

City of Florence

Allowable Cost Policy

Effective Date: November 1, 2022

Drafted: October 17, 2022

Table of Contents

Acronyms	3
Introduction	4
Applicability	5
Chapter I — General Guideline for Allowability	6
General Criteria:	6
Direct Costs, Allocated Costs, and Indirect Costs	7
Procurement and Sub-Contracting	8
Related-Party Transactions	9
Fiscal Reviews, Audits and Unallowable Costs	10
Chapter II - Selected Items of Costs	11
Chapter III - Documentation of Costs	16

Acronyms

CFR – Code of Federal Regulations

COFAR – Council on Financial Assistance Reform

FAR – Federal Acquisition Regulation

GAAP – Generally Accepted Accounting Principles

GAAS – Generally Accepted Auditing Standards

GAGAS – Generally Accepted Government Auditing Standards

MTDC – Modified Total Direct Costs

OMB – U.S. Office of Management and Budget

Introduction

The City of Florence (City) is responsible for the creation, maintenance, and repair of the City's infrastructure, buildings, parks, and equipment. Many such projects use federal grants, and the City must ensure that the expenditures funded from such grants are allowable under the federal programs.

The Office of Management and Budget's (OMB) Code of Federal Regulations (CFR), Part 200 details the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the City, as a receiver of Federal Awards must conform to those requirements.

The federal regulations in OMB's CFR Part 200 are divided into five subparts:

Subpart A: Acronyms and Definitions

Subpart B: General Provisions

Subpart C: Pre-Federal Award Requirements and Contents of Federal Awards

Subpart D: Post-Federal Award Requirements

Subpart E: Cost Principles

Subpart F: Audit Requirements

The City's Allowable Cost Policy follows the OMB costs principles as well as applicable state statutes and regulations in determining allowable costs allocable to the City's projects and programs receiving Federal Awards.

This policy describes principles that apply generally to all City projects and programs, even if funded solely by state funds, in the absence of program-specific statutes or guidance to the contrary.

For OMB training, COFAR has developed resources to assist stakeholders in learning about the guidance at <https://cfo.gov/COFAR>.

Applicability

The City is committed to ensuring that all costs for projects and programs it funds are reasonable, necessary, and in accordance with federal and state regulations, as well as contract and program requirements. The Allowable Cost Policy sets forth the principles and guidelines for determining the allowability of costs charged to City projects and programs. The purpose of the cost principles and guidelines is to determine the allocability and allowability of costs.

The City has adopted the federal cost principles to provide guidance on allowable costs and the projects and programs subject to the cost principles. For each kind of organization, i.e., local government or tribe, for-profit, non-profit agency, educational institution, and commercial organization, there is a set of Federal principles for determining allowable costs. Allowable costs are determined in accordance with the cost principles applicable to the organization incurring the costs.

Departments that receive funding from the Federal Government shall follow the applicable section of the federal cost principles; as well as cost principles otherwise applicable to their type of project or program and any requirements placed on the Department by the City for compliance with the terms and conditions of the award.

The allowable costs principles in this policy apply to all departments within the City.

Chapter I — General Guideline for Allowability

General Criteria:

There are many factors that affect the allowability of costs. In order to be allowable for allocation to projects or programs funded by the City, all costs must meet the following general criteria:

- **Be necessary and reasonable** for proper and efficient project completion or program administration and allocable under these guidelines. 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 was made to incur the cost. In determining the reasonableness of a given cost, consideration must be given to (CFR 200.404):
 - Whether the cost is of a type generally recognized as ordinary and necessary to the operation of the City or to the proper and efficient performance of the Federal Award (Award).
 - The restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state, and other laws and regulations, and terms and conditions of the Award.
 - The market prices for comparable goods and services for the geographic area.
 - Whether the individuals concerned acted with prudence considering their responsibilities to the City, its employees, the public at large, and the federal government.
 - Whether the non-federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Award's cost.
- **Be allocable.** A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. A cost is allocable to a government contract if it is incurred specifically for the contract; benefits both the contract and other work, and can be distributed between the contract and other work in reasonable proportion to the benefits each received; or is necessary to the overall operation of the business (CFR 200.405).
- **Cost must be incurred during the approved budget period.**
- **Be in conformance** with any limitations or exclusions set forth in this Policy, federal or state laws, specific contract language, or other governing limitations as to types or amount of cost items.
- **Be consistent** with policies, regulations, and procedures that apply uniformly to both contracted activities and to other activities of the City.

