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OFFICE OF COMMUNITY SERVICES Increasing the Capacity of Individuals, Families and Communities



To: State Community Services Block Grant Directors, State Comptrollers, U.S. Territories, Native American Tribes and Tribal Organizations, Community Action Agencies, Community Development Corporations, and other non-profit organizations receiving Community Services Block Grant (CSBG) funds.

Subject: **Definition and allowability of direct and administrative costs.**

Purpose: This memorandum clarifies the definition and allowability of "direct" program and "administrative" costs under the Community Services Block Grant (CSBG) and new programmatic reporting requirements. The memo specifically addresses use of CSBG funds for planning, coordination, integration, strengthening, and expansion of public and private assistance related to the elimination of poverty.

Related References: Community Services Block Grant Act of 1998, 42 USC § 9901-9920 (1999); OMB Circular A-122; OMB Circular A-133; HHS Results Oriented Management and Accountability Guide (1999).

Policy Summary:

1. For CSBG program reporting requirements, the HHS Office of Community Services (OCS) defines "direct" program and "administrative" costs in accordance with three criteria: (i) meeting Congressional intent for the program; (ii) achieving consistency with HHS audit and financial management standards; and (iii) ensuring a common basis for relating expenditures to the CSBG Results Oriented Management and Accountability System (ROMA).
 - a. "Direct" program costs can be specifically identified with delivery of a particular project, service, or activity undertaken by a grantee to achieve an outcome intended by the funding program. For CSBG, such direct costs derive from the funding objectives specified in the reauthorizing statute, and from the goals and outcome measures in the ROMA system required by that statute. Direct program costs are incurred for the service delivery and management components within a particular program or project. Therefore, direct program costs include expenditures on some activities with administrative qualities, including salaries and benefits of program staff and managers, equipment, training, conferences, travel, and contracts that expressly relate to the delivery of an individual program or service funded by a specific grant source.
 - b. "Administrative" costs, in the context of CSBG statutory reporting requirements, are equivalent to the familiar concepts of "indirect" costs or "overhead." As distinguished from program administration or management expenditures that qualify as direct program costs, administrative costs refer to central executive functions that do not directly support a specific project

or service. Rather, administrative costs are incurred for common objectives that benefit multiple programs administered by the grantee organization, or the organization as a whole, and as such are not readily assignable to a particular program funding stream. Administrative costs relate to the general management of the grantee organization, such as strategic direction, Board development, Executive Director functions, accounting, budgeting, personnel, procurement, and legal services.

1. Under the CSBG reauthorization and national ROMA goals, eligible programmatic activities explicitly include efforts to coordinate and strengthen a range of local programs and services that combat poverty. These efforts often entail planning and management functions that facilitate integrated approaches among more categorical public, private, and non-profit entities within a community. They also provide additional resources to enhance or supplement the activities of programs that receive other Federal, State, local, and private funding. OCS considers such functions to constitute a core CSBG program purpose, significant and necessary to the grantee mission, pursuant to Congressional intent. Use of CSBG funds to augment and coordinate other programs is an allowable cost. Furthermore, although some of these functions have administrative qualities, related expenditures that can be specifically identified with a programmatic activity to coordinate and strengthen other programs and services should be categorized as direct program costs, because they achieve an outcome intended by the Congress in the express language of the CSBG reauthorizing statute.

Background

New reporting requirements in the CSBG reauthorization, and potential confusion with terminology used in OMB Circular A-122 and the cost accounting field, necessitate some clarification for grantees and auditors regarding (1) the definition of different cost categories in the CSBG program and (2) the character and allowability of CSBG expenditures to coordinate and link multiple anti-poverty programs.

The CSBG reauthorization requires that HHS report to Congress on use of CSBG funds by grantees, including a breakdown of expenditure by "direct" and "administrative" functions. 42 U.S.C. § 9917(b)(2)(B) (1999). The statute also requires that HHS define "direct" and "administrative" costs for those purposes. 42 U.S.C. § 9917(b)(3). In addition, OMB Circular A-122, Cost Principles for Non-Profit Organizations uses similar terms, with different meanings, in providing guidance on setting indirect cost rates and charging expenditures to grants. OMB Circ. A-122 Attach. A §§ B and C(3) (1998). OCS is promulgating this information memorandum to clarify the definitions of costs for programmatic reporting requirements under the CSBG statute; the memo does not modify the requirements of OMB Circular A-122 or how grantees define costs for the purposes of establishing indirect cost rates for the CSBG program.

CSBG funds may be used to undertake a very broad range of activities, including linking and strengthening other anti-poverty programs and services. For example, CSBG funds may support planning, coordination, and capacity-building to improve the effectiveness of other community programs and organizations. CSBG funds also may be used to enhance and supplement other federally-funded programs. 42 U.S.C. § 9901(2), 42 U.S.C. § 9908(b)(1)(C), 42 U.S.C. § 9908(b)(5). The relatively unusual flexibility to fund coordination and enhancement programs, which sometimes have managerial and administrative qualities, may generate questions regarding the character of those expenditures under the costing definitions. Therefore, OCS is providing guidance regarding what constitutes a direct or administrative cost in those circumstances. Furthermore, OCS is reaffirming that such expenditures are allowable costs under the CSBG statute.

