evidence of reasonableness, allocability, and conformance with the grant agreement and Uniform Guidance.
- **Prior approval requirements:** Certain costs may require prior approval from the awarding agency before being charged to the grant. Recipients must adhere to these requirements to ensure cost allowability.

## Compliance Considerations

Compliance with these cost principles is essential for grant recipients to effectively manage federal funds and maintain compliance with the Uniform Guidance. Failure to adhere to the cost principles may result in disallowance of costs, financial penalties, or even the loss of future funding opportunities. It's important to note that the specific regulations and requirements can vary depending on the funding source and the granting entity. Therefore, grant recipients must carefully review and adhere to the terms and conditions of each grant they receive to ensure proper utilization of the funds and successful completion of the funded project.

To enable compliance with the Uniform Guidance cost principles and to prepare for grant audits, organizations should evaluate their cost accounting systems and processes. There are a number of process areas important to complying with the Uniform Guidance, including, time charging, project accounting, billing, identification and removal of unallowable cost, and indirect cost rate methodology and structure. Once adequate processes are put in place, they must be continually monitored and revisions made as needed over the life of the grant.

# THE CHESS CONSULTING ADVANTAGE

Chess Consulting's government contract specialists understand the complex business and regulatory climate in which government contractors and grant recipients operate and are committed to finding practical, cost-effective solutions to the problems facing contractors today and in the years ahead. Our professionals bring to each engagement a unique combination of government contracting regulatory expertise, technical financial accounting and reporting knowledge, and forensic accounting and investigative skills as well as an adept understanding of our clients' business risks and challenges.

## Chess Consulting Differentiators

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