

THE CITY OF HENDERSONVILLE POLICY FOR ALLOWABLE COSTS AND COST PRINCIPLES FOR EXPENDITURE OF FEDERAL FUNDS

Recitals

1. The CITY OF HENDERSONVILLE, receives funding in the form of grants, awards, subawards, and loans from the Federal Government, collectively referred to as “award(s)” award(s)” or “grants”; and
2. Federal awards require compliance with the National Objective, and alignment with the Federal Goals for the award; and
3. Federal awards require compliance with the provisions of the Federal Uniform Grant Guidance, 2 CFR Sect. 200 (UG), except as modified by the Federal agency administering the award; and
4. Subpart E details post award requirements related to allowable expenditures of Federal funds, except as modified by the Federal agency. Uniform Guidance outlines the types of costs that are allowable, including certain audit costs. For example, per 2 CFR 200.425, a reasonably proportionate share of the costs of audits required by the Single Audit Act Amendments of 1996 are allowable; however, costs for audits that were not performed in accordance with 2 CFR Part 200, Subpart F are not allowable. Please see 2 CFR Part 200, Subpart E regarding the Cost Principles for more information.
5. Subpart E of the UG (specifically, 200.400) states that “The application of these cost principles is based on the fundamental premises that:
 - a. The non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.
 - b. The non-Federal entity assumes responsibility for administering Federal awards in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal awards.
 - c. The non-Federal entity, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.
 - d. The application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award.
 - e. In reviewing, negotiating and approving cost allocation plans or indirect cost proposals, the cognizant agency for indirect costs should generally assure that the non-Federal entity is applying these cost accounting principles on a consistent basis during their review and negotiation of indirect cost proposals. Where wide variations exist in the treatment of a given cost item by the non-Federal entity, the reasonableness and equity of such treatments should be fully considered.
 - f. For non-Federal entities that educate and engage students in research, the dual role of students as both trainees and employees (including pre- and post-doctoral staff) contributing to the completion of Federal awards for research must be recognized in the application of these principles.
 - g. The non-Federal entity may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the Federal award;

POLICY OVERVIEW

The purpose of this policy is to comply with the requirements of [Title 2 U.S. Code of Federal Regulations Part 200](#), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, commonly called Uniform Guidance (UG), specifically Subpart E, defines those items of cost that are allowable, and which are unallowable. The tests of allowability under these principles are: (a) the costs must be reasonable; (b) they must be allocable to eligible projects under the regulations governing the Federal funding; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the Federal grant award as to types or amounts of cost items. Unallowable items fall into two categories: expenses which are by their nature unallowable (e.g., alcohol), and unallowable activities (e.g., fund raising).

As a recipient, the City is responsible for the effective administration of Federal awards, application of sound management practices, and administration of Federal funds in a manner consistent with the program objectives and terms and conditions of the award. Recipients must implement robust internal controls and effective monitoring to ensure compliance with the Cost Principles, which are important for building trust and accountability. It should be noted that North Carolina law also applies to the acquisition, management and expenditure of funds. Therefore, to the extent that the provisions of North Carolina law conflict with the UG, the most restrictive shall control. Lastly, the UG applies to the extent that requirements are not modified by the Federal funding agency; therefore funding agency regulations shall preempt the UG with regards to the expenditure of Federal funds for a particular project or program.

POLICY

The City of Hendersonville shall adhere to all applicable cost principles governing the use of Federal awards. This policy addresses the proper classification of both direct and indirect charges to Federally-funded projects and enacts procedures to ensure that proposed and actual expenditures are consistent with the Federal award terms and all applicable Federal regulations in the UG.

Responsibility for following these guidelines lies with the Finance Department (as to oversight) and the Departmental Directors who are charged with the administration and financial oversight of the Federal award. Further, all local government employees and officials who are involved in obligating, administering, expending, or monitoring Federally funded projects should be well versed with the categories of costs that are generally allowable and unallowable by the award terms and applicable Federal regulations. Questions on the allowability of costs should be directed to the Finance Department. As questions on allowability of certain costs may require interpretation and judgment, local government personnel are encouraged to ask for assistance in making those determinations.

GENERAL COST ALLOWABILITY CRITERIA

All costs expended using Federal funds must meet the following general criteria, unless modified by the Federal funding agency:

1. Be necessary and reasonable for the proper and efficient performance and administration of the Federal grant/award/subaward/loan program.

A cost must be *necessary* to achieve a project object. When determining whether a cost is necessary, consideration may be given to:

- Whether the cost is needed for the proper and efficient performance of the grant project.
- Whether the cost is identified in the approved project budget or application.
- Whether the cost aligns with identified needs based on results and findings from a needs assessment.
- Whether the cost addresses project goals and objectives and is based on program data.

