



HRSA
Healthy
Grants
WORKSHOP
Presented as a Web Series

HRSA
Health Resources & Services Administration

Allowable and Unallowable Costs

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Vision: Healthy Communities, Healthy People



Agenda

- Importance of Proper Management
- Overview of Compliance Requirements
- Allowable Costs Defined
- Examples of Allowable/Unallowable Costs
- Common Findings/Scenarios
- Maintaining Supporting Documentation
- Q&A



Poll Question

How many years of experience do you have with managing Federal grants?

- a) <1 year
- b) 1-3 years
- c) 3-5 years
- d) > 5 years



Importance of Proper Management

- Maximizing Resources:
 - Grants represent significant amounts of money
 - Proper management of costs ensures every dollar is used effectively and efficiently
- Meeting the Compliance Standards
 - Grants come with strict compliance requirements
 - ✓ 2 CFR 200
 - ✓ HHS Grants Policy Statement (HHS GPS)
 - ✓ Program-Specific Requirements



Importance of Proper Management – Cont'd

- Enhances Accountability
 - Fosters Transparency
 - Builds trust with stakeholders
 - Promotes accountability in resource allocation and project implementation
- Achieves Program Objectives
 - Funding is tied to program objectives
 - Proper management aligns these activities with the grant objectives
 - ✓ Increases likelihood of success and impact of the program



Statutory, Regulatory, and Policy Requirements

Available Resources for Proper Financial Management of your Grant:

- 2 Code of Federal Regulations (CFR) part 300
- HHS Grants Policy Statement (HHS GPS)

○ PART 300—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

CROSS REFERENCE

Link to an amendment published at [89 FR 80061](#), Oct. 2, 2024.

CROSS REFERENCE

Link to an amendment published at [89 FR 80064](#), Oct. 2, 2024.

Authority: 5 U.S.C. 301, 2 CFR part 200.

Source: 79 FR 75889, Dec. 19, 2014, unless otherwise noted.

○ § 300.1 Adoption of 2 CFR Part 200.

Under the authority listed above, the Department of Health and Human Services adopts the Office of Management and Budget (OMB) Guidance in 2 CFR part 200, and has codified the text, with HHS-specific amendments in 45 CFR part 75 and the following provisions of 2 CFR part 200: §§ 200.1 (definitions of Modified Total Direct Cost, Equipment, and Supplies), 200.313(e), 200.314(a), 200.320, 200.333, 200.344, 200.414(f), and 200.501. Thus, this part gives regulatory effect to the OMB guidance and supplements the guidance as needed for the Department.

[89 FR 80061, Oct. 2, 2024]

HHS Grants Policy Statement



Statutory, Regulatory, and Policy Requirements – Cont'd

- Program Specific Requirements – Terms and Conditions
 - Can be found in your Notice of Award
 - Are specific to the program being funded
 - Understand the terms and conditions to avoid unallowable costs
 - ✓ Can have terms making a cost unallowable that might normally be allowable for another award
 - Discuss the terms and conditions with your Grants Management Specialist and Project Officer



Principles: Allowable, Reasonable, & Allocable

Allowable – 2 CFR 200.403	Reasonable – 2 CFR 200.404	Allocable – 2 CFR 200.405
<p>Program legislation, grant or other regulations, and the specific terms and conditions of the award determine whether federal funds can be used to cover a particular cost.</p>	<p>A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.</p>	<p>A cost is allocable to Federal award if the goods or services are chargeable or assignable to that Federal award.</p>
<p><input type="checkbox"/> Based on the items noted, can Federal funds be used to cover the particular cost?</p>	<p><input type="checkbox"/> Would you as a reasonable person, be willing to spend the amount of money on the requested item?</p>	<p><input type="checkbox"/> Does this cost either directly or indirectly benefit the Federal program, or is it necessary for the overall operations of the entity?</p>



Allowable Costs – 2 CFR 200.403

Cost must meet the following general criteria to be allowable:

