

Grants Policy Issuance (GPI) 08-04: State Grant Cost Review

A. Summary and Purpose

In March 2007, OGD issued interim, streamlined cost review procedures for State grants awarded under 40 C.F.R. Part 35, Subpart A and other specified State Continuing Environmental Program Grants. These procedures applied to State applicants that submitted an adequate internal controls assurance concerning their personnel and travel management systems and were not deemed high-risk.

This Grants Policy Issuance (GPI) establishes final procedures, making minor changes to the interim guidance that reflect feedback received from EPA Offices and the States.

B. Effective Date

This policy will be effective for all new awards made on or after October 1, 2008.

C. Policy Documents

This GPI includes Attachment A, "Guidance on Cost Review of Grants/Performance Partnership Grants Awarded under 40 CFR Part 35 Subpart A", and its attachments, "Sample Internal Controls Assurances," "40 CFR Part 35 Subpart A and Related Programs," and "Cost Review Template and Guidance For Project Officers Grants Under 40 CFR Part 35 Subpart A."

D. Review and Evaluation

In consultation with the State Grants Subgroup, OGD will review this policy periodically to ensure its effectiveness and make any necessary revisions.

E. Waivers

In response to a written request from the appropriate Senior Resource Official, the OGD Director, or designee, may approve waivers to this guidance on an individual or class basis because of national security concerns, circumstances of unusual or compelling urgency, unique programmatic considerations, or because the waiver would be in the public interest.

F. Roles and Responsibilities

For covered awards, Program Offices and Grants Management Offices must ensure that the provisions of this guidance are followed, as appropriate, in the review of grant applications, in the development of grant terms and conditions and during grant oversight.

Guidance on Cost Review of Grants/Performance Partnership Grants Awarded under 40 CFR Part 35 Subpart A

In June 2005, the State-EPA Grants Workgroup issued findings and recommendations regarding the timeliness of grant awards to States under 40 CFR Part 35 Subpart A. The Workgroup found, among other things, that EPA did not have a consistent approach to performing cost reviews for program grants/Performance Partnership grants (PPGs), and recommended the Agency clarify the application of cost review requirements to these grants.

In response to the Workgroup report, the Office of Grants and Debarment (OGD) evaluated the Agency's cost-review procedures for Part 35 Subpart A grants.

EPA's grant application package includes the SF-424 A (Budget Information – Non-construction Programs) and requests a budget narrative from applicants. The SF-424 A includes nine (9) line items (or object classes): Equipment, Supplies, Contractual, Construction, Other, Indirect Costs, Personnel and Fringe Benefits, and Travel. OGD found that, for Part 35 Subpart A grants, most of these categories are handled consistently across the Agency. However, for the last two categories (personnel and fringe benefits and travel), OGD identified significant inconsistencies in the level and amount of information requested from applicants.

To address these inconsistencies, and after consultation with Grants Management Offices, Program Offices, States, and the Office of the Inspector General, OGD has determined that a systems-based approach, along with focus on an applicant's previous year budget request, is appropriate for reviewing an applicant's request for personnel and travel costs. The basis for this determination is that (1) budget requests for personnel and travel often reflect historical costs; (2) States typically have personnel and travel management systems with adequate internal controls, i.e., controls similar to those found in the systems of Federal agencies; and (3) State personnel and travel systems are subject to periodic review and audit by the State, EPA, and others.

Where applicants for awards under 40 CFR 35 Subpart A provide assurances to EPA that adequate internal controls exist, EPA may properly limit the scope of its review of proposed personnel and travel costs. For example, a personnel system that distributes labor based on time/actual activity is considered to have adequate internal controls. A travel system includes adequate internal controls if travel is approved in advance, there are limitations on allowable travel costs, including per diem caps, and the system enforces those limits, and travel vouchers are used to liquidate obligations.

The systems-based approach, with review of budget requests against the previous year's budget request, applies as follows:

- This cost-review approach applies to all program and PPG awards made under 40 CFR Part 35, Subpart A, where the recipient has an established, on-going grant relationship with EPA and has adequate internal controls in its personnel and travel management

systems. Therefore, this guidance is applicable to applications from a State, local, or intergovernmental agency seeking Subpart A program grants and PPGs.