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 to incur the cost was made. For example, reasonable means that sound business practices were followed, and purchases were comparable to market prices. When determining reasonableness of a cost, consideration must be given to:

- Whether the cost is a type generally recognized as ordinary and necessary for the operation of the City of Hendersonville or the proper and efficient performance of the Federal award.
- The restraints or requirements imposed by factors, such as: sound business practices; arm's-length bargaining; Federal, state, and other laws and regulations; and terms and conditions of the Federal award.
- Market prices for comparable goods or services for the geographic area.
- Whether individuals concerned acted with prudence in the circumstances considering their responsibilities to City of Hendersonville, its employees, the public at large, and the Federal government.
- Whether City of Hendersonville significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

- 2. Be allocable to the Federal award.** A cost is allocable to the Federal award if the goods or services involved are chargeable or assignable to the Federal award in accordance with the relative benefit received. This means that the Federal grant program derived a benefit in proportion to the funds charged to the program. *For example, if 50 percent of a local government program officer's salary is paid with grant funds, then the local government must document that the program officer spent at least 50 percent of his/her time on the grant program.*

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized by the Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required.

- 3. Be authorized and not prohibited under state or local laws or regulations.**
- 4. Conform to any limitations or exclusions set forth in the principles, Federal laws, Federal award terms, and other governing regulations as to types or amounts of cost items.**
- 5. Be consistent with policies, regulations, and procedures that apply uniformly to both the Federal award and other activities of City of Hendersonville.**
- 6. Be accorded consistent treatment.** A cost MAY NOT be assigned to a Federal award as a direct cost and also be charged to a Federal award as an indirect cost. And a cost must be treated consistently for both Federal award and non-Federal award expenditures.
- 7. Be determined in accordance with generally accepted accounting principles (GAAP), unless provided otherwise in the UGG.**

8. **Be net of all applicable credits.** The term “applicable credits” refers to those receipts or reduction of expenditures that operate to offset or reduce expense items allocable to the Federal award. Typical examples of such transactions are purchase discounts; rebates or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to and received by the local government related to the Federal award, they shall be credited to the Federal award, either as a cost reduction or a cash refund, as appropriate and consistent with the award terms. Reference is made to the City of Hendersonville Uniform Guidance Program Income Policy [to be adopted].
9. **Be adequately documented.**

SELECTED ITEMS OF COST

The UGG examines the allowability of fifty-five (55) specific cost items (commonly referred to as Selected Items of Cost) at 2 CFR § 200.420-.475.

City personnel responsible for determining cost allowability must be familiar with the Selected Items of Cost. The City of Hendersonville must follow the applicable regulations when charging these specific expenditures to the Federal award. Finance Department personnel will check costs against the selected items of cost requirements to ensure the cost is allowable and that all process and documentation requirements are followed. In addition, State laws, City of Hendersonville regulations, and program-specific rules may deem a cost as unallowable, and City personnel must follow those non-Federal rules as well.

Exhibit A identifies and summarizes the Selected Items of Cost.

DIRECT AND INDIRECT COSTS

Allowable and allocable costs must be appropriately classified as direct or indirect charges. It is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost.

Direct costs are expenses that are specifically associated with a particular Federally eligible project and that can be directly assigned to such activities relatively easily with a high degree of accuracy. Common examples of direct costs include salary and fringe benefits of personnel directly involved in undertaking an eligible project, equipment and supplies for the project, subcontracted service provider, or other materials consumed or expended in the performance of a grant-eligible project.

Indirect costs are (1) costs incurred for a common or joint purpose benefitting more than one Federally-eligible project, and (2) not readily assignable to the project specifically benefited, without effort disproportionate to the results achieved. They are expenses that benefit more than one project or even more than one Federal grant. Common examples of indirect costs include utilities, local telephone charges, shared office supplies, administrative or secretarial salaries.

For indirect costs, the City of Hendersonville may charge a 10 percent de minimis rate of modified total direct costs (MTDC). According to UGG Section 200.68 MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance the subawards under the award). MTDC EXCLUDES equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000.

If the City has or establishes a Negotiated Indirect Costs Rate Agreement (NICRA) with a Federal cognizant agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals, the City, but is not required to, use the NICRA rate to calculate indirect costs for its Federal awards.

SPECIAL PROVISIONS FOR STATE AND LOCAL GOVERNMENTS

There are some special provisions of the UG that apply only to states, local governments, and Indian Tribes, some of which are restated for convenience below.

§ 200.444 General costs of government.