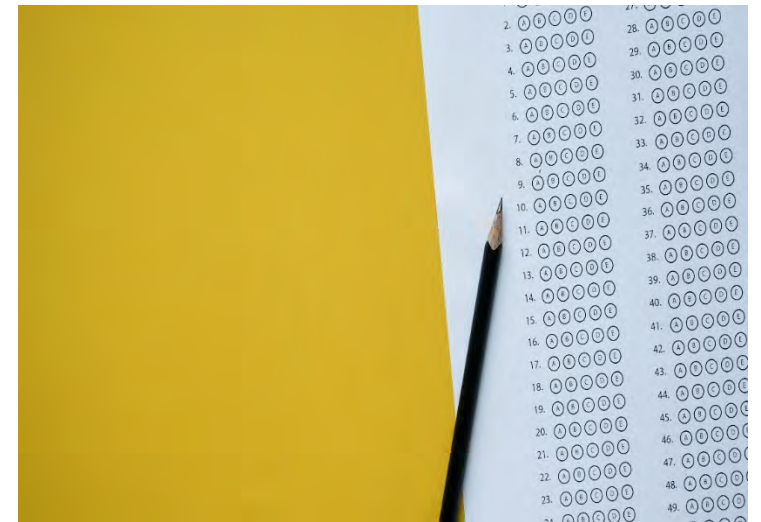
- a) Necessary and reasonable
- b) Conform to limitations/exclusions in cost principles or award
- c) Consistent with organizational policies for federal vs. non-fed funds
- d) Consistent allocation
- e) GAAP compliant
- f) Not used in cost-sharing on another federally financed program
- g) Adequately documented



Knowledge Check #1

Costs do NOT need to be _____ to be allowable under Federal awards.

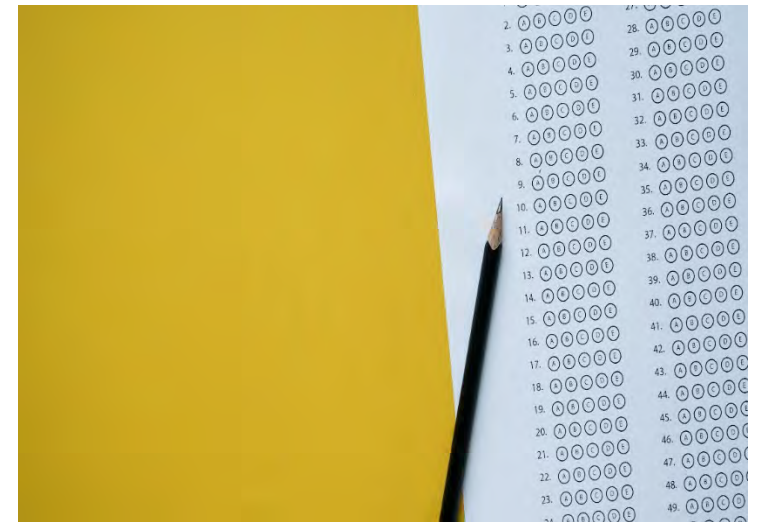
- a) Reasonable
- b) Allocable
- c) Over \$1,000
- d) Documented



Knowledge Check #1 – Answer

Costs do NOT need to be _____ to be allowable under Federal awards.

- a) Reasonable
- b) Allocable
- c) Over \$1,000
- d) Documented



Answer: C

Reasonable Costs – 2 CFR 200.404

- a) Ordinary and necessary for the entity's operation or for the proper and efficient performance of the award
- b) Restraints imposed
- c) Comparable to market prices
- d) Align with prudent person test
- e) Not significantly deviates from the entity's established practices and policies



Allocable Costs – 2 CFR 200.405

A cost is allocable if:

- a) Is incurred specifically for the Federal award
- b) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods
- c) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award



Examples of Unallowable Costs

CFR Ref	Generally Unallowable
2 CFR 200.423	Alcoholic beverages
2 CFR 200.424	Alumni/ae activities
2 CFR 200.426	Bad debts
2 CFR 200.434	Contributions and donations
2 CFR 200.438	Entertainment costs
2 CFR 200.441	Fines, penalties, damages and other settlements
2 CFR 200.444	General costs of government
2 CFR 200.445	Goods or services for personal use
2 CFR 200.446	Idle facilities and idle capacity
2 CFR 200.450	Lobbying
2 CFR 200.451	Losses on other awards or contracts
2 CFR 200.455	Organization costs
2 CFR 200.467	Selling and marketing costs



Knowledge Check #2

True or False:

Lobbying is unallowable.

