



FEMA

DISASTER ASSISTANCE POLICY

DAP9525.9

I. TITLE: Section 324 Management Costs and Direct Administrative Costs

II. DATE: MAR 12 2008

III. PURPOSE:

The purpose of this policy is to identify section 324 management costs and other grant management and administrative costs that are eligible under the Public Assistance (PA) Program and to clarify the process through which grantees and subgrantees can request reimbursement for these costs.

IV. SCOPE AND AUDIENCE:

The policy is applicable to all major disasters and emergencies declared on or after November 13, 2007. It is intended for personnel involved in the administration of the PA Program.

V. AUTHORITY:

Section 324 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), 42 U.S.C. 5165b, and 44 Code of Federal Regulations (CFR) Part 13, §206.207, §206.228, and Part 207.

VI. BACKGROUND:

The Disaster Mitigation Act of 2000 (P.L. 106-390) amended the Stafford Act by adding section 324 "*Management Costs*." In that section, Congress directed the Federal Emergency Management Agency (FEMA) to promulgate regulations that establish management cost rates and require that until the management cost regulation is published the associated expense percentages in section 406(f) of the Stafford Act apply to management costs. On October 11, 2007, FEMA published the *Management Costs* interim final rule (72 FR 57869) that established the management costs rates for emergencies and major disasters. The interim final rule went into effect on November 13, 2007. With publication of the interim final rule, section 406(f) of the Stafford Act, *Associated Expenses*, does not apply to disasters and emergencies declared on or after November 13, 2007.



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VII. POLICY:

A. Definitions:

1. *Chief Financial Officer (CFO)* is the senior financial FEMA representative.
2. *Direct Administrative Costs* are costs incurred by the grantee or subgrantee that can be identified separately and assigned to a specific project. (See 44 CFR §207.6(c)) In accordance with OMB Circular No. A-87, treatment of direct costs must be consistent across all Federal awards and other activities of the grantee or subgrantee. Such costs can include staff's time to conduct an initial inspection, prepare and submit a Project Worksheet (PW), and make interim and final inspections of the project.
3. *Indirect Costs* are costs a grantee or subgrantee incurs for a common or joint purpose benefiting more than one cost objective that are not readily assignable to the cost objectives specifically benefited. (See 44 CFR §207.2)
4. *Lock-in* is the amount of management cost funds available to a grantee for a particular major disaster or emergency. (See 44 CFR §207.2)
5. *Management Costs* are any indirect costs, administrative expenses, and any other expenses that a grantee or subgrantee reasonably incurs in administering and managing the PA grant that are not directly chargeable to a specific project. (See 44 CFR §207.2)
6. *Pass-through funds* are the percentage or amount of management costs that the grantee determines it will make available to subgrantees. (See 44 CFR §206.207(b)(1)(iii)(K))

B. Eligibility:

1. Only PA grantees with PA grants awarded pursuant to major disasters and emergencies declared by the President on or after November 13, 2007, are eligible to apply to FEMA for section 324 management costs.
2. FEMA will reimburse section 324 management costs on a category Z PW in an amount not to exceed 3.34 percent of the Federal share of projected eligible program costs, not including direct Federal assistance, for major disaster declarations and 3.90 percent of the Federal share of projected eligible program costs, not including direct Federal assistance, for emergency declarations. The amount of funding available for section 324 management costs cannot exceed the amount as calculated in accordance with 44 CFR §207.5(b)(4).



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3. Requests for and documentation of section 324 management costs must comply with 44 CFR Part 207 and be addressed in the grantee's approved State Administrative Plan for PA. (See 44 CFR §206.207(b))

4. In addition to section 324 management costs, FEMA will reimburse direct administrative costs incurred by grantees and subgrantees that are properly documented and directly chargeable on a PW for a specific project. Actual costs must be reasonable for the work performed and accounted for in accordance with 44 CFR §13.22 – *Allowable Costs*. (See 44 CFR §207.6(a) and (c)) A cost cannot be assigned to a PA project as a direct administrative cost if similar costs incurred for the same purpose in like circumstances have been allocated to indirect costs.

5. Although grantees and subgrantees are responsible for the grant management and administrative requirements in 44 CFR parts 13, 206, and 207, grantees and subgrantees are not required to request section 324 management costs, nor are they required to seek reimbursement for direct administrative costs.

