

# ▶ Recovering Grant Writing Costs as Part of the Federal Grant Award

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Whether grant writing costs may be recovered as part of the Federal grant award is an issue that surfaces frequently. This issue is addressed in the Office of Management and Budget (OMB) Circulars.

## OMB Circular Limitations

OMB Circulars A-21 and A-122 contain language that prohibits the recovery of costs (including grant writing costs) incurred prior to the grant award unless those costs are allowed by the sponsoring agency. Whether an agency will allow such pre-award costs will appear in the grant announcement.

Occasionally, applicants will disguise such unallowable pre-award costs as direct costs within the grant application, using such terms as “contract administration,” “consulting services,” or “training services”—such avoidance techniques are violations of the cost principles and carry penalties.

There are grant announcements that actually permit the recovery of proposal preparation costs. A recent example is the Broadband Initiatives Program and the Broadband Technology Opportunities Program (BIP/BTOP Round II) notice, which contained the following language:

*Pre-application expense means any reasonable expense incurred after the release of this NOFA up to the issuance of the grant award from NTIA to prepare an application. These expenses include engineering costs, accountant or other consultant fees, and costs related to developing the proposal. Lobbying costs and contingency fees are not included as pre-application expenses.*

The announcement goes on to state that awarded funds may be used to fund reasonable pre-application expenses in an amount not to exceed five percent of the award.

Absent a direct allowance of grant writing costs via the grant announcement, grant preparation costs are usually recovered as part of an organization's indirect cost rate. Proposal costs (i.e., grant writing costs) are allowable as an exception to the prohibition on “preagreement costs” so long as they are allocated through the F&A (fixed and administrative) indirect costs of the organization or through another established method used by the organization that is both reasonable and equitable.

## Summary

Absent express permission in the program announcement to charge pre-application costs directly to the grant, proposal preparation costs must normally be spread out over the entire indirect cost structure of the organization. The grant preparation costs represented in the indirect cost rate may be applied to each grant obtained (provided the grant allows application of an indirect cost rate, which some do not). The use of an indirect cost rate allows the recovery of grant writing costs for both successful and unsuccessful grant applications.

## Notes

1 2 CFR Parts 215 and 220, Cost Principles for Education Institutions (formerly OMB Circular A-21) at J(36); 2 CFR, Part 230 Cost Principles for Non-Profit Organizations (formerly OMB Circular A-122) at B(36) – Preagreement costs. Costs incurred prior to the effective date of the sponsored agreement, whether or not they would have been allowable thereunder if incurred after such date, are unallowable unless approved by the sponsoring agency.

2 For example, the U.S. Department of Agriculture's grant regulations applicable to nonprofit organizations provide for the agency to withhold payments, disallow the cost, suspend or terminate the grant award, withhold further awards, or take other available legal remedies, 7 Code of Federal Regulations 3019.62.

3 BIP/BTOP Announcement, p. 26 (January 15, 2010).

4 Id., p. 42.

5 Proposal costs. Proposal costs are the costs of preparing bids or proposals on potential federally and non-federally-funded sponsored agreements or projects, including the development of data necessary to support the institution's bids or proposals. Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be treated as F&A costs and allocated currently to all activities of that institution, and no proposal costs of past accounting periods will be allocable to the current period. However, the institution's established practices may be to treat proposal costs by some other recognized method. Regardless of the method used, the results obtained may be accepted only if found to be reasonable and equitable. 2 CFR Parts 215 and 220, Cost Principles for Education Institutions (formerly OMB Circular A-21) at J(38). There is no similar provision for nonprofit organizations contained in 2 CFR, Part 230 Cost Principles for Non-Profit Organizations, Appendix A Indirect Cost Rate Principles (formerly OMB Circular A-122); therefore, such potential or actual costs must be proposed as part of the organization's indirect cost rate proposal with the cognizant agency in order to be approved as an allowable cost item.