- True
- False



Knowledge Check #2 – Answer

True or False:

Lobbying is unallowable.

- True
- False



Answer: True

Selected Cost Items – 2 CFR 200.420 – 476

- Advertising and public relations
- Compensation costs
- Incentives
- Meals
- Travel



Advertising and Public Relations – 2 CFR 200.421

Promotional Items and Advertising

- Only allowable for costs specifically required by the Federal award
- Unallowable costs:



Costs of advertising and public relations designed solely to promote the non-Federal entity



Costs of promotional items, including models, gifts, and souvenirs



Costs of displays demonstrations and exhibits

Compensation Salaries and Wages – 2 CFR 200.430

Compensation costs are allowable if:

- Reasonable for the services rendered and consistently applied to both Federal and non-Federal activities
- Follows non-Federal entity's hiring policies and procedures and
- Is determined and supported for allowable activities (documented)



Compensation Salaries and Wages – Cont'd

Personnel/Labor Charges



- Allowed to charge grants for actual labor only
 - Charging Budgeted Labor is Unallowable
 - ✓ Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed
 - ✓ Reconciliation between Budget and Actual
 - Time and Effort Reporting
 - ✓ Personnel Activity Reports
 - **2025 Executive Level II Salary Cap - \$225,700**



Knowledge Check #3

Name	Role	Time and Effort	Annual Base Salary
John Doe	MD	50%	\$300,000

What amount of John Doe's salary can be charged to the federal award?

- a) \$300,000
- b) \$225,700
- c) \$150,000
- d) \$112,850



Knowledge Check #3 – Answer

Name	Role	Time and Effort	Annual Base Salary
John Doe	MD	50%	\$300,000

What amount of John Doe's salary can be charged to the federal award?

- a) \$300,000
- b) \$225,700
- c) \$150,000
- d) \$112,850



Answer: d) \$112,850

Knowledge Check #3 – Recap

Name	Role	Time and Effort	Annual Base Salary
John Doe	MD	50%	\$300,000

- 2025 Federal Salary Cap: \$225,700
- Prorated Cap: $\$225,700 * 0.5 = \$112,850$



Incentives

Per HHS Grants Policy Statement

- Incentive payments to volunteers or patients participating in a grant-supported project or program are allowable - unless specifically disallowed by the grant.
- Incentive payments to individuals to motivate them to take advantage of grant-supported health care or other services are allowable if within the scope of an approved project.



Meals – 2 CFR 200.432

Generally unallowable except for the following:

- Subjects and patients under study
- Where specifically approved as part of the project or program activity, e.g., in programs providing children's services
- When an organization customarily provides meals to employees working beyond the normal workday, as a part of a formal compensation arrangement
- As part of a per diem or subsistence allowance provided in conjunction with allowable travel
- Under a conference grant, when meals are a necessary and integral part of a conference, provided that meal costs are not duplicated in participants' per diem or subsistence allowances



Travel – 2 CFR 200.475

Costs are allowable if:

- Participation of the individual is necessary to the Federal award;
- The costs are reasonable and consistent with non-Federally entity's established travel policy;
- Costs are adequately supported when:
 - a) Date and place of the travel is documented.
 - b) Purpose of the trip is documented.
 - c) Name of the person on trip is listed.
 - d) Expense reports are adequately detailed.



Common Findings

Allowable and Unallowable Costs



Incentive Payments



Scenario 1: Incentives

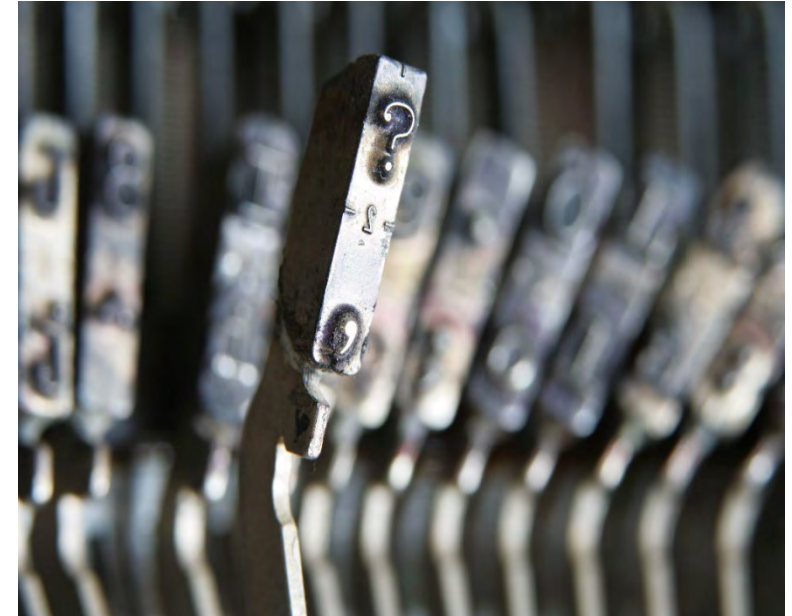
Scenario:

