

## SAMPLE ALLOWABLE COSTS AND COSTS PRINCIPLES POLICY

### OVERVIEW

[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 Capital Projects Fund Program (ARPA/CPF); (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 ARPA/CPF grant award as to types or amounts of cost items.

[ORGANIZATION NAME] shall adhere to all applicable cost principles governing the use of federal grants. This policy addresses the proper classification of both direct and indirect charges to ARPA/CPF funded projects and enacts procedures to ensure that proposed and actual expenditures are consistent with the ARPA/CPF grant award terms and all applicable federal regulations in the UG.

Responsibility for following these guidelines lies with [LIST APPROPRIATE ORGANIZATION OR MUNICIPAL OFFICIALS AND EMPLOYEE POSITION TITLES HERE], who are charged with the administration and financial oversight of the ARPA/CPF. Further, all Organization employees and officials who are involved in obligating, administering, expending, or monitoring ARPA/CPF grant funded projects should be well versed with the categories of costs that are generally allowable and unallowable. Questions on the allowability of costs should be directed to [LIST APPROPRIATE ORGANIZATION OR MUNICIPAL OFFICIALS AND EMPLOYEE POSITIONS HERE]. As questions on allowability of certain costs may require interpretation and judgment, Organization personnel are encouraged to ask for assistance in making those determinations.

### GENERAL COST ALLOWABILITY CRITERIA

All costs expended using ARPA/CPF 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 [ORGANIZATION NAME] 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 ARPA/CPF 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 [ORGANIZATION NAME], its employees, the public at large, and the federal government.
- Whether [ORGANIZATION NAME] significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the ARPA/CPF award's cost.

- 2. Be allocable to the ARPA/CPF federal award.** A cost is allocable to the ARPA/CPF award if the goods or services involved are chargeable or assignable to the ARPA/CPF award in accordance with the relative benefit received. This means that the ARPA/CPF grant program derived a benefit in proportion to the funds charged to the 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 ARPA/CPF, 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, ARPA/CPF 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 ARPA/CPF federal award and other activities of [ORGANIZATION NAME].**
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 UG.**
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 Organization related to the federal award, they shall be credited to the ARPA/CPF award, either as a cost reduction or a cash refund, as appropriate and consistent with the award terms. [NOTE THAT A ORGANIZATION SHOULD ADD A REFERENCE TO ITS PROGRAM INCOME POLICY HERE, WHEN THAT POLICY IS IMPLEMENTED. AS OF DECEMBER 2021, WE ARE STILL AWAITING FINAL GUIDANCE FROM US TREASURY ON HOW TO TREAT PROGRAM INCOME.]
9. **Be adequately documented.**

## **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 ARPA/CPF-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 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.

Indirect costs may not be charged by [ORGANIZATION NAME] to this award.

## **COST ALLOWABILITY REVIEW PROCESS**

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Once an expenditure is incurred related to an eligible project, and an invoice or other demand for payment is submitted to the Organization, the [ORGANIZATION NAME] 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 [ORGANIZATION NAME] will return the invoice to the project manager and/or vendor, contractor, or subrecipient for correction.
- The [ORGANIZATION NAME] 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 ORGANIZATION NAME] must proceed through the Organization's normal disbursement process.
- If any cost item is deemed unallowable, the [ORGANIZATION NAME] will notify the project management and/or vendor, contractor, or subrecipient that a portion of the invoice or other demand for payment will not be paid with ARPA/CPF funds. The [ORGANIZATION NAME] 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 Organization remains legally obligated by contract or otherwise to pay the disallowed cost item, it must identify other Organization funds to cover the disbursement. [ORGANIZATION NAME]'S governing board must approve any allocation of other funds for this purpose.
- The [ORGANIZATION NAME] must retain appropriate documentation of budgeted cost items per project and actual obligations and expenditures of cost items per project.