



Payson City Grant Policy

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Allowable Use of Funds and Adherence to Grant Policy.

Expenditures and Disbursements.

Policy Statement

Payson City shall adhere to all applicable cost principles governing the use of federal and non-federal grants and contracts. This policy addresses the importance of properly classifying costs, both direct and indirect, charged to grant funded projects and that proposed and actual expenditures are consistent with the grant agreement and all applicable federal rules. City personnel who are responsible for administering, expending or monitoring grant funded programs should be familiar with the categories of costs that are allowable and unallowable.

Reason for Policy

A portion of financial support for Payson City comes from the federal government. This funding is in the form of direct support for City programs and often includes reimbursement for indirect costs. The federal Grant Guidance identifies the criteria that must be met in order to properly charge these costs to federally funded projects. Individual non-federal awards may also include special terms and conditions that must be met before costs can be charged or reimbursed, which must also be considered before allocating certain costs to the award.

Policy Requirements

All costs expended using federal funds must meet the following general criteria.

- Be necessary and reasonable for the proper and efficient performance and administration of the grant program.
- Be allocable to federal awards under the provisions of the federal circular.
- Be authorized and not prohibited under state or local laws or regulations.
- Conform to any limitations or exclusions set forth in federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
- Be consistent with policies, regulations, and procedures that apply to both federal awards and other activities of the City.
- Treated consistently. 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.
- Except as otherwise allowed for in the federal circular, make sure financial transactions follow with generally accepted accounting principles.
- Not included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period.
- Be net of all applicable credits.
- Be adequately documented.

Cost guidelines of the grant must be considered any time federal award funds are to be expended. The City may apply grant requirements to non-federal projects as well.

Federal regulations also require that any other City policies related to specific types of expenditures must also be followed, for example, travel, meals or equipment.

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 specific project, while indirect costs are those (a) that benefit more than one project, and (b) not readily assignable a specific project without an allocation of costs to the project and to other projects.



If an indirect cost rate is going to be used for charging indirect rates, the rate must first be approved by the grant's approving authority.

Cost transfers

Any costs charged to a federal or non-federal 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 policies 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. Grant Program Managers (GPM), personnel and any other individuals responsible for expending grant funds are held responsible for compliance with this policy and should understand that penalties and funding disallowances could result from instances of non-compliance.

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 direct 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. Common examples of indirect costs include utilities, local telephone charges, shared office supplies, administrative or secretarial salaries.

Drawdowns and Reimbursement Requests

Revenue and receipts

Policy Statement

It is the policy of Payson City to request funds from funding agencies only for immediate needs, minimizing the time between receipt of funds and disbursement. Similarly, the City will disburse funds to subgrantees in such a manner as to minimize the time between receipt of the funds by the subgrantee and use of the funds by the subgrantee for program needs.

Reason for Policy

The City receives grant funds in multiple ways. Some grant programs provide all of the funds upfront via a lump sum check or wire transfer, some grants are disbursed in regularly scheduled payments, and some grants require the City to request reimbursement after program expenses have been incurred through the use of invoices or cash draw downs. Most funding agencies, federal and non-federal, specify the particular method required for requesting grant funds. In order to avoid funding delays (or potential penalties or funding withdrawal), the City must abide by the grantor's rules and regulations.

Policy Requirements

For all funding methods, the City will follow the grantor's preferred method of requesting funds while attempting to minimize the time between fund receipt and the disbursement of grant funds for program-related expenditures.

Regardless of the method of grant fund receipt, all program expenditures that will be paid for with grant funds must be allowable and follow any applicable cost restrictions.

Grant fund receipts will be deposited and coded to the correct general ledger account number



promptly and will be reported accurately to the grantor. All documentation of cash receipts will be maintained.

Responsibilities

Grant Program Managers (GPMs) are responsible for the City's efforts to ensure compliance with grant fund receipt requirements. GPMs are responsible for ensuring that grant funds received are expended in accordance with all grantor regulations and the City policies. Any funds received directly by the GPM should be forwarded for deposit. GPMs will be appointed by the Department Head of the department requesting or receiving the grant.

GPMs are expected to have a full understanding of grant requirements and regulations pertaining to cash management. GPMs are responsible for monitoring expended disbursements and forecasting cash flow needs, and for executing cash draw-downs using invoices or the grantor-preferred method (this may include grantor operated web-based systems). GPMs will retain all documentation related to requested draw downs, reimbursements and any scheduled pay-based requests according to the City Policies. Any funds received directly by the GPMs should be forwarded to administration for deposit.