C. Section 324 Management Costs:

1. An approved State Administrative Plan must be on file with FEMA before PA grants will be approved. (See 44 CFR §206.207(b)(3))

2. The grantee must amend its State Administrative Plan to include procedures for determining the reasonable amount or percentage of section 324 management costs that it will pass-through to the subgrantee, as well as closeout and audit procedures before FEMA will obligate any section 324 management costs. (See 44 CFR §207.4(c) and §207.7(b)) It is entirely up to the State to determine how much if any management costs it will pass-through to the subgrantee. FEMA has not established any minimum or maximum for what constitutes a reasonable amount.

3. If a State and Native American Tribe both serve as grantees, then each is eligible for section 324 management costs. (See 44 CFR §207.2)

4. The CFO determines the lock-in amount for section 324 management costs at 30-35 days (preliminary lock-in), six months (interim lock-in), and 12 months (final lock-in) from the date of the declaration. (See 44 CFR §207.5(b))

a. The lock-in amount is 100 percent Federally funded.



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b. The lock-in amount is capped at \$20 million for a single declaration, unless the CFO approves an exception. (See 44 CFR §207.2 and §207.5(d))

c. The CFO informs the Regional Office of the lock-in amount and the Regional Office informs the grantee of the lock-in amount.

5. In order to receive section 324 management costs funding, the grantee must request it upon notification of the preliminary lock-in (initial funding request) and upon notification of the final lock-in (final funding request). (See 44 CFR §207.7(c) and (f)) The grantee may request interim funding upon notification of the interim lock-in (interim funding request). (See 44 CFR §207.7(e))

6. The grantee will submit its initial section 324 management costs funding request to the Regional Administrator using a PA PW. Upon receipt of the PW and in accordance with 44 CFR §207.7(b) and (c), the Regional Office will obligate 25 percent of the estimated lock-in amount. (See 44 CFR §207.5(b)(1) and 44 CFR §207.6(c)) To simplify processing and tracking, *Standard Project 853- Section 324 Management Costs* has been established in the National Emergency Information Management System (NEMIS) and the Emergency Management Mission Integrated Environment (EMMIE). The PW will be processed under category Z.

7. The grantee must abide by the requirements of 44 CFR §207.7(d). The grantee must submit documentation no later than 120 days after the date of the declaration to support costs and activities for which the projected lock-in amount will be used.

a. The documentation must include:

i. A description of activities, personnel requirements, and other costs for which the grantee will use section 324 management costs funding throughout the disaster;

ii. The grantee's plan for expending and monitoring the funds provided and ensuring sufficient funds are budgeted for grant closeout; and

iii. An estimate of the reasonable percentage or amount of pass-through funds the grantee will make available to subgrantees, including the basis, criteria, or formula for determination.

b. In extraordinary circumstances, the grantee may request to submit the required documentation after 120 days. The request for additional time must be made to the Regional Administrator within the 120-day period. The Regional Administrator will respond to the time extension request within 30 days.



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c. The Regional Office will approve or reject the documentation for eligible costs and activities within 30 days of receiving it.

d. If documentation is rejected, the grantee will have 30 days from the date of the rejection letter to resubmit it for reconsideration and approval. The Regional Office will not obligate the balance of the section 324 management costs lock-in until the grantee's documentation is approved.

8. If the grantee can justify a bona-fide need for an interim obligation at six months, the grantee may submit a request to the Regional Administrator. An interim obligation will not exceed 10 percent of the six-month lock-in amount. The grantee will submit written justification, including a version/amendment of the section 324 management costs PW, to the Regional Administrator. The Regional Administrator will forward his/her recommendation to the CFO for approval. (See 44 CFR §207.5(d) and §207.7(e))

9. After notification of the final lock-in amount, the grantee must submit a final section 324 management costs request, including a version/amendment of the section 324 management costs PW, to the Regional Administrator. The Regional Office will make the final obligation of the remaining lock-in funding. (See 44 CFR §207.7(f)) The grantee should drawdown these funds in accordance with 44 CFR §13.21 - *Payment*.

10. Final payment of section 324 management costs is based on actual costs incurred.

11. The grantee can submit a written request to the Regional Administrator to change the amount of the lock-in or the cap, or the time at which lock-in amount is determined. The Regional Administrator will forward his/her recommendation to the CFO for approval. (See 44 CFR §207.5(d))

12. The grantee can expend section 324 management costs funds for allowable costs for a maximum time of (See 44 CFR §207.8(b)(1) and (2)):

- a. Eight years from the date of a major declaration, or 180 days after the latest performance period of a non-management cost PA PW, whichever is sooner.
- b. Two years from the date of an emergency declaration, or 180 days after the latest performance period of a non-management cost PA PW, whichever is sooner.



