



**TO:** All ICJI Staff and Subgrantees

**FROM:** Devon McDonald, Executive Director 

**RE:** Allowability of Costs Paid in Advance  
Grant Management Directive 9

**DATE:** December 20, 2022 – Revised February 5, 2024

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**Issue:** A number of the Indiana Criminal Justice Institute’s (“ICJI”) subgrantees request reimbursement for costs that are paid in advance and/or costs that span multiple grant periods of performance. The question has been raised to ICJI as to the allowability of these types of expenses.

**Answer:** Per guidance received from the Department of Justice (“DOJ”) Office of the Chief Financial Officer (“OCFO”), below are guidelines and examples to aid subgrantees in determining the allowability of such expenses.

### **I. Methods of Accounting and Definitions**

Beginning with any grant that starts on or after 10/01/2023, subgrantees must determine and certify the accounting method their agency utilizes. Per the DOJ Grants Financial Guide, subgrantees may utilize either a cash basis or an accrual basis of accounting. Moving forward, subgrantees will be required to certify which method of accounting their organization utilizes **at the time of application**. The information below has been taken directly from the DOJ Financial Guide and 2 CFR 200 and may be helpful to subgrantees in determining which accounting method their organization currently utilizes. ICJI would also encourage subgrantees to seek the advice of their own accounting firms or financial partners for guidance.

*The accounting methodology used must be consistent. Per the DOJ Grants Financial Guide, Part III. Postaward Requirement, 3.2 Period of Availability of Funds, Expenditure of funds " Expenditures may be reported on a cash or accrual basis as long as the methodology is disclosed and consistently used. See 2 C.F.R. 200.1 (definition of “Expenditures”).*

*Per Title 2 Code of Federal Regulations (CFR) Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E – Cost Principles, Section 200.1, Expenditures “The charges may be reported on a cash or accrual basis, as long as the methodology is disclosed and is consistently applied.”*

*Per the DOJ Financial Guide, **Cash basis** is the method of reporting revenues and expenses when cash is actually received or paid out. **Accrual Basis** is the method of recording revenues in the period in*

*which they are earned, regardless of when payment is received, and reporting expenses in the period when the charges are incurred, regardless of when payment is made.*

Determining the accounting method used by each organization will assist in determining which expenses are considered prepaid versus pre-award costs and which, if any, are eligible for reimbursement via grant funds. Please see the definitions of prepaid and pre-award costs provided by the OCFO in italics below.

***Prepaid costs** – (“Prepaid Expenses”) are future expenses that are paid in advance, such as rent or insurance. On an entity’s balance sheet, these costs/expenses are recorded as an asset. As the benefits of the assets are received/realized over time (Zoom annual subscription, worker’s compensation, insurance coverage), the proportional amount of the benefit received is then recorded as an expense. These costs are prepaid per contract or convention and therefore are usually billed and paid before the benefit is received. These costs may be paid before the grant period of performance begins but are then expensed to the grant as a proportion of their benefit received using a method that equitably distributes the cost to the subaward.*

***Pre-award costs** - Per Title 2 Code of Federal Regulations (CFR) Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E – Cost Principles, Section 200.458, Pre-award Costs, “Pre-award costs are those incurred prior to the effective date of the Federal award or subaward directly pursuant to the negotiation and in anticipation of the Federal award where such costs are necessary for efficient and timely performance of the scope of work. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the Federal award and only with the written approval of the Federal awarding agency. If charged to the award, these costs must be charged to the initial budget period of the award, unless otherwise specified by the Federal awarding agency or pass-through entity.”*

## **II. Eligibility of Expenses and Examples**

Subgrantees who utilize an accrual basis of accounting *may* be eligible to claim expenses for costs that were incurred prior to the period of performance that directly benefit or support the project during the grant period of performance. These costs could include orders placed for property (ex. rent), services, and contracts for services performed during the period of performance (ex. janitorial, Zoom/Webex subscriptions, insurance costs).

