UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

August 31, 2004

MEMORANDUM

SUBJECT: Cost Review Requirement for DWSRF Set-asides

TO: EPA DWSRF Regional Coordinators
Regions I - X

EPA Regional Grant Management Officers
Region I - X

FROM: Stephen F. Heare, Director /s/
Drinking Water Protection Division

Richard Kuhlman, Director /s/
Grants Administration Division

On June 19, 2000, the Environmental Protection Agency's (EPA) Grants Administration Division (GAD) issued Cost Review Guidance (GPI-00-05) for all EPA grants. This policy states that a cost review must be conducted for every project selected for funding**.** With respect to the Drinking Water State Revolving Fund (DWSRF) program the policy applies to the set-aside portion of the grant. It does not apply to the loan portion.

The policy requires that these cost reviews be documented and included in the appropriate grant specialist and/or project officer file. However, the Comprehensive Grants Management Reviews have found that many of these cost reviews are not being documented in grant or project officer files. In order to assure consistent compliance with the Cost Review Guidance, GAD recently began recommending that Project Officers in the Regions complete and attach a cost review as part of the electronic funding recommendation in the Integrated Grants Management System (IGMS) in addition to documenting the cost review in the project officer file. The **PROJECT OFFICER COST ANALYSIS/BUDGET REVIEW CHECKLIST** attached is a recommended example of an acceptable cost review.

This requirement to complete a cost review raised a conflict with 40 CFR part 35.3540(c)(2), which allows States using grant funds from the DWSRF for set-aside purposes to

submit a work plan up to 90 days after that grant is awarded. For those States that submit detailed set-aside work plans after a grant award, DWSRF Project Officers cannot perform the cost review at the pre-award stage.

To reconcile the 90 day period allowed for work plan submittal under DWSRF regulations with the need for completion of timely cost review and consistency for grant requirements, GAD has agreed to allow a post-award cost review to be conducted by Project Officers for those State DWSRF programs that submit set-aside work plans after the grant award. In these situations, the Regions may award the DWSRF capitalization grant (including set-asides) without having a completed a cost review.

The grant agreement must contain a condition that set-aside funds may not be expended until the set-aside work plan is submitted and the Region completes a cost review for the set-asides and approves the set-aside work plan. This applies to all set-aside categories, including the 4% set-aside for administration and technical assistance.

If you have any questions, please contact Howard Rubin, of the DWSRF, at (202) 564-2051, or David Osterman, the GAD liaison to the Office of Water, at (202) 564-6778.

Attachment

Cc: Kim Roy, OW
David Osterman, GAD

PROJECT OFFICER COST ANALYSIS/BUDGET REVIEW CHECKLIST

Project Officer:_____

Date of Cost Review:_____

Grant Number:_____

Grantee:_____

Project Period: Start Date;_____ End Date:_____

PERSONNEL:

COSTS ACCEPTED	COSTS QUESTIONED

		Y	N
1.	Was a comparison done of the proposed budget and the narrative work plan to determine whether the budget is reasonable?		
2.	Was a examination done on the staffing requirements for the project?		
3.	Are the personnel appropriate (the right mix) to meet the project objectives?		
4.	Was the personnel budget category reviewed to determine if salary ranges are reasonable?		

FRINGE BENEFITS:

COSTS ACCEPTED	COSTS QUESTIONED

TRAVEL:

COSTS ACCEPTED	COSTS QUESTIONED

Y N

1. Is destination and the number of trips planned necessary to complete the scope of work?		
2. Is the number of travelers consistent with the proposed trips?		

EQUIPMENT

COSTS ACCEPTED	COSTS QUESTIONED

	Y	N
1. Does the project's odjectives support equipment purchases or should other options be considered?		
2. What will happen to the equipment after it is no longer needed for the project or the project is terminated?		
3. Is the term and condition for disposition needed on the award?		

SUPPLIES:

COSTS ACCEPTED	COSTS QUESTIONED

	Y	N
1. Is the amount budgeted for supplies reasonable		

CONTRACTUAL:

COSTS ACCEPTED	COSTS QUESTIONED

	Y	N
1. Does the proposed contract appear necessary to carry out the objectives of the project/program?		
2. Are the costs reasonable?		

OTHER:

COSTS ACCEPTED	COSTS QUESTIONED

	Y	N
1. Are these costs consistent and necessary to complete the approved work plan?		
2. Are the proposed costs reasonable?		

PROGRAM INCOME:

COSTS ACCEPTED	COSTS QUESTIONED

	Y	N
1. Will the recipient generate program income?		
2. If so, how will it be used?		