- Grant recipient was awarded a grant to promote regular diabetes screenings in a rural community
- As an incentive to increase participation, the director offers \$50 Walmart gift cards to all those who participate

Knowledge Check #4

The incentive gift cards offered in the scenario are_____.

- a) Allowable
- b) Unallowable
- c) Both allowable and unallowable



Knowledge Check #4 – Answer

The incentive gift cards offered in the scenario are_____.

- a) Allowable
- b) Unallowable
- c) Both allowable and unallowable

Answer: b) Unallowable



Allocability



Scenario 2: Allocability

Scenario:

- Grant recipient has been awarded a grant for primary health care.
- The new payroll manager is new to working with federal grants and doesn't know that work time must be accounted for and allocated per the grant.
- Kim spends 25% of her time on the primary care health grant. However, the grant was budgeted for 50%.



Knowledge Check #5

How much time can be charged to the grant based on the scenario?

- a) 100%
- b) 70%
- c) 50%
- d) 25%



Knowledge Check #5 – Cont'd

How much time can be charged to the grant based on the scenario?

- a) 100%
- b) 70%
- c) 50%
- d) 25%



Answer: d) 25%

Travel



Scenario 3: Travel

Scenario:

- Grant recipient has been awarded a health center grant
- The grant allows for travel to training conferences for health professionals
- The grant recipient sends their physicians, and case managers to a conference in Chicago
- Telephone, Internet charges, laundry, movie costs, and minibar charges incurred at the hotel



Knowledge Check #6

Are these costs allowable in this scenario?

- a) Yes
- b) No

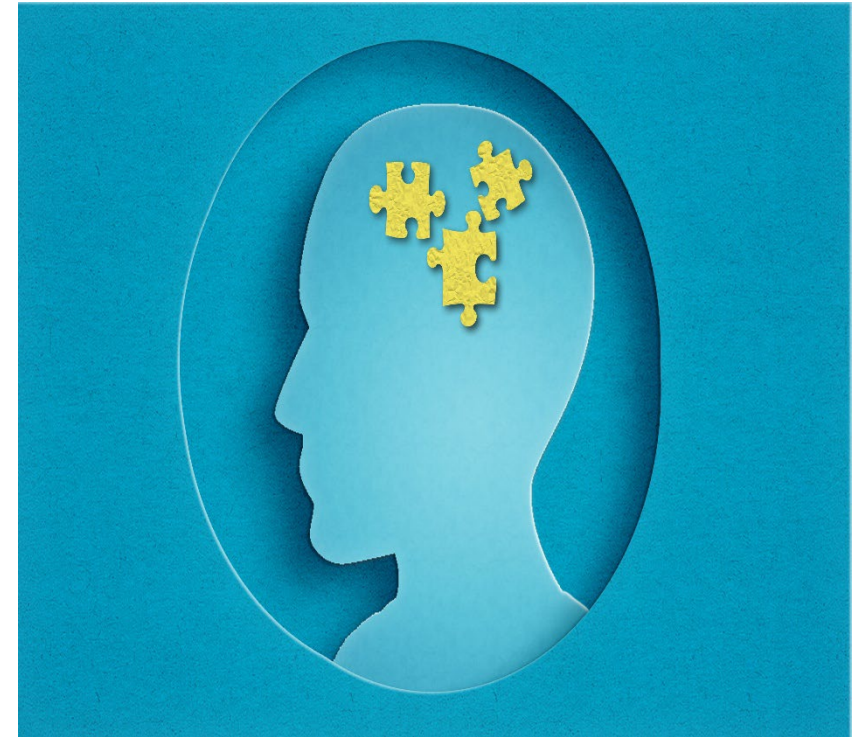


Knowledge Check #6 – Answer

Are these costs allowable in this scenario?

