

RESOLUTION #23-08:

A RESOLUTION ADOPTING THE GRANTS ALLOWABLE COSTS AND COST PRINCIPLES POLICY.

THAT WHEREAS, Chapter 160A, Article 7 of the General Statutes of North Carolina outlines the powers and duties of the Village Manager and the Village Council; and

WHEREAS, the Village Council has deemed it necessary and in the best interests of its employees and citizens to formulate and revise administrative policies; and

WHEREAS, the Village Council by Resolution #10-03 established that “All financial policies of the Village shall be approved by the Village Council”; and

WHEREAS, as the operational needs of the Village change, the Village Council has, from time to time, adopted and amended previously adopted financial policies for the Village of Pinehurst;

NOW, THEREFORE, BE IT RESOLVED, by the Village Council of the Village of Pinehurst, North Carolina, in the regular meeting assembled this 14th day of March, 2023, as follows:

SECTION 1. The Grants Allowable Costs and Cost Principles Policy recommended by the Village’s Financial Services Director, which has been reviewed by the Village Manager, is approved by the Village Council.

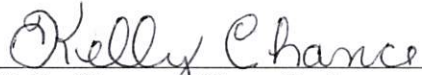
SECTION 2. The Financial Services Director is hereby instructed to inform all employees of this approved policy in a timely manner.

SECTION 3. This resolution shall be and the same is hereby effective from and after the date of its adoption.

THIS RESOLUTION passed and adopted this 14th day of March, 2023.



Attest:



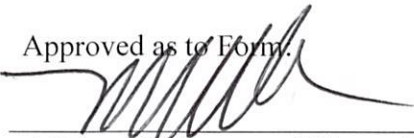
Kelly Chance, Village Clerk

VILLAGE OF PINEHURST
VILLAGE COUNCIL

By 

John C. Strickland, Mayor

Approved as to Form:



Michael J. Newman, Village Attorney



**VILLAGE OF PINEHURST
STANDARD PROCEDURE**

SUBJECT: Grant Allowable Costs and Cost Principles Policy		Effective Date: 3/14/2023
Department: Financial Services		Policy No.: FIN-416.5
Prepared by: Financial Services Director, Dana Van Nostrand		Revised:
Approved by: Village Council Resolution #23-08		# of Pages: 11

I. PROCEDURE PURPOSE:

To comply with the allowable costs and cost principles requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, State of North Carolina regulations, sponsor policies, program objectives, and grant agreement terms and conditions.

II. POLICY:

[Title 2 U.S. Code of Federal Regulations Part 200](#), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, commonly called the Uniform Guidance (2 CFR 200 or UG), specifically Subpart E, defines those items of cost that are allowable, and which are unallowable under federal awards. The tests of allowability under these principles are:

- (a) the costs must be necessary and reasonable for the performance of the award and be allocable thereto;
- (b) they must conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items;
- (c) they must be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the Village;
- (d) they must be given consistent treatment as either a direct or indirect cost in like circumstances;
- (e) they must be determined in accordance with generally accepted accounting principles, except for local governments as otherwise provided for in 2 CFR 200;
- (f) they must not be included as a cost or used to meet cost sharing or matching requirements of any other sponsored program in either the current or prior period;
- (g) they must be adequately documented; and
- (h) they must be incurred during the approved budget period.

Unallowable items fall into two categories: expenses which are by their nature unallowable (e.g., alcohol), and unallowable activities (e.g., fund raising).

The Village of Pinehurst shall adhere to all applicable cost principles governing the use of grants. The application of these cost principles is based on the fundamental premises that:

- (a) the Village is responsible for the efficient and effective administration of grant awards through sound management practices;
- (b) the Village assumes responsibility for administering grant funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the awards;
- (c) the Village has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary to assure proper and efficient administration of the awards;
- (d) the application of these cost principles should require no significant change in the internal accounting policies and practices of the Village; and
- (e) the Village may not earn or keep any profit resulting from federal financial assistance, unless explicitly authorized by the terms and conditions of the award.

This policy addresses the proper classification of both direct and indirect charges to grant-funded projects and enacts procedures to ensure that proposed and actual expenditures are consistent with the grant award terms and all applicable regulations, terms, and conditions. This policy applies to all grant awards, with the terms and conditions of each grant agreement ultimately determining allowable costs for that grant.

Responsibility for following these guidelines lies with the Financial Services Director along with the Department Heads, who are charged with the administration and financial oversight of grant funds they receive. Further, all Village employees and officials who are involved in obligating, administering, expending, or monitoring grant-funded projects should be well versed with the categories of costs that are generally allowable and unallowable and these cost principles. Questions on the allowability of costs should be directed to the Financial Services Director. As questions on allowability of certain costs may require interpretation and judgment, staff are encouraged to ask for assistance in making those determinations.

GENERAL COST ALLOWABILITY CRITERIA

All costs expended using grant funds must meet the following general criteria:

- 1. Be necessary and reasonable for the proper and efficient performance and administration of the grant 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 Village or the proper and efficient performance of the 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 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 the Village, its employees, the public at large, and the federal government.
- Whether the Village significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the award's cost.

