

Town of Munster

Allowable Costs Policy for Federal Grants

This policy is to provide guidance for determining allowable costs on federally sponsored awards and to ensure compliance with the Uniform Guidance framework for grant management. This policy outlines the allowability and importance of the proper treatment of costs on federally funded projects.

The Office of Management and Budget (OMB) developed the Uniform Guidance (2 CFR, Part 200 Subpart E) to describe the treatment of costs on direct and indirect sponsor project activities that can be billed to the federal government. The Uniform Guidance applies to all federally funded projects including federal funding through a non-federal agency. The cost principles also identify those charges that typically cannot be charged to sponsored awards and are considered Unallowable expenses.

The OMB Uniform Guidance (§200.420 through §200.475) lists costs that are Allowable and not Allowable as an expense on a federal award. Many sponsors have policies that address costs that are Allowable.

Allowable Costs

A cost that is Allowable must also:

- be necessary and reasonable for the performance of the award and be Allocable.
- conform to any award limitations or exclusions.
- be consistent with policies and procedures that apply to both Federal and other non-Federal activities.
- be consistently treated.
- 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 program in either the current or a prior period.
- be adequately documented.

Reasonable Costs

Typical tests to determine if a cost is Reasonable include:

- Whether the cost is of 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 restraints or requirements imposed by such factors as sound business practices, arm's-length bargaining, Federal, State and other laws and regulations, Town policies, as well as 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

Allocable

This standard is met if the cost

1. is incurred specifically for the sponsored project,
2. benefits both the sponsored project and other work of the Town and can be distributed in proportions that may be approximated using Reasonable methods, and
3. is necessary to the overall operation of the Town and is assignable in part to the sponsored project.

Direct Costs

Consistent treatment of costs is required for Federal awards. A cost may not be assigned to a Federal award as a Direct Cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an Indirect Cost.

Materials and supplies used for the performance of a sponsored project may be charged as Direct Costs. In the specific case of computing devices, charging as Direct Costs is Allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.

The salaries of administrative and clerical staff should normally be treated as Indirect Costs. Direct charging of these costs may be appropriate only if all the following conditions are met.

1. Administrative or clerical services are integral to the project or activity.
2. Individuals involved can be specifically identified with the project or activity.
3. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency.
4. The costs are not also recovered as Indirect Costs.

Indirect Costs

Indirect Costs are costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Indirect costs of the Town are needed to support the programs and services of the Town and include such things as building depreciation, maintenance costs, the cost of electricity and heat, accounting services, personnel services, departmental administration, and purchasing.

Compliance Review of Costs

The Clerk-Treasurer or their delegate must perform a documented review of costs charged to sponsored projects in a timely manner to ensure allowability of costs in accordance with the Uniform Guidance and/or the terms of the specific contract or grant. In addition to the review of costs, a comparison of expenditures with budget amounts must also be performed to verify budget accuracy and determine if a budget revision is necessary.

Unexpected or Extraordinary Circumstances

In unexpected or extraordinary circumstances, The Town may direct a normally unallowable cost to be considered a direct cost for a specific program if the inherent purpose of the program requires it. This cost will be considered allowable if it satisfies the requirements for direct costs and is sufficiently documented. All costs charged to grants under these circumstances should be treated consistently, no matter the funding source (Federal or non-Federal).

Unallowable Costs

It is expected that costs will be posted to the correct grant or contract at the time of purchase. However, in the event that an Unallowable cost is discovered, and the transfer of a charge is required, the transfer should be made as soon as the need for correction is identified. The Town must make every effort possible to transfer the costs within the fiscal year in which the original transaction occurred.

Cost Share

For all Federal awards, any shared costs or matching funds and all contributions, including cash and third-party in-kind contributions, must be Allowable under Subpart E-Cost Principles of the OMB Uniform Guidance.

Documentation

All costs on federal sponsored projects must be Allowable, Allocable, and Reasonable in addition to being verified by someone in the position to know the appropriateness of the charge namely the Department Head overseeing the project. The Department Head may delegate some of the duties associated

with the daily financial management of the award to appropriate staff in accordance with the Town's purchasing policy; however, the Department Head retains full responsibility for all activity on the award. Appropriate documentation must be prepared in accordance with Town policy and the terms and conditions of the award by the Department overseeing the project and such documentation must be forwarded to the Office of the Clerk-Treasurer for audit purposes.

At the end of the award, the Department Head overseeing the project, or their designee, in conjunction with the Clerk-Treasurer, or their designee, must certify that all expenditures reported in the general ledger for an award are Allowable in accordance with provisions of the award documents and, where required, corrections have been or will be made.

Definitions

Allocable – a cost incurred specifically for the program, or several activities but can be distributed between them in Reasonable proportion to benefits received and is clearly necessary to the program.

Allowable – costs directly related to the performance of a sponsored award and permitted under its terms and OMB guidance that must be Reasonable, necessary, Allocable, and treated consistently with generally accepted accounting principles.

Computing Devices – means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories or peripherals for printing, transmitting and receiving, or storing electronic information and acquisition cost of less than \$5,000.

Direct Cost – cost where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose such as salaries, wages, fringe benefits, consultants, materials and supplies, equipment, travel, participant costs, and subcontracts.

Indirect Cost – costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored award such as depreciation of buildings and equipment, computing infrastructure, administrative services, utilities, and custodial services. Generally, these types of costs are identified, pooled, and charged against individual programs or funding sources.

Integral – the nature and purpose of the sponsored program lends itself to these types of personnel being essential in the completion and fulfillment of the stated aims and objectives.

Reasonable Cost – 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.

Unallowable – those charges to an award that the sponsor determines to be Unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the grant or contract.

Accountabilities

The Department which sought the Federal award is responsible for the Town administration of the award including monitoring for Unallowable costs, reporting Unallowable costs to the Office of the Clerk-Treasurer in a timely manner so corrections can be made, and preparation and submittal of all required Federal, State and local documentation and reporting. The Department will provide all documentation required for audit and State Board of Accounts Annual Financial Report to the Office of the Clerk-Treasurer.

The Office of the Clerk-Treasurer is responsible for submitting documentation to the State Board of Accounts as required for the annual reporting of the Town's finances.