POLICY 2021-04

TO: Selectboard
FROM: Jessica Morris, Finance Director
RE: Allowability of Costs-Uniform Grant Guidance Policy 2021-04
DATED: June 21, 2021
EFFECTIVE DATE: Immediately

ALLOWABILITY OF COSTS-UNIFORM GRANT GUIDANCE POLICY
Town of Milton

PURPOSE

This policy establishes the guidelines for use of funds under federal grants and contracts as defined by Uniform Guidance.

PROCEDURE

Expenditures must be aligned with approved budgeted items. Any changes or variations from the approved budget and grant application need prior approval from the selectboard.

When determining how the Town will spend its grant funds, Finance will review the proposed cost to determine whether it is an allowable use of federal grant funds *before* obligating and spending those funds on the proposed good or service. All costs supported by federal funds must meet the standard outlined in 2 C.F.R. Part 200, Subpart E which are provided in the bulleted list below. Finance must consider these factors when making an allowability determination. Additional helpful questions to ask when making allowability determinations are located on page 3 of this policy.

- Be necessary and reasonable for the performance of the federal award. Town staff must consider these elements when determining the reasonableness of a cost. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred 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.
    - Whether the cost is a type generally recognized as ordinary and necessary for the operation of the Town or the proper and efficient performance of the federal award.
    - The restrains or requirements imposed by factors, such as: sound business practices; federal, state and other laws and regulations; conflict of interest policy; and terms and conditions of the federal award.
    - Market prices for comparable goods or services for the geographic area.
    - Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the Town, its employees, the public at large, and the federal government.

- Whether the town significantly deviates from its established practices and policies regarding the incurrent of costs, which may unjustifiable increase the federal award's cost. 2 C.F.R. §200.404

  While 2 C.F.R. §200.404 does not provide specific descriptions of what satisfies the "necessary" element beyond its inclusion in the reasonableness analysis above, necessary is determined based on the needs of the program. Specifically, the expenditure must be necessary to achieve an important program objective. A key aspect in determining whether a cost is necessary is whether the town can demonstrate that the cost addresses and existing need, and can prove it.

  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 program.
    - Whether the cost is identified in the approved budget or application.
    - Whether there is an operational benefit associated with the cost.
    - Whether the cost aligns with identified needs based on results and findings from a needs assessment.
    - Whether the cost addresses program goals and objectives and is based on program data.

- 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. 2 C.F.R. §200.405.
- Consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the Town.
- Conform to any limitations or exclusions set forth as cost principles in Part 200 or in the terms and conditions of the federal award.
- Consistent treatment. A cost cannot be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been assigned as an indirect cost under another award.
- Adequately documented. All expenditures must be properly documented.
- Be determined in accordance with general accepted accounting principles (GAAP), unless provided otherwise in Part 200.
- Not included as a match or cost-share, unless the specific federal program authorized federal costs to be treated as such. Some federal program statutes require the non-federal entity to contribute a certain amount of non-federal resources to be eligible for the federal program.
- Be the 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 charged. To the extent that such credits accruing to or received by the town

relate to the federal award, they shall be credited to the federal award, either as a cost reduction or a cash refund, as appropriate. 2C.F.R. §200.406.

Part 200's cost guidelines must be considered when federal grant funds are expended. As provided above, federal rules require state and town level requirements and policies regarding expenditures to be followed as well. For example, state and/or Town policies relating to travel or equipment may be narrower than the federal rules, and the stricter State and/or Town policies must be followed.

Likewise, it is possible for the State and/or Town to put additional requirements on a specific item of cost. Under such circumstances, the stricter requirements must be met for a cost to be allowable. Accordingly, employees must consult federal, State and Town requirements when spending federal funds.

In order for a cost to be allowable, the expenditure must also be allowable under the applicable program statute, along with accompanying program regulations, non-regulatory guidance and grant award notifications.

In addition to the cost principles and standards described above, Finance can refer to this section for a useful framework when performing an allowability analysis. In order to determine whether federal funds may be used to purchase a specific cost, it is helpful to ask the following questions:

- Is the proposed cost allowable under the relevant program?
- Is the proposed cost consistent with an approved program plan and budget?
- Is the proposed cost consistent with program specific fiscal rules? (For example, the Town may be required to sue federal funds only to supplement the amount of funds available from non-federal/other sources.)
- Is the proposed cost consistent with specific conditions imposed on the grant (if applicable)?

As a practical matter, Finance should also consider whether the proposed cost is consistent with the underlying needs of the program. Funds should also be targeted to address areas of weakness, as necessary. To make this determination, Finance should review data when making purchases to ensure federal funds meet these areas of concern.

Direct and Indirect Costs
Allowable and allocable costs must be appropriately classified as direct or indirect. In general, direct costs are those that can be identified specifically with a particular cost objective while indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. It is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost.

If an indirect cost rate is going to be utilized for charging indirect rates, the rate must first be approved by the applicable approving authority.

Definitions
Direct costs are expenses that are specifically associated with a particular grant program that can be directly assigned to such activities relatively easily with a high degree of accuracy. Common examples of directs costs include equipment and supplies for the program, subcontracted service provider, or other materials consumed or expended in the performance of the grant.

Indirect costs are incurred for common or joint objectives and, therefore, cannot be readily and specifically identified with a particular program. They are expenses that benefit more than one grant/program. Common examples of indirect costs include utilities, shared office supplies, administrative or secretarial salaries.

ADOPTION: The Milton Selectboard, acting in regular session on **June 21, 2021** voted in favor of the **Allowability of Costs-Uniform Grant Guidance Policy**, as outlined herein as **Policy 2021-04.** Further, that this referenced Policy shall be part of the permanent record of the attachment of the same to the Minutes of the aforementioned Meeting.

Dated at Milton, Vermont this 21 day of June, 2021

MILTON SELECTBOARD

Darren Adams, Chairperson

Michael Morgan, Vice-Chairperson

Christopher Taylor, Clerk

Brenda Steady

Brenda Steady, Member

John FitzGerald, Member

Filed with the Milton Town Clerk's Office this 22nd day of June, 2021

Attest: Kristi Beers

Milton Town Clerk