

 City of Santa Ana Administrative Policies and Procedures	 City Manager's Authorization	
Subject FEDERAL GRANT COST ALLOCATION PROCEDURES	Date Revised July 2021	Number

1. OBJECTIVE

- To establish guidelines and procedures for proper accounting and effective control of the City of Santa Ana's (hereafter referred to as the "City" or "City's") cost allocation methodology for Federal Grants.
- To ensure the City's compliance with the requirements of the Uniform Guidance 2 CFR Part 200, Subpart E (Cost Principles).

2. DEFINITIONS

Allocation: The process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

Direct Costs: Those that can be specifically identified 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.

Indirect Costs: Those 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 Cost Allocation Plan: A document that identifies, accumulates, and distributes indirect costs to benefiting organizational units and activities.

3. DETERMINING DIRECT AND INDIRECT COSTS

For a cost to be *directly* charged, it must be reasonable, allocable, consistently treated, and not specifically designated as unallowable. A cost must meet all of these conditions before it may be directly charged to a Federal award.

Reasonable: The cost must be reasonable and necessary for the performance of the project. This means that a prudent individual pursuing the proposed work would spend funds in this manner.

Allocable: Costs must be allocable to the project. Costs of goods or services that are charged or assigned to a project must be based on the relative benefits received by the project. This is not an issue if the expense was incurred by a single project. However, if the item is of benefit to more than one project, then a sponsored project may only be charged for the portion of the expense that represents the benefit directly received by that project.

Consistently Treated: When costs are charged to a Federal award, they must be consistently treated. All costs incurred for the same purpose in like circumstances must be either direct costs only or indirect costs only. A cost item may not be charged as a direct cost on some projects and as an indirect cost on other projects in like circumstances.

Unallowable: A Federal award may not be directly or indirectly charged for any item or service that is specifically designated as unallowable under the Federal grant regulations (see Section 6, Unallowable Charges to Federal Grants below).

Costs that do not meet the criteria above will be treated as indirect costs. Indirect costs are charged to Federal awards based on the City's annual Indirect Cost Allocation Plan.

4. INDIRECT COST ALLOCATION PLAN

The City-Wide Indirect Cost Allocation Plan is prepared by outside consultant annually in accordance with the requirements of the Federal award(s) to which they apply and the provisions of 2 CFR Part 200, Subpart E & Appendix VII of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The Indirect Cost Allocation Plan determines the indirect cost rate for each activity/agency, which is applied to salaries and wages on an ongoing basis throughout the applicable fiscal year.

5. ALLOCATION METHODOLOGY

The general approach of the City in allocating costs to particular grants is as follows:

- All allowable direct costs are charged directly to programs, grants, activity, etc.
- Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated.
- All other allowable general and administrative costs (costs that benefit various programs and cannot be easily identified to a specific program) are allocated to programs, grants, etc. using a base that results in an equitable distribution.
 - Costs under \$1,000 are not required to be allocated
- If any of the allocated amounts cannot be charged to a federal grant (e.g. grant fully expended by the time the true-up was calculated), departments shall determine the appropriate alternative non-grant funding source to be charged this expense.

A. Compensation – salaries, wages

In accordance with 2 CFR Part 200.430, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. The City requires that direct costs allocable between two or more grants be documented by time sheets. For direct costs charged 100% to a single grant, the departments managing grants should follow the grantor's guidance regarding required documentation (e.g., semi-annual certifications, time sheets, time and effort reports, activity reports, etc.). The City is on an exception-based system and does not require time sheets for direct costs 100% allocable to a single grant.

B. Compensation - fringe benefits

Since the City's accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in same manner as salary and wage costs are recorded, the City does not need to have a fringe benefit rate established. Workers Compensation expenses are allocated based on the methodology described under section 5H below. Unfunded

Accrued Liability (UAL) for California Public Employees' Retirement System Miscellaneous Plan is allocated to the various funds based on actual normal retirement costs.

C. Compensation - Paid Time Off (vacation, holiday, sick pay, compensatory time, jury duty, etc.),

Allocation is based on 0.5 hour increments and only for a full day. Any time less than the full day is charged to the employee's home account. Employees are required to attach supporting documents for the allocation calculation to their time sheets. Any true-up from the budgeted amount to the actual will be completed through time exception sheets.

- First pay period of July: Based on the current year actual hours reported on July 1-15 timesheet. However, if the first pay period is fully charged to PTO, allocation will be based on the current year budget. Departments must submit time exception sheets to true-up the budgeted costs to the actual based on the total hours per labor distribution reports posted in July. Time exception sheets must be submitted to Payroll by the first pay period of August.
- Second pay period of July: Based on the ratio of each program's current fiscal year cumulative total hours per labor distribution reports to the total of such hours through the first pay period.
- August – September: Based on the ratio of each program's current fiscal year cumulative total hours per labor distribution reports to the total of such hours through prior month.
- Rest of fiscal year: Based on the ratio of each program's current fiscal year cumulative total hours per labor distribution reports to the total of such hours through prior quarter.