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13. The grantee can submit a written justification for an extension on the period of availability to the Regional Administrator. The Regional Administrator will forward his/her recommendation to the CFO for approval. The additional time is limited to no more than 180 days after the expiration of any performance period extensions granted under PA for project completion of a non-management cost PA PW. (See 44 CFR §207.8(b)(3))

14. FEMA will de-obligate any funds not liquidated by the grantee in accordance with 44 CFR §13.23. (See 44 CFR §207.8(b)(3))

15. The grantee must provide section 324 management cost quarterly progress reports to the Regional Administrator. (See 44 CFR §207.8(c))

D. Direct Administrative Costs:

1. Direct administrative costs include costs that can be tracked, charged, and accounted for directly to a specific project, such as staff time to complete field inspection and preparation of a PW. Direct costs are limited to actual reasonable costs incurred for a specific project. Such costs will be considered project costs.

2. **A grantee or subgrantee cannot direct charge costs to a PA project that are considered indirect costs for any other Federal award or activity of the grantee or subgrantee or if similar costs incurred for the same purpose in like circumstances have been allocated to indirect costs. (See OMB Circular No. A-87, Attachment A.) Indirect costs are considered to be eligible section 324 management costs.**

3. If a project is completed when the PW is prepared, actual direct administrative costs (labor, equipment, or other expenses) will be included in the PW for the subgrantee and the grantee's direct administrative costs will be included in separate category Z PW (see D.7). The summary of the actual costs will be attached to the PW.

4. If a project is not completed when the PW is prepared, an estimate of direct administrative costs that can be separately identified to the project will be included in the PW. An estimate of direct administrative costs, such as labor and equipment costs and other expenses, will be attached to the PW. These estimated costs cannot be based on a percentage of project costs.

5. Direct administrative costs are cost-shared at the prevailing cost-share rate for the declaration. They are cost-shared because they are part of a specific project.



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6. Subgrantee:

a. The following text should be entered into each project's scope of work to describe the subgrantee's direct administrative costs:

"The subgrantee is requesting direct administrative costs that are directly chargeable to this specific project. Associated eligible work is related to administration of this PA project only and in accordance with 44 CFR §13.22. These costs are treated consistently and uniformly as direct costs in all Federal awards and other subgrantee activities and are not included in any approved indirect cost rates."

b. The following **line item cost code** should be entered in the project cost:

"9901 - DIRECT ADMINISTRATIVE COSTS (SUBGRANTEE)"

c. Final payment of direct administrative costs on large projects will be based on actual costs incurred, in accordance with 44 CFR §206.205(b).

d. Final payment of direct administrative costs on small projects will be paid to the grantee upon approval, in accordance with 44 CFR §206.205(a).

7. Grantee:

a. The grantee may document its direct administrative costs on a separate category Z PW for each project. The grantee will not claim direct administrative costs for multiple individual projects on a single category Z PW.

b. Each direct administrative cost category Z PW will use the **Standard Project 854-Direct Administrative Costs (Grantee)**.

c. The scope of work should include the subgrantee's name, PA ID number, and cross-reference to the associated work project PW.

d. The following text should be entered into the project's scope of work:

"The grantee is requesting direct administrative costs that are directly chargeable to this specific project. Associated eligible work is related to administration of this PA project only and in accordance with 44 CFR §13.22. These costs are treated consistently and uniformly as direct costs in all Federal awards and other grantee activities and are not included in any approved indirect cost rates."

e. The following **line item cost code** should be entered in the project cost as a lump sum costs: *"9902 - DIRECT ADMINISTRATIVE COSTS (GRANTEE)"*



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f. Final payment of direct administrative costs on large projects will be based on actual costs incurred, in accordance with 44 CFR §206.205(b).

g. Final payment of direct administrative costs on small projects will be paid to the grantee upon approval, in accordance with 44 CFR §206.205(a).

h. A category Z PW with an estimate less than \$1,000 is not eligible.

VIII. ORIGINATING OFFICE: Disaster Assistance Directorate (PA Division)

IX. SUPERSESION: Not applicable.

X. ADDITIONAL INFORMATION: Copies of this policy, the Management Costs interim rule, all public comments received, and additional information may be found on the docket for the Management Costs rulemaking. The docket can be found at www.regulations.gov under Docket ID: FEMA-2006-0035.

XI. REVIEW DATE: This policy will be reviewed, but will not automatically terminate, 3 years from date of publication or upon publication on the Management Costs final rule.

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