This approach also applies to specific non-Subpart A awards where the same on-going, continuing environmental program grant relationship exists between EPA and the applicant (see ATTACHMENT 2, “Environmental Programs Covered By This Guidance”)

- The applicant must provide a written assurance that its personnel and travel systems have adequate internal controls for the initial application under this guidance and again only when the applicant’s travel and/or personnel systems have changed. The applicant may provide a single assurance for all of its applications for awards covered by this guidance stating that the applicant’s systems are in accordance with applicable State and federal requirements. After the initial assurance, subsequent assurances must be submitted when these systems have materially changed and indicate that the changes 1) do not violate State requirements; 2) maintain adequate internal controls in accordance with EPA guidance; and, 3) continue to provide an accurate assessment and record of personnel and travel costs and expenditures.

This assurance, signed by an authorized organizational representative, may be submitted in hard copy or electronically as a scanned PDF document.

- This guidance does not apply if an applicant 1) fails to submit or cannot provide an adequate assurance, 2) fails to submit or cannot provide an acceptable explanation of costs varying by more than 10% in the personnel and travel categories, 3) has outstanding or open issues where travel and/or personnel-related weaknesses are identified in applicant systems during EPA administrative on-site reviews, OMB Circular A-133 audits, or other reviews, and the applicant does not take, or has not taken, appropriate corrective action, or 4) is identified as high-risk pursuant to 40 CFR § 31.12. In all of these cases, the applicant must submit and EPA will evaluate requested personnel and travel costs in the same manner it reviews personnel and travel requests under project grants, i.e. applications are subject to review under the Project Cost Review Guidance (issued May 20, 2008, and available through http://intranet.epa.gov/ogd/cost_review/main/index.htm).
- The applicant must provide a budget for each year of the project. For instances where an applicant is seeking a multi-year project period, the budget must be broken down by year; a single, lump sum, multi-year budget is not eligible for review under this guidance. Updated annual budgets for multi-year project period will be accepted with subsequent funding requests and the 10% rule will be applied to each annual budget. When an applicant does not provide a budget for each year of the project, the personnel and travel costs must be evaluated in the same manner it reviews personnel and travel requests under project grants, i.e. applications are subject to review under the Project Cost Review Guidance (issued May 20, 2008, and available through http://intranet.epa.gov/ogd/cost_review/main/index.htm).

The procedure for applying this guidance is as follows:

- For purposes of this policy, personnel and fringe benefits may be considered part of the personnel system and a single budget object class.
- If the Region accepts the assurance, its cost review of the personnel and travel categories will be limited to comparing the current budget request with the previous year's budget request for those categories.
- The applicant's narrative should include a brief description of the purpose and types of travel. For example, travel is for inspections, conference and meeting attendance. The only exception is for foreign travel, which must be itemized.
- An applicant must also provide in its application "the estimated work years and funding amounts for each workplan component" as required by 40 CFR § 35.107(b)(2)(ii).
- When comparing budget requests for personnel and travel for a PPG, the Region will focus on the total workplan costs for personnel and travel and will not require the applicant to separate out those costs by individual program.
- If the costs in the personnel and travel categories do not vary by more than ten percent (10%) from the previous year's application request, they will be deemed necessary and reasonable. If the costs vary by more than 10%, the Region must evaluate the applicant's written explanation for the variation and determine whether it is acceptable. For example, if travel costs rose by 12% from the previous year, the applicant would need to explain the reason for the change; a reasonable explanation might be an organization-wide increase in per diem rates. Applicants are encouraged to explain variations greater than 10% in their narrative, although a separate, written explanation is acceptable. POs may provide notations in the cost review checklist as to where the applicant's explanation may be found.

The initial applications made after the effective date of this guidance will be reviewed and compared to the previous year's application request (at the personnel and travel category level).

There are three scenarios where additional guidance is warranted. The first is how to add a program to a PPG. The second is how to sever a program from a PPG. The third is how to handle competitive Subpart A awards.