- a) Yes
- b) No

Answer: b) No



Meals and Entertainment



Scenario 4: Meals and Entertainment

Scenario:

- Grant recipient has been awarded a grant to promote healthy eating habits for at risk children and families
- Grant allows for the purchase of formula and healthy foods for the purpose of promoting nutrition
- The grant recipient purchases formula, vegetables, fruits, chips, soda, milk, and cookies using federal funds for distribution to families
- Also used federal funds to purchase tickets to a baseball game for employees to celebrate meeting a milestone



Knowledge Check #7

In this scenario, are the meal and baseball tickets costs allowable?

- a) Yes
- b) No
- c) Yes and No



Knowledge Check #7 – Answer

In this scenario, are the meal and baseball tickets costs allowable?

- a) Yes
- b) No
- c) Yes and No

Answer: c) Yes and No



Unsupported costs



Scenario 5: Unsupported Cost/Allowable

Scenario:

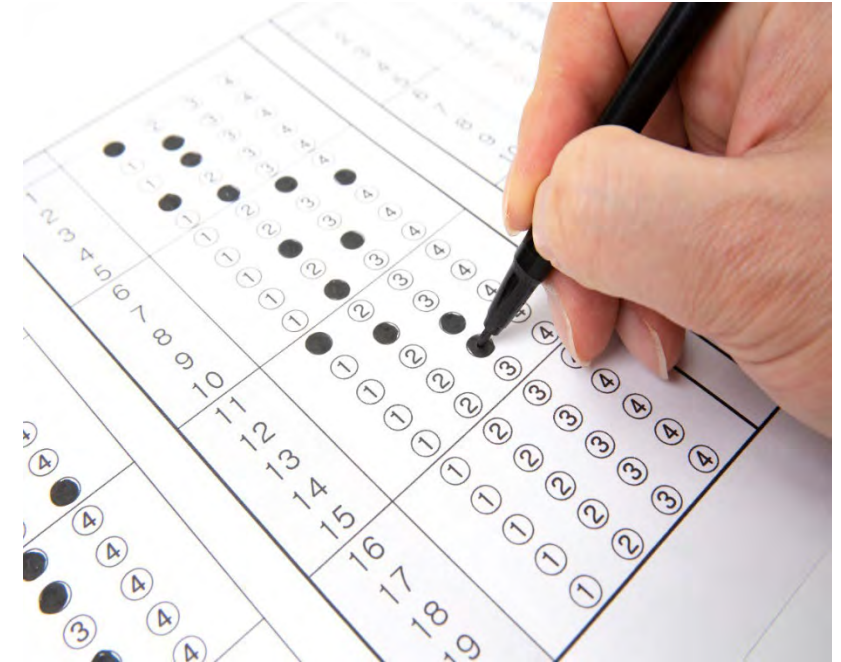
- Grant recipient has been awarded a Health Center Program Grant
- Audit finding showed missing supporting documentation for an accounts payable transaction for supplies
- Supporting documentation included the purchase order and receiving report
- Recipient is selected for a grant review



Knowledge Check #8

How much of the \$400 charged to the grant award in the scenario is allowable/adequately supported?