- **Be accorded consistent treatment.** A cost may not be assigned to a project or program as a direct cost if any other cost under the same circumstances has been charged to a project or program as an indirect cost.
- **Be determined in accordance** with generally accepted accounting principles (GAAP).
- **Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed, state, or other City financed program in either the current or prior period.**
- **Be net of all applicable credits.** Applicable credits are receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to programs as direct or indirect costs, including discounts or rebates subsequently received for prior purchases. Departments are expected to take advantage of available discounts on purchases of goods and services. When applicable credits relate to allowable project or program costs, they must be credited to the project or program either as a cost reduction or a cash refund.
- **Be supported by the City's accounting records** and be adequately documented. Documentation requirements are discussed in depth in Chapter III of this Policy.

Direct Costs, Allocated Costs, and Indirect Costs

The total cost of a City project or program is comprised of the allowable direct costs' incident to its performance, plus its allocable portion of indirect costs, less applicable credits, plus any allowable profit, management service fees, or reserves if allowed under contract. The term "applicable credits" is defined above.

Direct Costs (CFR 200.413(a))

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. For example, the entire salary of an individual who spends all of his or her time working on a single program can be charged as a direct cost to that program. Direct costs shall be claimed whenever possible based on the nature of the costs and the accounting system in place. Also, program evaluation costs can be charged as direct cost. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.

Allocated Costs

Allocated costs are costs that are clearly associated with and can be readily assigned to a function or activity. A cost can directly benefit more than one program or function and can, therefore, be allocated (or charged) to the benefiting programs or functions on some reasonable and equitable basis. For example, an individual spends his or her time working on a number of different programs that the City operates. Salary and related fringe benefits can be charged to the respective programs based on the number of hours reported to each program on employee time sheets.

Indirect Costs (CFR 200.414)

The Office of Management and Budget (OMB) expanded the use of the de minimis rate of 10 percent of modified total direct costs (MTDC) to all non-federal entities effective November 12, 2020. The de minimis expansion does not include State and Local Government and Indian Tribe indirect cost proposals. Prior to OMB expansion, the de minimis rate can only be used for non-federal entities that have never received a negotiated indirect cost rate.

Indirect costs are those costs that are incurred by an agency for a common or joint purpose that are not readily chargeable to a particular program or function without effort disproportionate to the results achieved but benefit more than one program or function operated by the City. Indirect costs are necessary to the overall operation of the agency, but a direct relationship to a specific program cannot be shown. An example of an indirect cost might be rent, or utility costs incurred by an agency. Generally, these kinds of costs are identified, pooled, and charged against individual programs or funding sources using a rate designed to recover the costs.

When indirect costs are charged, all activities which benefit from the City's indirect costs, including unallowable activities and donated services, will receive an appropriate allocation of indirect costs. The basis used shall be an equitable measure of the extent to which the cost incurred actually benefits the program to which it is charged. For example, square footage used by the various programs operated by the agency would be an equitable basis to allocate the total rent or utility costs incurred by the City. Costs that are part of the agency indirect cost pool shall not duplicate any costs that are charged directly and shall not include any unallowable costs, and total costs charged may not exceed the actual costs incurred.

To ensure that expenditures are proper and in accordance with the terms and conditions of the Award and approved project budgets, the annual and final fiscal reports or vouchers requesting payment under the agreements must include a certification, signed by an official who is authorized to legally bind the City.

Procurement and Sub-Contracting

All materials and services purchased by the City shall be authorized by a written contract with the provider, with one exception:

- For purchases of \$10,000 or less, the requirements for a written contract may be waived by the City.

Minimum Standards

When procuring or sub-contracting services, departments must adhere to the following minimum standards:

- **Standard of Conduct** - The City shall maintain a standard of conduct that includes a prohibition against any employee, officer, or agent of the department participating in the selection, award, or administration of a contract in which funds provided under the Award are used, where, to his knowledge, he or his immediate family, partners, or

organization in which he or his immediate family or partner has a financial interest or with whom he is negotiating or has any arrangement concerning prospective employment.

Public officials and employees should also be aware of state and federal law which prohibit a public official or employee, acting in his private capacity, from negotiating, bidding, or entering into a contract in which he has private pecuniary interest at the same time he is authorized in his official capacity to exercise discretion in making or administering the contract.