PROJECT OFFICER: _____ **DATE:** _____

Region 3 - PROJECT OFFICER COST REVIEW ANALYSIS WORKSHEET

(Electronically attach the completed form to the Funding Recommendation in IGMS, then print and place a copy in program grant file, along with a copy of the Funding Recommendation.)

Project Officer:

Date of Cost Review:

Grant Number:

Grantee:

Disclaimer: Answers to all checklist questions about reasonableness of costs are based on the best professional judgement of staff reviewers in the Municipal Financial Assistance Branch after analysis of the grant application and Intended Use Plan. Questions can only be answered with absolute certainty by a program audit. Except as otherwise noted, nothing came to our attention to doubt the reasonableness or necessity of all cost data submitted in the application.

A. PERSONNEL:	Y	N	N/A
1. Was a comparison done of the proposed budget and the narrative work plan to determine whether the budget is reasonable?			
2. Was an examination done on the staffing requirements for the project?			
3. Are the personnel appropriate (the right mix) to meet the project objectives?			
4. Was the personnel budget reviewed to determine if salaries are reasonable?			

Questionable Item(s):

Resolution:

B. FRINGE BENEFITS:	Y	N	N/A
1. Is the amount for fringe benefits reasonable when compared to personnel costs?			

Questionable Item(s):

Resolution:

C. TRAVEL:	Y	N	N/A
1. Is destination and the number of trips planned necessary to complete the work?			
2. Is the number of travelers consistent with the proposed trips?			

Questionable Item(s):

Resolution:

D. EQUIPMENT:	Y	N	N/A
1. Does the project's objectives support equipment purchases or should other options be considered, such as leasing, renting, or loan of government property?			
2. Have you made the recipient aware that a price comparison analysis must be conducted for equipment purchases per 40 CFR 30.45 (Non-Profits and Institutions of Higher Education) and 40 CFR 31.36 (*State and Local Governments)?			
3. Is a term and condition for disposition needed on the award?			

4. Explain below what will happen to the equipment after it is no longer needed for the project or the project is terminated?

(Equipment continued)

Questionable Item(s):

Resolution:

E. SUPPLIES:	**Y**	**N**	**N/A**
1. Is the amount budgeted for supplies reasonable based on the scope of work?			
2. Are there any single items valued at $5,000 or more in this category that should be moved to the "Equipment" category?			

Questionable Item(s):

Resolution:

F. CONTRACTUAL/CONSTRUCTION:	**Y**	**N**	**N/A**
1. Does the proposed contract(s) appear necessary to carry out the objectives of the project/program?			
2. Are there any interagency agreement or subgrants listed in "Contractual" that should be moved to the "Other" category?			
3. Are the costs reasonable?			
4. Have you made the recipient aware of the procurement procedures required under 40 CFR 30.40-30.48 (Non-Profits and Institutions of Higher Education) or 40 CFR 31.36 (*State and Local Governments)?			

Questionable Item(s):

Resolution: ** A State must follow the same policies and procedures it uses for procurements from its non-Federal funds.*

G. OTHER:	**Y**	**N**	**N/A**
1. Are these costs consistent and necessary to complete the approved work plan?			
2. Are the proposed costs reasonable?			

Questionable Item(s):

Resolution:

H. GENERAL:	**Y**	**N**	**N/A**
1. Are there any unallowable costs, such as entertainment, lobbying,, etc?			

Questionable Item(s):

Resolution:

OW PROJECT OFFICER COST REVIEW CHECKLIST

Project Officer:	**Project Period** **Start Date:** **End Date:**
Date of Cost Review:	**Grant Number:**
Grantee:	

INSTRUCTIONS: *A cost review is defined as a review of a potential recipient's budget to determine that costs are eligible, reasonable, allowable, and allocable. The checklist follows the cost categories found in the Standard Form 424-A Budget Sheets. For each cost category, record costs accepted and any costs that were questioned and provide a brief description of the solution to the questioned costs. Examples of questioned costs include bad debts, entertainment, and lobbying expenses. If a recipient did not include costs in a particular budget category, check the "Not Applicable" box. After completion, print the checklist and place a copy in the Official Project File.*

REMEMBER: All costs must be Eligible, Reasonable, Allowable, Allocable.