*Per the DOJ Grants Financial Guide, Part III. Post-award Requirement, 3.2 Period of Availability of Funds, Obligation of Funds “Financial obligations, when referencing a recipient's or subgrantee's use of funds under a federal award, means orders placed for property and services, contracts and subawards made, and similar transactions that require payment. Financial obligations must occur during the period of performance stated on the award document. A financial obligation occurs when there is a binding agreement, such as in a valid purchase order or requisition, that covers the cost of purchasing an authorized item on or after the begin date and up to the last day of the period of performance. See 2 C.F.R. § 200.1 (definition of “Period of Performance”).*

Any new expenditures or non-prepaid allocable expenses incurred beyond the project end date are **unallowable**.

Please see the following examples to assist in determining the allowability of various expenses. For each example, the grant period of performance in question begins on 10/1/2020 and ends on 9/30/2022.

**a. Example – Organization pays an annual fee for a Zoom subscription in August 2022. The subscription is for 9/1/22 – 8/31/23.**

If the subgrantee uses cash basis accounting, the cost would need to be allocated as an expense in August 2022 across any funding streams that it benefits.

If the subgrantee uses accrual basis accounting, the September cost would be allowable, but the remaining balance would need to be allocated during the remainder of the subscription period as a prepaid cost for any funding streams that it benefits.

Any new expenditures or non-prepaid allocable expenses incurred beyond the project end date are **unallowable**.

*Per the DOJ Grants Financial Guide, Part III. Postaward Requirement, 3.2 Period of Availability of Funds, Obligation of Funds “Financial obligations, when referencing a recipient's or subgrantee's use of funds under a Federal award, means orders placed for property and services, contracts and subawards made, and similar transactions that require payment.*

*Financial obligations must occur during the period of performance stated on the award document. A financial obligation occurs when there is a binding agreement, such as in a valid purchase order or requisition, that covers the cost of purchasing an authorized item on or after the begin date and up to the last day of the period of performance. See 2 C.F.R. § 200.1 (definition of “Period of Performance”).*

**b. Example – Organization is required to pay for workers’ compensation for all staff in September 2022 for the upcoming calendar year (1/1/2023 – 12/31/2023). They pay the full cost in September 2022, and the full benefit of the expense occurs in 2023.**

If the subgrantee uses cash basis accounting, the full cost would need to be allocated as an expense in September 2022 across any funding streams that it benefits.

If the subgrantee uses accrual basis accounting, the cost would need to be allocated based on the benefit received. Therefore, the expense would need to be allocated from January through December 2023 as a prepaid cost for any funding streams that it benefits. For example, each month, the cost would be allocated across the funding source(s) of the covered employees that it benefits.

Any new expenditures or non-prepaid allocable expenses incurred beyond the project end date are **unallowable**.

*Per the DOJ Grants Financial Guide, Part III. Postaward Requirement, 3.2 Period of Availability of Funds, Obligation of Funds “Financial obligations, when referencing a recipient's or subgrantee's use of funds under a federal award, means orders placed for property and services, contracts and subawards made, and similar transactions that require payment.*

*Financial obligations must occur during the period of performance stated on the award document. A financial obligation occurs when there is a binding agreement, such as in a valid purchase order or requisition, that covers the cost of purchasing an authorized item on or after the begin date and up to the last day of the period of performance. See 2 C.F.R. § 200.1 (definition of “Period of Performance”).*

**c. Example – Organization must register and pay for a relevant annual conference in June 2022, but the conference occurs in November of 2022.**

*This cost cannot be charged to the existing grant per the DOJ Grants Financial Guide, Part III. Postaward Requirement, 3.2 Period of Availability of Funds, Obligation of Funds. However, if the prime recipient is guaranteed to receive a continuation grant within the next grant cycle, the cost could be allowable with prior approval from the award agency.*

ICJI never guarantees continuation grants for any subgrantee with state or federal funding and subgrantees should be aware of this fact and keep it in mind when completing applications.