(a) For states, local governments, and Indian Tribes, the general costs of government are unallowable (except as provided in [§ 200.475](#)). Unallowable costs include:

- (1) Salaries and expenses of the Office of the Governor of a [state](#) or the chief executive of a [local government](#) or the chief executive of an [Indian tribe](#);
- (2) Salaries and other expenses of a [state](#) legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction;
- (3) Costs of the judicial branch of a government;
- (4) Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by statute or regulation (however, this does not preclude the allowability of other legal activities of the Attorney General as described in [§ 200.435](#)); and
- (5) Costs of other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.

(b) For [Indian tribes](#) and Councils of Governments (COGs) (see definition for *Local government* in [§ 200.1](#) of this part), up to 50% of salaries and expenses directly attributable to managing and operating [Federal programs](#) by the chief executive and his or her staff can be included in the indirect cost calculation without documentation.

§ 200.416 COST ALLOCATION PLANS AND INDIRECT COST PROPOSALS.

(a) For states, local governments and Indian tribes, certain services, such as motor pools, computer centers, purchasing, accounting, etc., are provided to operating agencies on a centralized basis. Since Federal awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process.

(b) Individual operating agencies (governmental department or agency), normally charge Federal awards for indirect costs through an indirect cost rate. A separate indirect cost rate(s) proposal for each operating agency is usually necessary to claim indirect costs under Federal awards. Indirect costs include:

- (1) The indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and
 - (2) The costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.
- (c) The requirements for development and submission of cost allocation plans (for central service costs and public assistance programs) and indirect cost rate proposals are contained in appendices V, VI and VII to this part.

§ 200.417 INTERAGENCY SERVICE.

The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro-rated share of indirect costs. A standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Appendix V to Part 200.

COST ALLOWABILITY REVIEW PROCESS

PREAPPROVAL COST ALLOWABILITY REVIEW

Before a Federally-funded project is authorized, the City Manager's designee must review the proposed cost items within an estimated project budget to determine whether they are allowable and allocable and whether cost items will be charged as direct or indirect expenses. This review will occur concurrently with the review of project eligibility and *before* obligating or expending any Federal award funds.

- Local government personnel must submit proposed projects to the City Manager's designee for review. In addition to other required information, all proposed project submissions must delineate estimated costs by cost item and, using the form prepared by the City Manager's designee, analyze the appropriateness of all costs under the terms of the Uniform Guidance and the Federal award (if different) (see Exhibit A attached to this policy for reference).
- Along with a general review of project eligibility and conformance with other governing board management directives, the City Manager's designee must review the submitted estimated costs for specific allowable cost requirements, budget parameters, indirect rates, fringe benefit rates, and those activities/costs that require pre-approval by the US Treasury. Reference is made to the City's Eligibility Determination Policy.
- If a proposed project includes a request for an unallowable cost, the City Manager's designee will return the proposal to the requesting party for review and, if practicable, resubmission with corrected cost items.
- Once a proposed project budget is pre-approved by the City Manager's designee, the local government personnel responsible for implementing the project must conform actual obligations and expenditures to the pre-approved project budget.

POST-EXPENDITURE COST ALLOWABILITY REVIEW

Once an expenditure is incurred related to an eligible project, and an invoice or other demand for payment is submitted to the local government, the City Manager's designee must perform a second review to ensure that actual expenditures comprise allowable costs.

- All invoices or other demands for payment must include a breakdown by cost item. The cost items should mirror those presented in the proposed budget for the project. If an invoice or other demand for payment does not include a breakdown by cost item, the City Manager's designee will return the invoice to the project manager and/or vendor, contractor, or subrecipient for correction.
- The the City Manager's designee must review the individual cost items listed on the invoice or other demand for payment to determine their allowability and allocability.

- If all cost items are deemed allowable and properly allocable, the City Manager's designee must proceed through the local government's normal disbursement process.
- If any cost item is deemed unallowable, the City Manager's designee will notify the project manager and/or vendor, contractor, or subrecipient that a portion of the invoice or other demand for payment will not be paid with the Federal funds. The City Manager's designee may in their discretion, and consistent with this policy, allow an invoice or other demand for payment to be resubmitted with a revised cost allocation. If the local government remains legally obligated by contract or otherwise to pay the disallowed cost item, it must identify other local government funds to cover the disbursement. City of Hendersonville's governing board must approve any allocation of other funds for this purpose.
- The City Manager's designee must retain appropriate documentation of budgeted cost items per project and actual obligations and expenditures of cost items per project.

COST TRANSFERS

Any costs charged to the Federal award that do not meet the allowable cost criteria must be removed from the award account and charged to an account that does not require adherence to Federal UGG or other applicable guidelines.

Failure to adequately follow this policy and related procedures could result in questioned costs, audit findings, potential repayment of disallowed costs and discontinuance of funding.

ADOPTED THE _____ DAY OF _____, 2022.