The finance department will monitor program accounts to ensure that receipts are recorded accurately and promptly. If errors are identified, errors are corrected as soon as they are detected.

The treasurer is responsible for notifying GPMs when grant funds are received directly into the City financial accounts. The Treasurer is responsible for processing any grant funds received by other offices or staff and forwarded to them. The Treasurer will ensure that deposited funds are coded to the proper grant accounts and will seek guidance from the Finance Director or GPM if the proper account is unknown.



Manager Guidance and Federal Grant References

Allowability of Costs

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

When determining how the City will spend its grant funds, grant manager 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 standards outlined in the federal guidelines which are provided in the bulleted list below. Grant Managers must determine also if matching grant funding has been anticipated and are available in the budget. Grant Managers must consider these factors when making an allowability determination.

- **Be Necessary and Reasonable for the performance of the federal award.** City 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 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 City 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 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 City, its employees, the public at large, and the federal government.
- Whether the City significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably 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 City can demonstrate that the cost addresses an existing need, and can prove it. For example, the City may deem a language skills software program necessary for a limited English proficiency program.



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 additional 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.
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- **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. For example, if 50% of a teacher's salary is paid with grant funds, then that teacher must spend at least 50% of his or her time on the grant program.
 - Consistent with policies and procedures that apply to both federally- financed and other activities of the City.
 - Conform to any limitations or exclusions set forth as cost principles in Part 200 of the Code of Federal Regulations 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).**
 - **Not included as a match or cost-share, unless the specific federal program authorizes 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 charges. To the extent that such credits accruing to or received by the state relate to the federal award, they shall be credited to the federal



award, either as a cost reduction or a cash refund, as appropriate. 2 C.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 City-level requirements and policies regarding expenditures are to be followed as well as Federal Regulations. For example, state and/or City policies relating to travel or equipment may be narrower than the federal rules. If this is the case, the stricter State and/or City policies must be followed. Further, certain types of incentives are allowable under federal law, but are not allowable under State law

Selected Items of Cost

Code of Federal Regulations Part 200 examines the allowability of 55 specific cost items (commonly referred to as Selected Items of Cost) at 2 C.F.R. §§ 200.420-200.475. These cost items are listed in the chart below along with the citation where it is discussed whether the item is allowable. Please do not assume that an item is allowable because it is specifically listed in the regulation as it may be unallowable despite its inclusion in the selected items of cost section. The expenditure may be unallowable for a number of reasons, including: the express language of the regulation states the item is unallowable; the terms and conditions of the grant deem the item unallowable; or State/local restrictions dictate that the item is unallowable. The item may also be unallowable because it does not meet one of the cost principles, such as being reasonable because it is considered too expensive. If an item is unallowable for any of these reasons, federal funds cannot be expended on it.

City personnel responsible for spending federal grant funds and for determining allowability must be familiar with the Part 200 selected items of cost section. The City must follow these rules when charging these specific expenditures to a federal grant. When applicable, City staff must check costs against the selected items of cost requirements to ensure the cost is allowable. In addition, State, City and program-specific rules may deem a cost as unallowable and City personnel must follow those non-federal rules as well.

The selected items of cost addressed in Part 200 includes the following (in alphabetical order):

Item of Cost	Citation of Allowability Rule
Advertising and public relations costs	2 CFR § 200.421
Advisory councils	2 CFR § 200.422
Alcoholic beverages	2 CFR § 200.423
Alumni/ae activities	2 CFR § 200.424
Audit services	2 CFR § 200.425
Bad debts	2 CFR § 200.426
Bonding costs	2 CFR § 200.427
Collection of improper payments	2 CFR § 200.428
Commencement and convocation costs	2 CFR § 200.429
Compensation – personal services	2 CFR § 200.430