Definitions of CSBG Direct Program Costs and Administrative Costs

The CSBG reauthorization requires that HHS provide a programmatic report to Congress that includes use of CSBG funds by grantees by expenditures on "direct" and "administrative" functions. 42 U.S.C. § 9917(b)(2)(B) (1999). For the purpose of this programmatic report, OCS offers guidance on defining these terms to help ensure consistency among grantees in assigning costs to these categories --

Direct Program Costs for CSBG Reporting. Direct program costs can be identified with delivery of a particular project, service, or activity intended to achieve an objective of the grant award. For the CSBG award, those purposes and eligible activities are specified in the reauthorizing statute and reflected in the national ROMA performance measures. Direct program costs are incurred for the service delivery and management components within a particular program or project. Therefore, direct costs include expenditures on some activities with administrative qualities, including salaries and benefits of program staff and managers, equipment, training, conferences, travel, and contracts, as long as those expenses relate specifically to a particular program or activity, not to the general administration of the organization.

Administrative Costs for CSBG Reporting. In the context of CSBG statutory reporting requirements, administrative costs are equivalent to typical indirect costs or overhead. As distinguished from program administration or management expenditures that qualify as direct costs, administrative costs refer to central executive functions that do not directly support a specific project or service. Incurred for common objectives that benefit multiple programs administered by the grantee organization, or the organization as a whole, administrative costs are not readily assignable to a particular program funding stream. Rather, administrative costs relate to the general management of the grantee organization, such as strategic direction, Board development, Executive Director functions, accounting, budgeting, personnel, procurement, and legal services

Contrast with OMB Circular A-122 Definitions. OMB Circular A-122 establishes general principles for determining the costs of Federal grants for non-profit organizations. In contrast, the new CSBG reporting requirement focuses on developing a better understanding of the specific relationship between CSBG funding and program operations, particularly in the context of ROMA objectives.

The Circular provides grantees with guidance on accumulating direct and indirect costs in order to ascertain the total or "full costs" of a grant program. Circular requirements ensure that a grantee is internally consistent in the manner it charges costs to Federal grant sources, so that costs charged to a grant as "direct" costs do not duplicate the same or similar costs included and charged to a grant through an approved indirect cost rate. Furthermore, indirect costs may be classified within the subcategories of "administrative" costs and "facilities" costs. The Circular permits grantees substantial latitude in defining and grouping these costs, dependent on an organization's structure, number of programs operated, funding sources, and accounting systems.

Therefore, "administrative" costs as defined under the OMB Circular A-122 are not necessarily interchangeable with "administrative" costs for CSBG program reports. If the Circular's definitions were used for CSBG programmatic reporting requirements, the latitude provided in the Circular could result in "direct" and "administrative costs" being overstated or understated for purposes of CSBG program reports. For example, the Circular permits grantees to include all facility costs, including maintenance and operations, as a separately identified category in calculating their indirect cost rates. However, for CSBG program reports, facility costs attributable to the operation of direct program activities should be reported as "direct" costs, and facilities costs associated with general management of the organization should be reported as "administrative" costs. The same principle for assigning a direct cost in CSBG program reports applies to any other costs included in an organization's approved indirect cost rate that can be identified with delivery of a particular activity to achieve an objective of the CSBG

award.

Thus, in CSBG program reports, grantees might deviate from the definition of "administrative" costs used in developing an indirect cost rate under OMB Circular A-122. Again, such a recasting for purposes of a CSBG program report does not in any way modify the requirements of the Circular or the classification of costs in a grantee's approved indirect cost rate. Claims for actual expenditures on Federal grant programs must remain consistent with the classification of costs used in the approved indirect cost rate.

Optional Supplemental Cost Information. In reporting on the distribution of CSBG expenditures between direct and administrative costs, CSBG recipients might also wish to include information on the distribution of overall agency spending between direct and administrative costs. Such information on the relative proportion of overall agency expenditures could provide a more accurate picture of agency operations and help to interpret the role of CSBG funds in supporting agency programs.

Allowability of CSBG Expenditures on Coordination and Strengthening Activities

The purpose of the CSBG award differs from most other grants because it does not focus on funding a particular service; CSBG does not function solely as a "stand alone" program. Rather, CSBG funding can support (1) creation of new programs and services, (2) augmentation of existing programs and services; and (3) organizational infrastructure required to coordinate and enhance the multiple programs and resources that address poverty conditions in the community.

The requirements for allowable costs are unique to each Federal program and are found in the laws, regulations, and provisions of grant agreements pertaining to the program. OMB Circ. A-133 Compliance Supp. 3(A) (1997). In addition, allowable costs should comply with several general criteria: (1) reasonable and necessary for performance and administration of the award; (2) conforming to limitations or exclusions set in the award or OMB Circular A-122 Attachment B; (3) consistent with the uniform policies and procedures of the organization; (4) allocated consistently as direct or indirect in like circumstances; (5) in accordance with generally accepted accounting principles; (6) not used to match the cost-sharing or matching requirements of another federally-funded program, or charged as a cost to such a program; and (7) documented adequately. See e.g. OMB Cir. A-122 Attach. A § A(2).

