

**Interim 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): Fringe Benefits, Equipment, Supplies, Contractual, Construction, Other, Indirect Costs, Personnel, 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 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 (e.g., Chesapeake Bay Program State Grants, State Beach Monitoring and Notification Development Grants). OGD will develop a comprehensive list of these programs.

- 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 (see GPI-00-05 for current cost review guidance).
- 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 as project grants (see GPI-00-05).

The procedure for applying this guidance is as follows:

- 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. OGD is assuming that the 10% rule, together with the competition process itself, will ensure a proper cost review. If this assumption proves to be incorrect, OGD will make necessary adjustments in the final guidance.

Attached are two documents. The first, "Sample Internal Controls Assurance," may be used by applicants in preparing their assurance. The second, "Part 35, Subpart A, Cost Review Checklist," is a worksheet which must be used by EPA Project Officers when reviewing application budgets.

This guidance becomes effective March 30, 2007.

Questions about this guidance should be directed to Frank Roth of OGD at (202) 564-5311.

## 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.*

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