Compensation – fringe benefits	2 CFR § 200.431
Conferences	2 CFR § 200.432
Contingency provisions	2 CFR § 200.433
Contributions and donations	2 CFR § 200.434
Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements	2 CFR § 200.435
Depreciation	2 CFR § 200.436
Employee health and welfare costs	2 CFR § 200.437
Entertainment costs	2 CFR § 200.438
Equipment and other capital expenditures	2 CFR § 200.439
Exchange rates	2 CFR § 200.440
Fines, penalties, damages and other settlements	2 CFR § 200.441
Fund raising and investment management costs	2 CFR § 200.442
Gains and losses on disposition of depreciable assets	2 CFR § 200.443
General costs of government	2 CFR § 200.444
Goods and services for personal use	2 CFR § 200.445
Idle facilities and idle capacity	2 CFR § 200.446
Insurance and indemnification	2 CFR § 200.447
Intellectual property	2 CFR § 200.448
Interest	2 CFR § 200.449
Lobbying	2 CFR § 200.450
Losses on other awards or contracts	2 CFR § 200.451
Maintenance and repair costs	2 CFR § 200.452
Materials and supplies costs, including costs of computing devices	2 CFR § 200.453
Memberships, subscriptions, and professional activity costs	2 CFR § 200.454
Organization costs	2 CFR § 200.455
Participant support costs	2 CFR § 200.456
Plant and security costs	2 CFR § 200.457
Pre-award costs	2 CFR § 200.458
Professional services costs	2 CFR § 200.459
Proposal costs	2 CFR § 200.460
Publication and printing costs	2 CFR § 200.461
Rearrangement and reconversion costs	2 CFR § 200.462
Recruiting costs	2 CFR § 200.463
Relocation costs of employees	2 CFR § 200.464
Rental costs of real property and equipment	2 CFR § 200.465
Scholarships and student aid costs	2 CFR § 200.466
Selling and marketing costs	2 CFR § 200.467
Specialized service facilities	2 CFR § 200.468
Student activity costs	2 CFR § 200.469
Taxes (including Value Added Tax)	2 CFR § 200.470
Termination costs	2 CFR § 200.471
Training and education costs	2 CFR § 200.472
Transportation costs	2 CFR § 200.473



Travel costs	2 CFR § 200.474
Trustees	2 CFR § 200.475

It is also possible for the State and/or City 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 City requirements when spending federal funds. For example, often the State's travel rules are more restrictive than federal rules, which means the State's policies must be followed.

Helpful Questions for Determining Whether a Cost is Allowable

This section provides additional helpful questions to ask when determining whether a cost is allowable.

In addition to the cost principles and standards described above, program managers 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 City may be required to use federal funds only to supplement the amount of funds available from nonfederal (and possibly other federal) sources.
- Is the proposed cost consistent with specific conditions imposed on the grant (if applicable)?

As a practical matter, departments should also consider whether the proposed cost is consistent with the underlying needs of the program. For example, program funds must benefit the appropriate population for which they are allocated. This means that, for instance, funds allocated under the U.S Department of Health and Human Services, Aging, must be allocated for the aging population and cannot be allocated to other programs.

Cash Management

The City will comply with applicable methods and procedures for payment that minimize the time elapsing between the transfer of funds and disbursement by the City, in accordance with the Cash Management Improvement Act at 31 CFR Part 205. Generally, the City receives payment from the State on a reimbursement basis. 2 C.F.R. §200.305. However, if the City receives an advance in federal grant funds, the City will remit interest earned on the advanced payment quarterly to the federal agency consistent with 2 C.F.R. § 200.305(b)(9) if the interest exceeds \$500 annually.



Interest would not accrue if the City uses nonfederal funds to pay the vendor and/or employees prior to the funds being drawn down from the grant system, commonly known as a reimbursement.

Payment Methods

Reimbursements: The City will initially charge federal grant expenditures to nonfederal funds.

The City Grant Program Manager will request reimbursement for actual expenditures incurred under the federal grants on a regular basis. Reimbursement requests will be submitted on the grant agency. All reimbursements are based on actual disbursements, not on obligations.

Consistent with City and federal requirements, the City will maintain source documentation supporting the federal expenditures (invoices, time sheets, payroll stubs, etc.) and will make such documentation available for review upon request.

Reimbursements of actual expenditures do not require interest calculations.

Advances: To the extent the City receives advance payments of federal grant funds, the City will strive to expend the federal funds on allowable expenditures as expeditiously as possible.

The City will hold federal advance payments in interest-bearing accounts, unless an allowable exception applies. The City will begin to calculate interest earned on cash balances once funds are deposited into the City's account.

The City may retain up to \$500 of interest earned per year.

Standards of Conduct

In accordance with 2 C.F.R. §200.18(c)(1), the City maintains the following standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.

No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.

The officers, employees, and agents of the City may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts, unless the gift is an unsolicited item of nominal value.



Organizational Conflicts

If the City has a parent, affiliate, or subsidiary organization that is not a state, local government, or Indian tribe, the City must include written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest mean that because of relationships with a parent company, affiliate or subsidiary organization, the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization. 2 C.F.R §200.18(c)(2).

Disciplinary Actions

Disciplinary actions may be taken against an individual who violates the standards of conduct outlined in this document or the City policies.