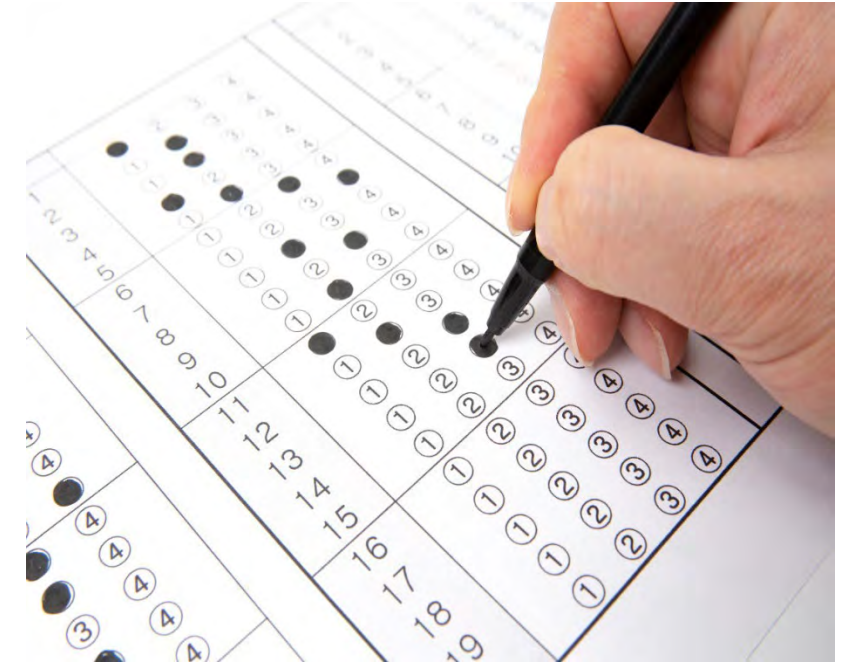
- a) \$400
- b) \$0
- c) \$25,000
- d) \$1,000



Knowledge Check #8 – Answer

How much of the \$400 charged to the grant award in the scenario is allowable/adequately supported?

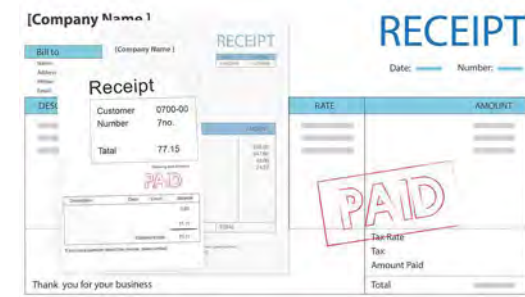
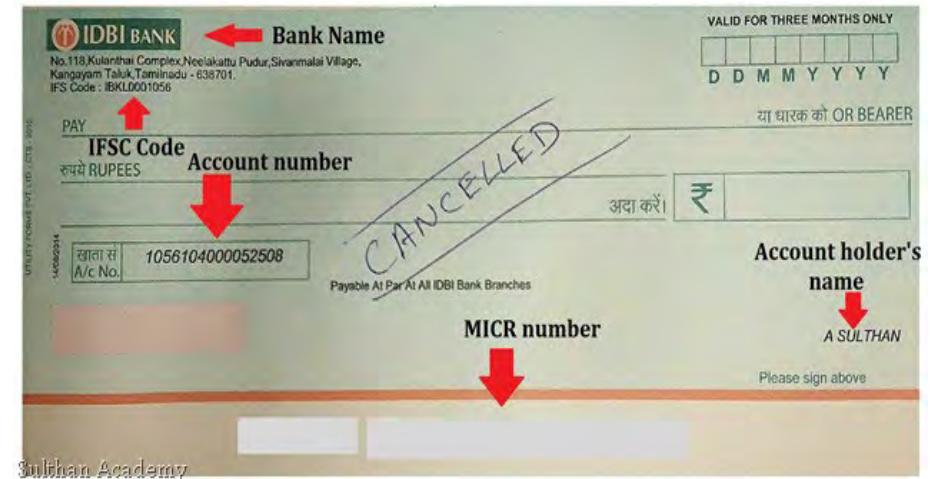
- a) \$400
- b) \$0
- c) \$25,000
- d) \$1,000



Answer: b) \$0

Maintain Supporting Documentation

REMEMBER: IF IT IS NOT DOCUMENTED... IT DOES NOT EXIST!



How to Document Federal Expenditures

Adequately document:

- Separate Tracking of Federal Expenditures
 - Chart of Account
 - General Ledger
- Type of Documentation
- Record Retention Period



Maintaining Supporting Documentation

Adequate supporting documentation includes:

- Timesheets, payroll records
- Invoices/PO, checks/bank statement/credit card
- Sub recipient agreements or contracts (signed and dated), agreement detailing the nature and scope of the services, including rate; supports that it is necessary to the grant
- Claimed costs are supported by General Ledger – traceable to GL
- Dates on invoices and receipts should fall within the grant period
- Connection to the budget (cost center, fund type code) – in general ledger
- Costs should support only items listed in the approved grant budget
- Detailed travel logs, travel approval



Record Retention – 2 CFR 200.334

Records included financial records, supporting documents, statistical records, and all records pertinent to a Federal award must be retained for a period of three year from the date of submission of the final expenditure report (Federal Financial Report -FFR) (including sub-recipient records)

- To be safe – maintain documentation for at least 3 years from the date in which the final FFR is **approved!**



Note: There are exceptions so please be familiar with the regulation.