- **Open and Free Competition** - Procurement and sub-contracting shall be conducted in a manner to provide, to the maximum extent possible, open and free competition.
 - The City shall be alert to organizational conflicts of interest or non-competitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade.
 - Those who develop or draft specifications, requirements, bid invitations, requests for proposals, etc. should be excluded from competing.
 - Awards should be made to the bidder/offeror whose bid/offer is responsive to the solicitation and is most advantageous to the City.
 - Solicitations should clearly set forth all requirements that the bidder/offeror must fulfill in order for his bid/offer to be evaluated by the City.
 - Any and all bids/offers may be rejected when it is in the City's interest to do so.

Related-Party Transactions

A related-party transaction occurs when one party to a transaction can influence the management or financial operating policies of the other party. Examples of related-party transactions include, but are not limited to, transactions between:

- Divisions of an organization.
- Organizations under common control through common officers, directors, or members.
- An organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold controlling interest.

The fact that two parties in a transaction are related does not automatically mean the costs incurred are inappropriate and unallowable. In addition to the general procurement requirements applicable to all non-Federal entities, non-Federal entities engaging in related-party transactions must also maintain written standards of conduct covering organizational conflicts of interest.

The City of Florence closely examines related-party transactions during fiscal reviews.

Fiscal Reviews, Audits and Unallowable Costs

The City may conduct fiscal reviews of agencies receiving federal funding from the City. The purpose of these reviews is to ensure that agencies receiving funding are in compliance with state and federal laws, cost guidelines, policies and procedures, as well as contractual and licensing requirements.

Chapter II - Selected Items of Costs

This chapter provides principles to be applied in establishing the allowability of certain items involved in determining cost. These principles apply whether or not a particular item of cost is properly treated as direct or indirect cost. A transaction or item of cost not specifically mentioned in the Policy is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost and the cost principles in this Policy.

In addition to general cost guidelines, the City is prohibited by law, regulation, and/or contract from paying for certain expenditures. These costs are designated as unallowable costs and should not be charged to City projects or programs, either directly or indirectly. Departments are not prohibited from incurring unallowable costs, but they cannot be recovered under City awards.

To manage unallowable costs, separate accounts should be established for these types of expenses. Unallowable costs cannot be made part of expense pools that are applied to contracts through administrative charges, cost allocation plans, or indirect charges. The City should include a direct cost pool or category in their chart of accounts for unallowable costs.

For costs to be allowable, they must be reasonable, necessary, and provide a benefit to the project or program. Costs not directly related to project or program needs are unallowable.

In general, unallowable city-related costs include, but are not limited to:

- Advertising and public relations
Advertising and public relations costs are generally not allowable except under the instances allowed by federal regulations or contract.
- Alcoholic beverages
Costs of alcoholic beverages are unallowable.
- Automobile allowances
The use of vehicle allowances does not reflect actual cost. As they are estimates, they are not allowable.
- Automobile costs for personal use
The use of City owned cars or payment of mileage for personal use, including commuting, is not allowed.
- Bad debts
Accounts receivables determined to be uncollectable, including losses from uncollectable accounts are unallowable whether actual or estimate.

- Cash disbursements and cash ATM withdrawals

Checks written to “cash” or ATM cash withdrawals that are merely supported by a withdrawal receipt are not allowable expenses. Further documentation is required to provide justification for an expense charged to a City project or program.
- Contributions, donations and gifts

See the federal allowable cost guidance for discussion on the allowability of contributions and donations.
- Entertainment

Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose, reasonable, necessary and are authorized by contract.
- Fines, penalties, damages and other settlements

Costs resulting from violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the award, or with prior written approval of the City.
- Fraud (FAR 31.603)

Losses incurred by a provider related to fraud or embezzlement committed by internal or external perpetrators are unallowable costs and may not be charged to City projects or programs.
- Fund raising costs

Cost of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable. However, fundraising costs for the purposes of meeting federal program objectives which are reasonable and necessary may be allowable if permitted by contract.
- Goodwill (FAR 31.205-49)

The write-up of assets, resultant depreciation, and goodwill from business combinations is unallowable.
- Goods and services for personal use

Costs of goods or services for personal use of employees are unallowable regardless of whether the cost is reported as taxable income to the employees.
- Interest on credit card accounts and installment loans

Interest expense on credit card accounts and installment loans are not allowable.