D. Tuition Reimbursement, Leave Cash Out, Separation Pay Out, Retro Pay

Expenses are charged directly to programs that benefit from the service. Expenses that benefit more than one program are allocated based the methodology described under section 5C above.

E. Capital expenditures/depreciation

Capital expenditures are charged directly to programs only in cases where a contract or grant specifically authorizes such charges. Capital expenditures for general purpose equipment, buildings, and land are allowable as direct charges, provided that items with a unit cost of \$5,000 or more have the prior written approval of the grantor. Capital expenditures for improvements are unallowable as a direct cost without the prior written approval.

F. Audit Costs

Identifiable direct audit costs are charged directly to the program. Audit costs that benefit all programs are allocated based on the ratio of each program's expenses to total expenses. For Single Audit fees, the City will obtain the percentage of auditors' hours spent on testing major programs from the auditors and allocate the percentage equitably to major programs. The hours spent on programs other than testing major programs will be allocated based on the ratio of total expenditures reported in the fiscal year's Schedule of Expenditures of Federal Awards.

G. Memberships, subscriptions, licenses for a specific employee

Expenses are charged directly to programs that benefit from the service. Expenses that benefit more than one program are allocated based the methodology described under section 5C above.

H. Monthly recurring charges (building rental, insurance, etc.)

The charges are posted every month based on the annual budget allocated to each fund. The budgeted charges are based on outside consultant's analysis of funding requirements for

Internal Service Funds. The purpose of these charges is to promote the financial sustainability of the Internal Service Funds and recover costs in a fair manner from operating units benefitting from the services accounted for within the Fund. In subsequent updates of the annual Internal Service Fund Analysis, the City will further compare billed to actual spending and recommend adjustments, as necessary.

I. Postage

Postage expenses are charged directly to programs to the extent possible. Costs that benefit more than one program will be allocated based on the allocation method mentioned under Section K below.

J. Travel and Auto Allowance

Allocated based on purpose of travel. All travel costs are charged directly to the program for which the travel was incurred. Travel costs that benefit more than one program will be allocated to those programs based on the allocation method mentioned under Section K below. Travel costs are supported by auditable travel vouchers and costs are limited to those allowable under the City's Travel & Expense Reimbursement Policy.

K. All other charges

For all other charges not noted above, costs are charged directly to the benefiting programs to the extent possible. Examples of these charges include, but are not limited to:

- i. Materials and supplies costs
- ii. Photocopying & Printing
- iii. Professional services costs (such as consultants and accounting services)
- iv. Recruiting costs
- v. Telephone/communications
- vi. Training/Conferences/Seminars
- vii. Vehicle costs (vehicle lease payments, vehicle maintenance costs)

Costs that benefit more than one program are allocated based on the following:

- July: Based on the current year budget. In August, departments will prepare a journal entry to true-up the budgeted costs to the actual based on salaries and wages (except for account number 61030 - Salaries Participant) posted in July. The journal entry must be submitted to Accounting by the second week of August.
- August – September: Based on the ratio of each program's current fiscal year cumulative salaries and wages (except for account number 61030 - Salaries Participant) amounts to the total of such amounts through prior month.
- Rest of fiscal year: Based on the ratio of each program's current fiscal year cumulative salaries and wages (except for account number 61030 - Salaries Participant) amounts to the total of such amounts through prior quarter.

6. UNALLOWABLE CHARGES TO FEDERAL GRANTS

The City recognizes that certain costs are unallowable charges to Federal awards and has internal controls in place to ensure that such costs are not charged to Federal awards. Examples of these charges include, but are not limited to:

- Advisory councils
- Advertising costs (other than for recruitment of staff, procurement of goods and services for the performance of a Federal award, or for the disposal of property)
- Alcoholic beverages
- Alumni/ae activities
- Bad debts
- Contingency provisions
- Contributions and donations, including cash, property, and services from the City to other entities
- Entertainment costs
- Fines, penalties, damages and other settlements
- Fund raising and investment management costs
- General costs of governments, including salaries & expenses of the chief executive of the City, services provided to the general public, such as fire & police
- Goods or services for personal use
- Interest incurred on borrowed capital, temporary use of endowment funds, or the use of the City's own funds
- Lobbying
- Losses on other awards or contracts
- Membership in any country club or social or dining club or organizations whose primary purpose is lobbying
- Organizational costs such as incorporation fees, broker's fees, fees to promoters
- Selling and marketing costs
- Student activity costs

7. RESPONSIBILITIES

Departments administering Federal grant programs are responsible for ensuring compliance with the Uniform Guidance 2 CFR Part 200 Subpart E (Cost Principles), Exceptions relating to 2 CFR 200, and requirements of the grant agreements and awards including determination of eligible expenditures allowed under each grant program.

Uniform Guidance link: <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1>

The Finance Department is responsible for working with outside consultant for preparing a City-Wide Indirect Cost Allocation Plan annually in accordance with the Uniform Guidance 2 CFR Part 200 Subpart E (Cost Principles), processing monthly recurring charges, allocating unfunded accrued liability for retirement, and maintaining chart of accounts and accounting records.