Within this framework, use of CSBG funds to both coordinate and expand local services and programs related to the elimination of poverty meet the standards for allowable costs. These activities comprise the largest spending category for the CSBG award. They often entail planning and management functions that facilitate shared resources and integrated approaches among multiple categorical services and programs within a community. They also leverage, enhance, and supplement the impact of programs supported by other Federal, State, local, and private funding sources.

The CSBG reauthorizing statute specifically targets "the strengthening of community capabilities for planning and coordinating the use of a broad range of Federal, State, local, and other assistance (including private resources) related to the elimination of poverty, so that this assistance can be used in a manner responsive to local needs and conditions." 42 U.S.C. § 9901(2)(A). The statute requires grantees to develop linkages that fill identified gaps in services and support innovative community and neighborhood-based initiatives. 42 U.S.C. § 9908(b)(3)(B). The statute also requires that grantees "coordinate, and establish linkages between, governmental and other social services programs to assure the effective delivery of such services to low-income individuals and to avoid duplication of such services . . ." 42 U.S.C. § 9908(b)(5).

The statutory mandate for coordination is reinforced by the goals and outcome measures established in the ROMA performance-based management system, now made compulsory by the CSBG reauthorization. 42 U.S.C. § 9908(12). Two of the six ROMA goals are "developing partnerships among supporters and providers of services to low-income people" and "increasing the capacity of local agencies to achieve results." Office of Community Serv., U.S. Dep't of Health and Human Serv., ROMA Guide 2-8 (1999).

These coordinating and strengthening programs may include, but are not limited to: multi-agency strategic planning; community-wide needs assessments; co-location of complementary services; computerization of common intake and referral systems; formalized networking to share resources and facilities; and organization of cross-sector coalitions to address specific community concerns.

The CSBG reauthorizing statute also explicitly permits the use of CSBG funds to augment existing community-based programs. The legislation calls for "the broadening of the resource base of programs directed to the elimination of poverty . . ." 42 U.S.C. § 9901(2)(E). It also provides funds to "make more effective use of . . . other programs related to the purposes" of the CSBG legislation. 42 U.S.C. § 9908(b)(1)(C). For example, CSBG funds can be applied to "support development and expansion of innovative community-based youth programs . . ." 42 U.S.C. § 9908(b)(1)(B).

CSBG funds do remain subject to the standard grant policy prohibition against "cost shifting." This policy prohibits using funds from one grant award to pay for program costs instead of the funds already provided for those same costs within another current-year Federal grant award. However, the policy does not prevent using funds from one grant award to pay for program costs in excess of the amounts provided for those costs in the other current-year award. Specifically, CSBG funds may not be used in place of the amounts provided by another current-year Federal grant award for (1) direct or administrative expenditures that were included as line items in that other grant award, or (2) costs that were included in developing the indirect cost rate. However, CSBG funds may be used to pay for costs of such program activities above and beyond the levels financed by another Federal grant award.

Therefore, consistent with Congressional intent and HHS grants policy, CSBG funds may supplement other grant awards by paying for expansion and enhancement of existing services and programs that already receive Federal, State, local, or private funding for those activities. Outcomes of these CSBG expenditures should be accounted for in the ROMA performance-based management system.

Cost Allocation for CSBG Coordination and Strengthening Activities

Because funding the coordination and enhancement of multiple community-based programs is an explicit objective of the CSBG statute, grantee expenditures on projects, services, or activities in these areas constitute appropriate objects for the purposes of assigning direct costs, as well as administrative costs.

Such grantee programs to "coordinate and strengthen" may entail planning and management functions with some characteristics that resemble typical administrative costs, but should be treated as direct costs. For example, CSBG funds can be used to create and maintain a computer network among multiple service providers in a community. CSBG funds can be applied to develop and operate a one-stop family center that houses multiple service providers and programs funded by other sources. CSBG funds can pay for community-wide needs assessments and multi-service strategic planning. CSBG funds also can finance compilation, publication, and distribution of information to help clients make better use of services and programs funded by other sources. The objective of these CSBG-funded coordination programs is to connect and make more effective use of the underlying services and programs, pursuant to the CSBG statutory mandate. Therefore, these activities constitute a core CSBG program

purpose, significant and necessary to the grantee mission, and an outcome intended by the funding program to which direct costs should be assigned.

The allocation between direct and administrative costs for these programs should be determined in accordance with the grantee's standard procedures for recovering eligible costs, either through calculation and application of the grantee's indirect cost rate, or through direct charges to the grant award.

HHS Reviews

This memorandum was reviewed by staff in the HHS Office of Grants and Acquisition Management.

Inquiries

Please address questions to: U.S. Department of Health and Human Services

Administration for Children and Families
Office of Community Services
Division of State Assistance
370 L'Enfant Promenade SW, Suite 500 West
Washington, DC 20447
(202) 401-2333 [main phone]
(202) 401-5713 [fax]

Margaret Washnitzer, D.S.W.
Director
Division of State Assistance
Office of Community Services