



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 13, 2009

M-10-03

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM:

Peter R. Orszag
Director

SUBJECT:

Payments to State Grantees for their Administrative Costs for Recovery Act Funding – Alternative Allocation Methodologies

Effective implementation of the American Recovery and Reinvestment Act (ARRA) is a top priority of this Administration. State governments receive and disburse a majority of all dollars appropriated under the Recovery Act and thus play a central role in the prudent, timely, and transparent expenditure of recovery funds. It is therefore critical that State governments quickly and effectively build the necessary capacities to meet their responsibilities under the Act. The Office of Management and Budget (OMB) has been working closely with Federal agencies and State governments to identify potential barriers and to further identify solutions that will enable effective State implementation efforts. As a result, OMB issued Memorandum M-09-18 on May 11, 2009, to allow flexibilities for States to recover administrative costs using the Statewide Cost Allocation Plan (SWCAP) process provided in 2 CFR Part 225 (OMB Circular A-87), *Cost Principles for State, Local and Indian Tribal Governments*.

In preparing and submitting the SWCAPs to the US Department of Health and Human Services (HHS), the States have asked OMB for additional guidance regarding specific exceptions to OMB Circular A-87 that are necessary in order for the States to perform timely and adequate ARRA oversight, reporting and auditing. Following are the questions and answers in three particular areas.

1. Can an alternative depreciation schedule be used for capital equipment purchased for ARRA oversight?

ANSWER: Section 11, Appendix B of OMB Circular A-87, *Depreciation and Use Allowances*, provides that equipment depreciation costs must be allocated to each State fiscal year based upon the useful lives of the equipment. However, because of the short nature of the ARRA programs and the need to quickly increase the States' oversight capabilities, we believe that it is reasonable to allow the depreciation costs of capital equipment purchased solely for the purpose of ARRA oversight, reporting and auditing to be depreciated over the life of the ARRA programs, but for a period of no less than three State fiscal years. This exception is available to every State that submits a supplemental ARRA SWCAP proposal to HHS, including those States that normally follow the use allowance method for equipment costs.

2. Can ARRA administrative costs be allocated to State agencies based upon the amount of ARRA funds received?

ANSWER: Section C.3 of Appendix A, *Basic Guidelines, Allocable Costs*, requires that costs are allocable only if the goods and services involved are chargeable in accordance with the relative benefits received. Consistent with this guideline, some State ARRA administrative costs (such as the Recovery Office or ARRA reporting costs) can be allocated based on amount of funds received. In order to facilitate efficient and timely recovery of ARRA administrative costs, the States may also use the amount of ARRA funds received as the allocation base and/or billing methodology for other ARRA oversight, reporting and auditing costs incurred by State central service agencies.

3. Can a State include estimated ARRA administrative costs for multiple years in the current ARRA Supplemental SWCAP?

ANSWER: Ordinarily, the SWCAP can only include costs for the specific State fiscal year and costs cannot normally be shifted between State fiscal years. However, the States must recover ARRA oversight, reporting and auditing costs as soon as possible in order to timely maximize the States' capacity to effectively perform ARRA oversight, reporting and auditing. To facilitate this goal, it is reasonable to allow the States to include multiple-year costs in the current ARRA Supplemental SWCAP. The total ARRA administrative costs are still limited to 0.5 percent of the ARRA funds received by the State.

It is important to note that the above special treatments apply only to State ARRA oversight, reporting and auditing costs and do not in any way change the requirements of OMB Circular A-87 for other Federal programs or create any binding precedents for any other Federal program.

Please contact the Office of Federal Financial Management within OMB at 202-395-3993 for additional information on this guidance.