*Per the CFR 200.458 Pre-award Costs states “Pre-award costs are those incurred prior to the effective date of the Federal award or subaward directly pursuant to the negotiation and in anticipation of the Federal award where such costs are necessary for efficient and timely performance of the scope of work. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the Federal award and only with the written approval of the Federal awarding agency. If charged to the award, these costs must be charged to the initial budget period of the award, unless otherwise specified by the Federal awarding agency or pass-through entity.”*

Any new expenditures or non-prepaid allocable expenses incurred beyond the project end date are **unallowable**.

- d. Example – Organization uses grant funds to pay a portion of their electric bill. The billing cycle runs from 9/15/22 – 10/14/22. They receive the bill on 10/30/22 and pay it on 10/31/22. By the time they receive and pay the bill, the grant has closed.**

If the subgrantee uses cash basis accounting, the full cost would need to be allocated as an expense in October 2022 across any funding streams that it benefits.

If the subgrantee uses accrual basis accounting, the September cost would be allowable, but the remaining balance would need to be allocated during the remainder of the billing period as a prepaid cost for any funding streams that it benefits.

Any new expenditures or non-prepaid allocable expenses incurred beyond the project end date are **unallowable**.

*Per the DOJ Grants Financial Guide, Part III. Postaward Requirement, 3.2 Period of Availability of Funds, Expenditure of Funds “An expenditure is a charge made by a recipient or subgrantee to a project or program for which a federal award was received. Expenditures may be reported on a cash or accrual basis as long as the methodology is disclosed and consistently used. See 2 C.F.R. § 200.1 (definition of “Expenditures”). All financial obligations properly incurred by the end of the period of performance for the Federal award must be liquidated no later than **120 days** after the end date of the award. If the award has been properly obligated, the full liquidation period is available for remaining expenditures. Any funds not liquidated at the end of the **120-day** period will revert to the awarding agency. See 2. C.F.R. §200.344.*

- e. Example – Organization rents their office space and uses grant funds to pay a portion of their rent. The rental company requires payment in advance for the month ahead, and payment is due on 9/30/22 for the month of October 2022. Organization pays their October rent on 9/25/22.**

If the subgrantee uses cash basis accounting, the full cost would need to be allocated as an expense in September 2022 across any funding streams that it benefits.

If the subgrantee uses accrual basis accounting, the cost would need to be allocated as an expense in October as a prepaid cost for any funding streams that it benefits.

Any new expenditures or non-prepaid allocable expenses incurred beyond the project end date are **unallowable**.

*Per the DOJ Grants Financial Guide, Part III. Postaward Requirement, 3.2 Period of Availability of Funds, Obligation of Funds “Financial obligations, when referencing a recipient's or subgrantee's use of funds under a Federal award, means orders placed for property and services, contracts and subawards made, and similar transactions that require payment.*

*Financial obligations must occur during the period of performance stated on the award document. A financial obligation occurs when there is a binding agreement, such as in a valid purchase order or requisition, that covers the cost of purchasing an authorized item on or after the begin date and up to the last day of the period of performance. See 2 C.F.R. § 200.1 (definition of “Period of Performance”).”*

*Note: If funds are obligated (e.g., enter into a contract) prior to the start of the period of performance, that financial obligation may not be an allowable expense, unless the award recipient notifies the awarding agency in advance in writing and receives prior written approval from the awarding agency.*

### **III. Funds Obligated Prior to the Period of Performance**

A subgrantee that wishes to incur pre-award costs as defined above must upload a written request to the ICJI Executive Director in the grants management system at the time of their grant application. All requests made after the application period has closed will be denied.

Each subgrantee request for reimbursement of expenses paid outside the period of performance will be taken on a case-by-case basis and reviewed closely to ensure that guidance provided by the OCFO is being followed correctly. These costs should be labeled as “Prepaid Expense” on the invoice, attached to the fiscal report uploaded into the grants management system, and clearly show that the payment being made is for a specified period occurring during the period of performance.