Adding to a PPG

For applications that propose to add programs to an existing PPG or create a new PPG, the previous year's budget request may be determined by adding last year's budget of the new program(s) to last year's budget of the PPG or other included program(s). This total will be the previous year's "application request" for evaluation purposes.

Example: Adding to a PPG

PREVIOUS YEAR'S BUDGETS			COMPARE TO
PPG	RCRA		
375,000	75,000	<i>Personnel</i>	450,000
20,000	10,000	<i>Travel</i>	30,000

Severing a Program from a PPG

In instances where programs are removed from a PPG, the separate awards (the new PPG and separate program award(s)) should be treated as if they are first-time awards. In subsequent years, these awards will serve as the baseline for comparison.

Competitive Subpart A Awards

There are a limited number of competitive awards made under 40 CFR Part 35, Subpart A. These awards, due to their competitive nature, may or may not be available to applicants in consecutive years. Given the administrative complexity of handling these awards differently, OGD has determined that they will be reviewed under this guidance.

Attached are three documents. Attachment 1, "Sample Internal Controls Assurance," may be used by applicants in preparing their assurance. Attachment 2, "Environmental Programs Covered By This Guidance," lists all programs eligible for this cost review. Attachment 3, "Part 35, Subpart A, Cost Review Checklist," is a worksheet which must be used by EPA Project Officers when reviewing application budgets.

ATTACHMENT 1
Sample Internal Controls Assurances

For First Year

The systems and procedures used by **(Name of Applicant)**, for travel and personnel, meet all requirements set forth by **(Name of State, commonwealth or organization)** and provide necessary and appropriate internal controls in accordance with EPA guidance. Further, the state systems and procedures provide an accurate assessment and record of our personnel and travel costs and expenditures.

For Subsequent Years Where Systems Have Changed

Any changes to these systems and procedures made since **(date of last assurance)**: 1) do not violate (insert **State or commonwealth's**) requirements; 2) maintain adequate internal controls in accordance with EPA guidance; and, 3) allow us to continue to provide an accurate assessment and record of our personnel and travel costs and expenditures.

Assurances should be signed and dated by an authorized organizational representative.

ATTACHMENT 2

40 CFR Part 35 Subpart A and Related Programs

40 CFR Part 35 Subpart A Programs –

- Performance Partnership Grants (Omnibus Consolidated Rescissions and Appropriations Act of 1996).
- Air pollution Control (section 105 of the Clean Air Act).
- Water pollution Control (section 106 of the Clean Water Act).
- Public water system supervision (section 1443(a) of the Safe Drinking Water Act).
- Underground water source protection (section 1443(b) of the Safe Drinking Water Act).
- Hazardous waste management (section 3011(a) of the Solid Waste Disposal Act).
- Pesticide cooperative enforcement (section 23(a)(1) of the Federal Insecticide, Fungicide, and Rodenticide Act).
- Pesticide applicator certification and training (section 23(a)(2) of the Federal Insecticide, Fungicide, and Rodenticide Act).
- Pesticide program implementation (section 23(a)(1) of the Federal Insecticide, Fungicide, and Rodenticide Act).
- Nonpoint source management (sections 205(j)(5) and 319(h) of the Clean Water Act).
- Lead-based paint program (section 404(g) of the Toxic Substances Control Act).
- State indoor radon grants (section 306 of the Toxic Substances Control Act).
- Toxic substances compliance monitoring (section 28 of the Toxic Substances Control Act).
- State underground storage tanks (section 2007(f)(2) of the Solid Waste Disposal Act).
- Pollution prevention state grants (section 6605 of the Pollution Prevention Act of 1990).
- Water quality cooperative agreements (section 104(b)(3) of the Clean Water Act).
- Wetlands development grants program (section 104(b)(3) of the Clean Water Act).
- State administration of construction grant, permit, and planning programs (section 205(g) of the Clean Water Act).
- Water quality management planning (section 205(j)(2) of the Clean Water Act).

Non-Subpart A Program Grants –

- Chesapeake Bay Program State Grants (when funds are directed to Bay states).
- State Beach Monitoring and Notification Development Grants.
- Lake Champlain Basin (where these funds are directed to specific recipients on an annual basis).
- Water Protection Grants to the States.
- Superfund State and Indian Tribe Core Program Cooperative Agreements.