✓ Eligible – Permitted by statute, program guidance, or regulations.
✓ Reasonable – Does not exceed that which would be incurred by a prudent person under the circumstances at the time the decision was made to incur the cost.
✓ Allowable – Necessary and reasonable for the performance of the award.
✓ Allocable – Incurred specifically for the award; treated the same no matter when or where applied and consistent with the recipients' policies, regulations, and procedures; and necessary to the overall operation of the organization.

PERSONNEL: Costs for labor effort directly related to the grant.

COSTS ACCEPTED	COSTS QUESTIONED	NOT APPLICABLE

	Y	N
1. Was a comparison done of the proposed budget and the narrative work plan to determine whether the budget is reasonable?		
2. Was an examination done on the staffing requirements for the project?		
3. Are the personnel appropriate (the right mix) to meet the project objectives?		
4. Was the personnel budget category reviewed to determine if salary ranges are reasonable?		
5. Are the personnel listed in the documentation supporting the personnel budget category actually employees of the grant recipient?		
Solution to Costs Questioned:		

FRINGE BENEFITS: Costs for personnel employment other than employee's direct income.

COSTS REPORTED BY RECIPIENT	NOT APPLICABLE

- *Simply record the fringe benefit costs reported by the recipient. GAD is responsible for reviewing these costs for reasonableness.*

TRAVEL: Costs for travel and per diem directly related to the grant.

COSTS ACCEPTED	COSTS QUESTIONED	NOT APPLICABLE

	Y	N
1. Are the number of trips and the destination planned necessary to complete the scope of work?		
2. Is the number of travelers consistent with the proposed trips?		
Solution to Costs Questioned:		

- *All international travel must be approved by the Office of International Activities.*
- *GAD will review travel costs for reasonableness.*

EQUIPMENT: Tangible, nonexpendable personal property with a unit acquisition cost of $5,000 or greater and a useful life of more than one year (lower limits may be established consistent with recipient policy).

COSTS ACCEPTED	COSTS QUESTIONED	NOT APPLICABLE

	Y	N
1. Do the project objectives support equipment purchases or should other options be considered, such as leasing, renting, or loan of government property?		
2. Has a decision been made about what will happen to the equipment after it is no longer needed for the project or the project is terminated?		
3. Is a term and condition for disposition needed on the award?		

Solution to Costs Questioned:

- *No equipment may be purchased without the express approval of EPA. The recipient must identify each item of equipment and its cost.*
- *State recipients may manage and dispose of equipment acquired in accordance with State laws and procedures.*

SUPPLIES: All tangible personal property other than equipment. Supplies differ from equipment in that they are consumable, expendable, and of relative low unit cost.

COSTS ACCEPTED	COSTS QUESTIONED	NOT APPLICABLE

	Y	N
1. Is the amount budgeted for supplies reasonable based on the scope of work?		
Solution to Costs Questioned:		

CONTRACTUAL: Those contractual services directly related to the grant.

COSTS ACCEPTED	COSTS QUESTIONED	NOT APPLICABLE

	Y	N
1. Does the proposed contract appear necessary to carry out the objectives of the project?		
2. Are the costs reasonable based on the scope of work?		
3. Have you made the recipient aware of the procurement procedures required under 40 CFR 30.40-30.48 (Non-profits and Institutions of Higher Education) or 40 CFR 31.36 (State and Local Governments)?		
Solution to Costs Questioned:		

- *Consider the hourly/daily rate and the number of hours/days proposed for consultant services.*
- *If a recipient proposes a sole-source contract, it must provide a justification.*

OTHER: Any other category of cost directly related to the grant. Examples include postage, printing and reproduction, and conference room rentals.

COSTS ACCEPTED	COSTS QUESTIONED	NOT APPLICABLE

	Y	N
1. Are the costs consistent and necessary to complete the scope of work?		
2. Are the costs reasonable based on the scope of work?		
Solution to Costs Questioned:		

PROGRAM INCOME: Gross income directly generated by an assistance supported activity and earned only as a result of the assistance agreement during the project period.

COSTS ACCEPTED	COSTS QUESTIONED	NOT APPLICABLE

	Y	N
1. Will program income be generated under this grant?		
2. If yes to above , has agreement been reached on the disposition of program income?		
3. Are the costs to be paid by program income allocable to the grant and addressed in the budget?		
Solution to Costs Questioned:		

INDIRECT COSTS: Costs that result from allocation of a grouping of administrative costs, which are not easily identified as a direct cost. These costs are identified and contained in the recipient's Negotiated Indirect Cost Agreement.

COSTS REPORTED BY RECIPIENT	NOT APPLICABLE

- *Simply record the indirect costs reported by the recipient. GAD is responsible for reviewing these costs.*