

SECTION
II-A

SECTION II - DETERMINATION OF ALLOWABLE/UNALLOWABLE COST**MARCH 31, 2026****Section II-A Allowable Cost – General Information**

The Department policy covering the allowability of costs is based upon **CFR Chapter 2 Part 200**

This section references Personnel Costs, Professional Services, Attorney Services, Board Member Expenses, Telephone, Postage, Supplies, Cost of Space, ADP Equipment, Capital Equipment, Travel, Training, Registration Fees and other costs. The Section also gives examples of each item listed above as far as allowable and unallowable costs. Exclusion of a particular item of cost is not intended to imply that it is unallowable.

The following costs are allowable:

A. Personnel Costs

Salaries, wages, and fringe benefits of DSS employees hired under the state merit system are allowable as follows:

1. **Salaries shall be allocated to programs by time distribution methods and supported by payroll and attendance records for individual employees.**
2. Temporary employee costs are allowable to the extent of the wages and fringe benefit payments made by counties.
3. **Bonuses, post-retirement health benefits and severance payments paid to agency employees are allowable when such benefits are included in a county-wide pay plan that complies with existing state personnel policies.**
4. **Wages and benefits paid to janitorial staff are classified as facility costs and are to be reported with "cost of space" expenditures.**
5. Hospital premiums paid for retirees are allowable when such benefits are included in the county's official approved pay plan. These expenditures should be reported on the DSS-1571, Part II, Line 311.

B. Professional Services

1. General

"Professional Services" can include a variety of administrative support functions that an agency might purchase, including program-related services purchased from an expert or consultant such as translation, interpretation or the services of an attorney. Whichever type of services are purchased, the following requirements must be met if the costs are to be reported on the DSS-1571 Part II as administrative support for the agency:

- a. The services have not been identified as being services to clients, but are directly and tangibly ***beneficial to the agency*** in the furtherance of its social services programs.
- b. The services must be in conformity with a written contract which specifies terms and conditions that have been properly executed, and are on file with both parties ***prior*** to requesting reimbursement.
- c. **Legal expenses incurred in the prosecution of claims against the federal government are unallowable.** Likewise, legal expenses incurred in the prosecution of claims or in any other litigation against the State of North Carolina, or against an agency of the State of North Carolina, are unallowable.
- d. **Legal expenses incurred in defending the county department of social services against claims brought in contention of wrongful action are allowable.** This would include attorney fees and those necessary additional expenses (such as deposition costs, witness fees, and court reporter fees) incurred up to the point that a settlement is agreed to, or that a judicial resolution is imposed. Any further costs associated with the claim, including amounts paid to or on behalf of the claimant, are unallowable. All costs associated with the filing of countersuits would also be unallowable.

Contracts shall be negotiated on the basis of an established fixed rate. For the services of professionals other than attorneys (attorney services are discussed below), reimbursable rates may be negotiated as follows:

- e. Regarding those services for which the Social Services Commission has established, a maximum rate may be negotiated up to the rate established by the Commission.
- f. For services other than those addressed by the Social Services Commission, reimbursable rates may also be negotiated provided that the county thoroughly documents that the rate agreed upon is reasonable, necessary, and competitive.

2. Attorney Services Purchased By Contract - Legal & Administrative

The cost of legal services required in the administration of the grant programs is allowable. The cost of legal services provided by the county attorney as a part of his/her official duties (legal advisor to the county commissioners) is unallowable. Legal expenses for the prosecution of claims against the federal government are unallowable. Otherwise, attorney services may be purchased subject to the following:

- a. **Legal Attorney Services** - These are defined as the activities engaged in by an attorney in the actual provision of legal services to the agency. **A rate may be negotiated for these services**, which must be ***inclusive*** of the attorney's time as well as any adjunctive expenses routinely incurred by an attorney in the public practice of law. *Such adjunctive expenses might include photocopying, postage, telephone bills, legal secretary expenses, and so on.*

As of May 20, 2016 counties are no longer be required to request a waiver from the DSS Budget Office for Attorney Services Purchased By Contract – Legal & Administrative that are above \$125.00. Counties should continue to use due diligence in obtaining quality services for the lowest possible negotiated price. Counties must maintain compliance with the Code of Federal Regulations, <https://www.gpo.gov/fdsys/granule/CFR-2014-title2-voll/CFR-2014-title2-voll-part200>, as well as comply with any federal and/or state regulations when incurring expenditures.