ATTACHMENT 3

COST REVIEW TEMPLATE AND GUIDANCE FOR PROJECT OFFICERS GRANTS UNDER 40 CFR Part 35 Subpart A

(Electronically attach the completed form to the Funding Recommendation in IGMS, then print and retain a copy in the program grant file)
You may include comments at the end of each section as necessary.

Application/Grant Number: _____
 Applicant: _____
 Project Officer: _____

Application is for: new funding supplemental funding

For purposes of this cost review:

- “Current Application Request” refers to the requested amount of the current application.
- “Previous Application Request” refers to the requested amount of the previous year’s application.

If the application is for a PPG, does the request include the same programs as the current award?	YES	NO	N/A
If NO, identify the difference in programs included (additions or deletions).			
Is the applicant designated as “high-risk?”	YES	NO	
IF YES, the applicant must submit and EPA will evaluate requested personnel and travel costs in the same manner it reviews personnel and travel requests under project grants, i.e. applications are subject to review under the Project Cost Review Guidance (issued May 20, 2008, and available through http://intranet.epa.gov/ogd/cost_review/main/index.htm).			

Budget Category Guidance: Personnel	Cost Review Detail: Personnel								
<p>If the applicant has a personnel management system with adequate internal controls, EPA will base its review of requested personnel costs on the previous application request. Costs within 10% of the previous application request will be deemed necessary and reasonable. Applicants must explain variations greater than 10% in their narrative, or in a separate, written format. POs should provide notations as to where the applicant’s explanation may be found.</p> <p>The applicant should provide “the estimated work years and funding amounts for each workplan component.” (40 CFR 35.107(b)(2)(ii)). These categories should conform to the applicant’s personnel management and budgeting requirements and include only those costs paid through the applicant’s payroll systems. Project Officers should also</p>	<p>A. Is the applicant proposing personnel costs as direct costs under the award? Yes _____ No _____ <i>If NO, go to TRAVEL.</i></p> <table border="1" style="width: 100%; margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 20%; text-align: center;">Cumulative Amount</th> </tr> </thead> <tbody> <tr> <td>Current Application Request</td> <td></td> </tr> <tr> <td>Previous Application Request</td> <td></td> </tr> <tr> <td>Percentage Change in Requests</td> <td></td> </tr> </tbody> </table> <p>B. Is the amount within the 10% limit? Yes _____ No _____</p>		Cumulative Amount	Current Application Request		Previous Application Request		Percentage Change in Requests	
	Cumulative Amount								
Current Application Request									
Previous Application Request									
Percentage Change in Requests									

<p>determine whether changes in the number of FTEs requested are appropriate and necessary to complete the application's scope of work.</p> <p>If the applicant failed to submit an assurance, the applicant must submit and EPA will evaluate requested personnel and travel costs in the same manner it reviews personnel and travel requests under project grants, i.e. applications are subject to review under the Project Cost Review Guidance (issued May 20, 2008, and available through http://intranet.epa.gov/ogd/cost_review/main/index.htm).</p>	<p>C. If NO, did the applicant provide an acceptable explanation for the change? Yes _____ No _____ N/A _____</p> <p>C.1 If YES, where is the explanation located?</p>
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Budget Category Guidance: Travel	Cost Review Detail: Travel
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<p>If the applicant has a travel management system with adequate internal controls, EPA will base its review of requested travel costs on the previous application request. Costs within 10% of the previous application request will be deemed necessary and reasonable.</p> <p>The applicant's narrative should include a brief description of the purpose and types of travel. For example, travel is for inspections, conference and meeting attendance. This description should conform to the applicant's travel management and budgeting requirements. Foreign travel approvals are part of the Funding Recommendation and Grant Specialist Checklists and must be listed separately and be clearly identified.</p> <p>Applicants must explain variations greater than 10% in their narrative, or in a separate, written format. POs should provide notations as to where the applicant's explanation may be found.</p> <p>If the applicant failed to submit an assurance, the applicant must submit and EPA will evaluate requested personnel and travel costs in the same manner it reviews personnel and travel requests under project grants, i.e. applications are subject to review under the Project Cost Review Guidance (issued May 20, 2008, and available through http://intranet.epa.gov/ogd/cost_review/main/index.htm).</p>	<p>A. Is the applicant proposing travel as a direct cost under the award? Yes _____ No _____ If NO, go to EQUIPMENT.</p> <table border="1" data-bbox="829 560 1522 706"> <thead> <tr> <th></th> <th>Cumulative Amount</th> </tr> </thead> <tbody> <tr> <td>Current Application Request</td> <td></td> </tr> <tr> <td>Previous Application Request</td> <td></td> </tr> <tr> <td>Percentage Change in Requests</td> <td></td> </tr> </tbody> </table> <p>B. Is the amount within the 10% limit? Yes _____ No _____</p> <p>C. If NO, did the applicant provide an acceptable explanation for the change? Yes _____ No _____ N/A _____</p> <p>C.1 If YES, where is explanation located?</p>		Cumulative Amount	Current Application Request		Previous Application Request		Percentage Change in Requests	
	Cumulative Amount								
Current Application Request									
Previous Application Request									
Percentage Change in Requests									