Access to Records – 2 CFR 200.337

The HHS awarding agency, Inspectors General, the Comptroller General and the pass-through entity must have the rights of access to any documents, papers, or other records of the non-Federal entity which are pertinent to the Federal award, to make audits, examinations, excerpts, and transcripts.



Note: There are exceptions so please be familiar with the regulation.

Avoid Common Findings

Some good practices are:

- Maintaining an accounting system that can track and report costs by specific grant
- Periodically monitoring incurred costs to budgets
- Ensuring costs expended do not exceed total budgeted amounts
- Maintaining strong written policies and procedures and review them often
- Maintaining and retaining adequate supporting documentation
- Having robust internal controls



Maintaining Supporting Documentation

Areas Crucial To Your Grants Financial Health

Tip Sheet for HRSA Grantees

A Guide for Developing Effective Financial Management Practices

Each year, the Health Resources and Services Administration (HRSA) works with some of our federal recipients to return grant funds spent on unallowable costs. This impacts the recipient's ability to accomplish its important health mission. HRSA has prepared some simple tips to help recipients avoid misspending grant funds on unallowable expenditures or activities.



Stick to your plan

- Use the approved grant application and budget as your guide to spending your HRSA grant funds.
- If you need to adjust your plan, contact your HRSA Project Officer and Grants Management Specialist as early as possible.
- Track your actual use of HRSA funds and reconcile that back to your approved plan. Reconciling frequently, such as quarterly or even monthly, will help you identify possible issues closer to when they occur, which makes them easier to address.



Follow the flow

- The flow of HRSA grant funds through your organization needs to be clear and well-documented. Ensure you can identify and provide accurate, current, and complete disclosure of each federal award you receive.
 - Maintain written procedures for your accounting and financial management system practices.
 - Separate employee responsibilities and, when possible, build in layers of review to assist in preventing issues from fraud, waste, or abuse.
- NOTE:** Flow charts for procedures and responsibilities are helpful in providing a visual representation of your systems and can also highlight missing links or areas or practices that might be strengthened.



Keep your receipts

- Expenses must clearly document the flow of the money from the approved grant budget, to accounting records, to receipts and other supporting documentation.
- For activities not within the scope of your HRSA grant, ensure that your financial procedures identify, segregate, and track all costs associated with those activities so that it is NOT charged to the HRSA grant.

Common reasons for unallowable costs:

- Not adequately documented (the most frequent)
- Not compliant
- Not reasonable
- Not related to the HRSA grant



If you find a problem, fix it

- Good planning and internal controls help you provide reasonable assurance that you are in compliance with the terms and regulations of each federal award received.
- You must have effective internal controls over your HRSA grant, including taking prompt action when instances of noncompliance are identified.
- Minor errors, such as unallowable costs accidentally charged to the federal award account, should be addressed as soon as they are identified. Consider having a pre-established procedure for addressing errors, such as writing a memorandum (with a management official's signature and date) explaining the error and the corrective actions.
- For more significant errors, such as charging the HRSA grant for something already paid for by another federal award or funding source, contact your HRSA Project Officer and Grants Management Specialist immediately for information on corrective actions and how to repay any misspent funds.



Tools & Resources

- Want more information on ways to effectively manage your HRSA grants? Check out HRSA's [Manage Your Grant webpage](#).
- For more information related to financial management, refer to Title [45 part 75 of the Code of Federal Regulations](#), [HHS Grants Policy Statement](#), and your Notice of Award terms and conditions.

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Resources

- Tip Sheet (A Guide for Developing Financial Management Practices)
https://www.hrsa.gov/sites/default/files/hrsa/grants/manage/tip-sheet-unallowable-costs_0.pdf
- HHS Grants Policy Statement
[Grants Policy Statement](#)
- 2 CFR Part 300
<https://www.ecfr.gov/current/title-2/part-300>
- HRSA Manage Your Grant
<https://www.hrsa.gov/grants/manage-your-grant>



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