- 2. Be allocable to the award.** A cost is allocable to the award if the goods or services involved are chargeable or assignable to the award in accordance with the relative benefit received. This means that the 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

grant, the costs are assignable to the 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, 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 award and other activities of the Village.**
6. **Be accorded consistent treatment.** A cost MAY NOT be assigned to a grant award as a direct cost and also be charged to an award as an indirect cost. 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 UG or grant terms and conditions.**
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 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 award, they shall be credited to the award, either as a cost reduction or a cash refund, as appropriate and consistent with the award terms. Interest income earned on cash advances from a grant funder should be remitted as required by the grant agreement.
9. **Be adequately documented.** Documentation should clearly indicate the purpose for the cost and how it is necessary for the award, its allocability to the award, and sufficient information to determine that it is reasonable, authorized, within the grant budget, and consistent with policies, regulations, and procedures.

SELECTED ITEMS OF COST

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

Department Heads and other Village staff responsible for determining cost allowability must be familiar with the Selected Items of Cost. The Village must follow the applicable regulations when charging these specific expenditures to the grant. Department Heads 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, Village of Pinehurst policies, and program-specific rules may deem

a cost as unallowable, and Department Heads 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 grant 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 a grant project, equipment and supplies for the project, subcontracted service provider, or other materials consumed or expended in the performance of a grant-funded project.

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

For indirect costs, the Village may charge a 10 percent de minimis rate of modified total direct costs (MTDC). According to UG 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.

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. § 200.444 *General costs of government* states that salaries and expenses of the chief executive of a local government (Mayor) and city council (Village Council), and the costs of general types of government services, such as fire and police, are unallowable unless specifically provided for as a direct cost under grant program statute or regulation.

COST TRANSFERS

Any costs charged to the grant 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 UG 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.

III. PROCEDURES:

COST ALLOWABILITY REVIEW PROCESS

Preapproval Cost Allowability Review

Before a grant-funded project is authorized, the Department Head and Financial Services Director 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 funds.

- Department Heads must submit proposed grant projects to the Financial Services Director for review. In addition to other required information, all proposed project submissions must delineate estimated costs by cost item.
- Along with a general review of project eligibility and conformance with other governing board management directives, if required, the Department Head and Financial Services Director must review estimated costs for specific allowable cost requirements, budget parameters, indirect rates, fringe benefit rates, and those activities/costs that require pre-approval by the funder.
- If a proposed project includes a request for an unallowable cost, the Department Head or Financial Services Director 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 Department Head and Financial Services Director, the grant proposal can be submitted to the funder.
- Once a grant project is awarded and the grant agreement is executed, including approval by the Village Manager or Village Council if necessary, the Village personnel responsible for implementing the project must conform actual obligations and expenditures to the pre-approved project budget, Village purchasing policies, and the grant agreement terms and conditions.

Post-expenditure Cost Allowability Review

Once an expenditure is incurred related to a grant-funded project, and an invoice or other demand for payment is submitted to the Village, the Department Head 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 Department Head will return the invoice to the project manager and/or vendor, contractor, or subrecipient for correction.

- The Department Head 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, properly allocable, and adequately documented, the Department Head must proceed through the Village's normal purchasing and disbursement process.
- If any cost item is deemed unallowable, the Department Head will not charge the cost to grant funds. If the Village remains legally obligated by contract or otherwise to pay the disallowed cost item, it must identify other funds to cover the disbursement.
- The Department Head and Financial Services Department must retain appropriate documentation of budgeted cost items per project and actual obligations and expenditures of cost items per project.

AUDIT PROCESS

The Financial Services Director will include federal and state funded grant expenditures on the annual Schedule of Expenditures of Federal and State Awards. The Financial Services Director will ensure audits of grant funds are performed as required by the UG, the North Carolina State Single Audit Implementation Act, or other funder requirements.

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	Unallowable with exceptions
Alcoholic beverages	2 CFR § 200.423	Unallowable
Alumni/ae activities	2 CFR § 200.424	Not applicable to local government
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 applicable to local government
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 § 200.446	Idle facilities - unallowable with 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 with prior approval of the federal awarding agency
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 allowable cost and cost principle requirements 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 applicable to local government
Selling and marketing costs	2 CFR § 200.467	Unallowable except with prior approval of the federal awarding agency
Specialized service facilities	2 CFR § 200.468	Allowable with restrictions
Student activity costs	2 CFR § 200.469	Not applicable to local government

Taxes	2 CFR § 200.470	Allowable with restrictions
Telecommunication costs and video surveillance costs	2 CFR § 200.471	Allowable with restrictions
Termination costs	2 CFR § 200.472	Allowable with restrictions
Training and education costs	2 CFR § 200.473	Allowable for employee development
Transportation costs	2 CFR § 200.474	Allowable with restrictions
Travel costs	2 CFR § 200.475	Allowable with restrictions
Trustees	2 CFR § 200.476	Not applicable to local government