Budget Category Guidance: Equipment	Cost Review Detail: Equipment
<p>This category includes only equipment proposed to be purchased as a direct cost of the award. Equipment is defined as tangible, non-expendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit although a lower dollar amount threshold that applies to both its federal and non-federal activities can be established by the applicant. Equipment also includes accessories necessary to make the equipment operational.</p> <p>This category does not include (1) equipment planned to be leased/rented, including lease/purchase agreements, or (2) equipment service or maintenance contracts. These types of proposed expenditures should be included in the "OTHER" category.</p> <p>For non-State applicants (e.g., local air districts), if a planned procurement will be sole source, a justification and a cost-price analysis must be included in the applicant's files.</p> <p>POs also should make a recommendation as to the final disposition of equipment, which will be included as a term and condition in the award document.</p>	<p>A. Is the applicant proposing the purchase of equipment as a direct cost under the award? Yes _____ No _____ <i>If NO, go to SUPPLIES.</i></p> <p>B. Are the proposed costs necessary and reasonable to carry out the applicant's proposed scope of work? Yes _____ No _____</p> <p>C. Are the costs allowable under applicable program guidance, statute, and regulation? Yes _____ No _____</p> <p>D. If a non-State applicant, are sole-source procurements indicated? Yes _____ No _____ N/A _____</p> <p>D.1 If YES, have you informed the applicant of sole-source and cost-price analysis requirements? Yes _____ No _____ N/A _____</p>
Budget Category Guidance: Supplies	Cost Review Detail: Supplies
<p>Supplies are tangible personal property other than equipment. This distinction is based on the anticipated acquisition cost.</p> <p>Applicants must identify general materials and supplies to be purchased for use under the award and provide information on the estimated aggregate costs of each category or type, e.g., office supplies, laboratory supplies, etc. Any single item valued at \$5,000 or more in this category should be moved to the "EQUIPMENT" category. Services associated with supplies, such as printing services or photocopy services, and rental costs should be budgeted under the "OTHER" category.</p>	<p>A. Is the applicant proposing supplies as a direct cost under the award? Yes _____ No _____ <i>If NO, go to CONTRACTUAL.</i></p> <p>B. Are the proposed costs necessary and reasonable to carry out the applicant's proposed scope of work? Yes _____ No _____</p> <p>C. Are the costs allowable under applicable program guidance, statute, and regulation? Yes _____ No _____</p>