- Investment management costs

Investment management costs are unallowable, except for costs related to the physical custody and control of monies and securities.
- Legal expenses for administrative appeals, prosecution of claims, or civil or criminal actions (FAR 31.205-47)

The cost of legal representation related to claims against the City, as part of an administrative appeal, or as the result of civil or criminal actions against the City is generally not an allowable cost.
- Lobbying/political activities

The costs of certain influencing activities (i.e., attempts to influence the enactment or modification of any pending legislation through communication with any member or employee of the state legislature, or with any government official or employee concerning a decision to sign or veto enrolled legislation) associated with obtaining grants, contracts, cooperative agreements, or loans is unallowable.
- Losses

The excess of cost over revenue on any contract or program is unallowable.
- Memberships, dues, and subscriptions

Costs of membership in any country club or social or dining club or organization are unallowable. See below for a discussion of other types of memberships.
- NSF fees

Fees assessed for non-sufficient-fund checks or drafts, whether returned or not, are unallowable. The City shall maintain its accounts in a manner that precludes overdrafts from occurring.
- Over limit fees

Over limit fees assessed on credit cards are unallowable. The City shall maintain its accounts in a manner that does not incur these types of fees.
- Parking tickets

Fines and penalties include all costs resulting from violations of, or failure to comply with federal, state or local laws and regulations, and contract requirements. Parking tickets are considered a fine and are unallowable.
- Personal housing and living expenses

The costs related to the personal living expenses of City employees are generally unallowable. This includes but is not limited to: rent, utilities, auto expenses, food, dining, clothing, entertainment, insurance, furniture, and the payment of personal debt.

➤ Reconnection charges

Reconnection charges for utilities, telephone, and internet or cable service due to failure to pay bills on time is unallowable. The City shall maintain its accounts in a manner that does not incur these types of fees.

➤ Start-up Costs

Start-up costs apply to new or expanded services only. Start-up costs are unallowable without prior approval.

➤ Tobacco products

The cost of tobacco is expressly unallowable under all circumstances.

➤ Undocumented expenses

For expenses to be allowable, they must be adequately documented. Expenses that are lacking adequate supporting documentation are unallowable.

While the costs cited above are generally not allowable costs, some common costs incurred by agencies may be allowable, such as:

➤ Audit services

Audit expenses are allowable if the audit is required by federal or state law or regulation or is authorized by the City and performed in accordance with the applicable federal and state guidelines. In general:

- All audits shall be in accordance with generally accepted auditing standards (GAAS) and the U.S. General Accounting Office *Government Auditing Standards* (GAGAS).
- Audits of local governments and Tribes shall also be in accordance with 2 CFR Part 200, Subpart F if the amount of federal financial assistance is above the threshold for requiring an audit in accordance with 2 CFR 200 (f) and the Compliance Supplement issued in July 2021.

➤ Client-Related Costs

Direct expenditures made on behalf of a client, such as food, entertainment, transportation and personal goods may be allowable if related to a program objective.

➤ Fees for Employee health and welfare costs

Costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are generally allowable. See the federal regulations for more specific guidance.

➤ Memberships, dues, and subscriptions

- Costs of membership in business, technical, and professional organizations are allowable.
- Costs of subscriptions to business, professional, and technical periodicals are allowable.
- Cost of memberships in any civic or community organizations are allowable with prior approval.
- Costs of membership in any country club or social or dining club or organization are unallowable.

Chapter III - Documentation of Costs

Proper documentation of costs is a critical aspect of sound fiscal management. Supporting documentation provides evidence that costs were actually incurred and paid for by the City. Generally, documentation will be in the form of an original invoice, receipt or contract that is supported by a copy of a canceled check/electronic payment copy or other document showing that the transaction was completed. If cancelled checks are not available, bank statements may provide evidence that the costs were paid by the City.

In general, documentation must contain the following elements:

- Date
- Payee
- Amount of cost
- Expense account and program being charged
- Explanation describing nature of cost and how it reflects a benefit to the program and business purpose
- Receipts and invoices with detailed information on costs

Disbursements without proper supporting documentation will be disallowed. ATM withdrawal slips or checks made payable to cash without additional receipts showing the exact use of the entire cash amount will also be disallowed. Credit card statements alone do not constitute acceptable supporting documentation; detailed receipts are required.

The documentation requirements addressed in this chapter are provided to help clarify the appropriate supporting evidence that should be present for costs charged to City projects or programs. Proper accounting procedures require supporting source documentation for all transactions, not just expenses. Proof of payment and supporting documentation is required for all expenditure categories. Questions regarding proper documentation may be directed to the Administrative Services Department.

The City's intent is for the City's accounting system to include sufficient detail to identify the total cost of services and total revenue received by service and source.