EXHIBIT A

Selected Items of Cost	Uniform Guidance General Reference	Allowability
Advertising and public relations costs	2 CFR § 200.421	Allowable with restrictions
Advisory councils	2 CFR § 200.422	Allowable with restrictions
Alcoholic beverages	2 CFR § 200.423	Unallowable
Alumni/ae activities	2 CFR § 200.424	Not specifically addressed
Audit services	2 CFR § 200.425	Allowable with restrictions
Bad debts	2 CFR § 200.426	Unallowable
Bonding costs	2 CFR § 200.427	Allowable with restrictions
Collection of improper payments	2 CFR § 200.428	Allowable
Commencement and convocation costs	2 CFR § 200.429	Not specifically addressed
Compensation – personal services	2 CFR § 200.430	Allowable with restrictions; Special conditions apply (e.g., § 200.430(i)(5))
Compensation – fringe benefits	2 CFR § 200.431	Allowable with restrictions
Conferences	2 CFR § 200.432	Allowable with restrictions

Contingency provisions	2 CFR § 200.433	Unallowable with exceptions
Contributions and donations	2 CFR § 200.434	Unallowable (made by non-Federal entity); not reimbursable but value may be used as cost sharing or matching (made to non-Federal entity)
Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements	2 CFR § 200.435	Allowable with restrictions
Depreciation	2 CFR § 200.436	Allowable with qualifications
Employee health and welfare costs	2 CFR § 200.437	Allowable with restrictions
Entertainment costs	2 CFR § 200.438	Unallowable with exceptions
Equipment and other capital expenditures	2 CFR § 200.439	Allowability based on specific requirement
Exchange rates	2 CFR § 200.440	Allowable with restrictions
Fines, penalties, damages and other settlements	2 CFR § 200.441	Unallowable with exceptions
Fund raising and investment management costs	2 CFR § 200.442	Unallowable with exceptions
Gains and losses on disposition of depreciable assets	2 CFR § 200.443	Allowable with restrictions
General costs of government	2 CFR § 200.444	Unallowable with exceptions
Goods and services for personal use	2 CFR § 200.445	Unallowable (goods/services); allowable (housing) with restrictions
Idle facilities and idle capacity	2 CFR §	Idle facilities - unallowable with

	200.446		exceptions; Idle capacity - allowable with restrictions
Insurance and indemnification	2 CFR § 200.447		Allowable with restrictions
Intellectual property	2 CFR § 200.448		Allowable with restrictions
Interest	2 CFR § 200.449		Allowable with restrictions
Lobbying	2 CFR § 200.450		Unallowable
Losses on other awards or contracts	2 CFR § 200.451		Unallowable (however, they are required to be included in the indirect cost rate base for allocation of indirect costs)
Maintenance and repair costs	2 CFR § 200.452		Allowable with restrictions
Materials and supplies costs, including costs of computing devices	2 CFR § 200.453		Allowable with restrictions
Memberships, subscriptions, and professional activity costs	2 CFR § 200.454		Allowable with restrictions; unallowable for lobbying organizations
Organization costs	2 CFR § 200.455		Unallowable except Federal prior approval
Participant support costs	2 CFR § 200.456		Allowable with prior approval of the Federal awarding agency
Plant and security costs	2 CFR § 200.457		Allowable; capital expenditures are subject to § 200.439
Pre-award costs	2 CFR § 200.458		Allowable if consistent with other allowabilities and with prior approval of the Federal awarding agency

Professional services costs	2 CFR § 200.459	Allowable with restrictions
Proposal costs	2 CFR § 200.460	Allowable with restrictions
Publication and printing costs	2 CFR § 200.461	Allowable with restrictions
Rearrangement and reconversion costs	2 CFR § 200.462	Allowable (ordinary and normal)
Recruiting costs	2 CFR § 200.463	Allowable with restrictions
Relocation costs of employees	2 CFR § 200.464	Allowable with restrictions
Rental costs of real property and equipment	2 CFR § 200.465	Allowable with restrictions
Scholarships and student aid costs	2 CFR § 200.466	Not specifically addressed
Selling and marketing costs	2 CFR § 200.467	Unallowable with exceptions
Specialized service facilities	2 CFR § 200.468	Allowable with restrictions
Student activity costs	2 CFR § 200.469	Unallowable unless specifically provided for in the Federal award
Taxes (including Value Added Tax)	2 CFR § 200.470	Allowable with restrictions
Termination costs	2 CFR § 200.471	Allowable with restrictions
Training and education costs	2 CFR § 200.472	Allowable for employee development

Transportation costs	2 CFR § 200.473	Allowable with restrictions
Travel costs	2 CFR § 200.474	Allowable with restrictions
Trustees	2 CFR § 200.475	Not specifically addressed