Budget Category Guidance: Contractual	Cost Review Detail: Contractual
<p>Contractual or consultant services are those services to be carried out by a non-Federal party, whether an individual or organization, other than the recipient or its employees, in the form of a procurement relationship. A direct procurement relationship is characterized by provision of goods and services routinely offered in the marketplace and that are necessary to complete the proposed scope of work. Leased or rented goods (equipment or supplies) and sub-awards should be addressed in the "OTHER" category.</p> <p>The applicant should describe the contracts, including the scope of work or services to be provided, including proposed duration, and proposed procurement method (competitive or non-competitive (sole-source)), if known.</p> <p>As provided in 40 CFR 31.36(a), for procurements under EPA grants, States will follow the same policies and procedures they use for procurements using non-Federal funds.</p> <p>For non-State applicants (e.g., local air districts), if a planned procurement will be sole source, a justification and a cost-price analysis must be included in the applicant's files.</p>	<p>A. Is the applicant proposing to acquire contractual/consultant services as a direct cost under the award? Yes _____ No _____ <i>If NO, go to CONSTRUCTION.</i></p> <p>B. Are the proposed costs necessary and reasonable to carry out the applicant's proposed scope of work? Yes _____ No _____</p> <p>C. Are the costs allowable under applicable program guidance, statute, and regulation? Yes _____ No _____</p> <p>D. If a non-state applicant, are sole-source procurements indicated? Yes _____ No _____ N/A _____</p> <p>D.1 If YES, have you informed the applicant of sole-source and cost-price analysis requirements? Yes _____ No _____ N/A _____</p>
Budget Category Guidance: Construction	Cost Review Detail: Construction
<p>Typically not included in program awards.</p> <p>However, for awards where construction is directly contracted for by the applicant as part of a demonstration project or using Clean Water Act Section 319 funds, the costs should be included under the "CONTRACTUAL" category.</p>	<p>Is the applicant proposing construction costs as a direct cost under the award? Yes _____ No _____</p> <p>If YES, costs must be categorized in the CONTRACTUAL category.</p>

<p>Budget Category Guidance: Other</p> <p>This category should include only those types of direct costs that do not fit in any of the other budget categories. Examples of typical costs that may be in this category are:</p> <ul style="list-style-type: none"> • insurance and indemnification • rental of space, equipment, or supplies • printing • publication • postage • utilities • telephone <p>This category should include only the costs which are not categorized elsewhere, including any potential subaward work.</p> <p>Subawards are a distinct type of cost under this category. The term “subaward” means an award of financial assistance (money or property) by any legal agreement made by the recipient to an eligible subrecipient. This term does not include procurement relationships, technical assistance in the form of services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations.</p> <p>Applicants should provide the aggregate amount they propose to issue as subaward work and a description of the types of activities to be supported.</p>	<p>Cost Review Detail: Other</p> <p>A. Is the applicant proposing any other types of costs as direct costs under the award? Yes _____ No _____ <i>If NO, go to QUESTIONED COSTS.</i></p> <p>B. Are the proposed costs necessary and reasonable to carry out the applicant’s proposed scope of work? Yes _____ No _____</p> <p>C. Are the costs allowable under applicable program guidance, statute, and regulations? Yes _____ No _____</p> <p>D. Does this award include any subaward work? Yes _____ No _____ <i>If NO, go to QUESTIONED COSTS.</i></p> <p>D.1 Are there any programmatic eligibility restrictions on who may perform proposed subaward work? Yes _____ No _____</p> <p>D.2 Is the proposed subaward work for authorized assistance purposes (i.e., not to acquire goods or services for use by the applicant)? Yes _____ No _____</p> <p>D.3 Is the proposed subaward work necessary to meet the objectives of the application? Yes _____ No _____</p> <p>D.4 Has the recipient been notified of the national term and condition for subawards (including the requirement to obtain EPA’s consent before making a subaward to a foreign or international organization, or any entity performing subaward work in a foreign country)? Yes _____ No _____</p>
<p>Questioned Costs</p>	<p>Questioned Costs</p>
	<p>Did the cost review analysis result in questioned costs that required the applicant to submit a revised budget sheet? Yes _____ No _____ If “Yes,” please provide a brief narrative on the questioned costs and the resolution of the questioned costs.</p>
<p>Cost Review Analysis Summary: <i>The cost review analysis of the proposed applicant budget was conducted in accordance with cost review principles set forth in applicable EPA cost review guidance. Answers to all cost review questions are based on the best professional judgment of the undersigned reviewer after analysis of the grant application, programmatic guidance, and other applicable documents.</i></p> <p>Project Officer Name _____ Project Officer Signature _____ Date _____</p>	

Comments, Questions and Remarks

If you have any comments, questions or remarks about any costs during your review, you may enter them in this box.