Agencies may also hire an attorney on a retainer basis, provided that the fees reported for reimbursement are adjusted annually (by June 30th).

Child Support attorneys may not be hired on retainer per federal regulations requiring reimbursement for **ACTUAL TIME** spent on a case based on the contracted hourly rate.

- b. **Administrative Attorney Services** - These are defined as the activities engaged in by an attorney, which are outside the realm of legal services as defined in the preceding paragraph. Specifically, this category would include attendance at professional meetings, seminars, and the like. **A rate of up to \$55 per hour may be negotiated for these services, not to exceed \$440 per day.**

Agencies may also hire an attorney on a retainer basis, provided that the fees reported for reimbursement are adjusted annually (by June 30th).

Child Support attorneys may not be hired on retainer per federal regulations requiring reimbursement for **ACTUAL TIME** spent on a case based on the contracted hourly rate.

Travel and Subsistence payments are allowable in addition to the hourly rates up to a maximum of the same rates that are applicable to the county DSS employees. These costs must be included in the agreement as a budget addendum. **However, an attorney may not be paid an hourly rate for time spent traveling.**

C. *Board Member Expenses*

Members of the county Board of Social Services may receive a per diem in such amount as shall be established by the county board of commissioners. Reimbursement for subsistence and travel shall be in accordance with a policy set by the county board of commissioners. (Report on Part II as Code 311.)

D. *Communications and Supplies*

1. Includes such items as telephone services, postage, messenger service, postal meter charges, printed stamped envelopes, special delivery fee, or postage due charges.

2. Supplies include such general office supplies as paper, pencils, folders, unstamped envelopes, clips, etc.; also personal property, e.g., staples, pencil sharpeners, file baskets, books, etc., which do not meet the definition of non-expendable property.

E. Cost of Space that is essential to agency functions is a proper charge. Such charges may take the form of:

1. Rental and service and maintenance costs in leased/rented buildings (from private owners or other public agencies)
2. Costs of service and maintenance in county owned buildings (or provider agency owned buildings). The standards for allowable costs in **Code of Federal Regulation (CFR) Chapter 2 Part 200** for depreciation and use allowances and building space and related facilities apply.

F. Automatic Data Processing

The Federal Financial Participation (FFP) in the acquisition costs of data processing equipment and services to meet local county agencies need is only available if it does not duplicate or modify an already existing county or state system and limited by the following based criteria:

1. **Individual items of computer equipment with a unit cost of less than \$5,000 may be expensed rather than depreciated regardless of the total cost of acquisition.**
2. **Prior approval is required for \$1,000,000.00 or more on noncompetitively acquired data processing equipment and services.**
3. Competitively acquired data processing equipment and services used to meet county needs, costing \$5,000,000 or *more* per acquisition needs prior approval.

G. Equipment and Furniture

The following specific criterion applies to the purchase of office equipment:

1. **Definition. - Items which are of a nonexpendable nature, having a useful life of more than one year and an acquisition cost of \$5,000.00 or more per unit, are classified as nonexpendable equipment. A county may use its own definition of equipment provided that such definition would at least include all tangible nonexpendable property as defined above.**
2. **Availability of funding. - Federal participation is available in expenditures for nonexpendable personal property only in the form GAAP of depreciation expense. The use allowance is no longer in Federal guidance – only GAAP approved depreciation allowability is limited to the period for which the property is used in the county agency program(s).**
3. **Furniture cannot be direct-charged.**

- a. A county may claim FFP in the full amount of expenditures for acquiring nonexpendable personal property costing less than \$25,000. In the case of property acquired with a trade-in, the \$25,000 limitation is applied to the amount paid for the new property plus the book value of the property traded.
- b. The \$25,000 threshold is not applicable for purchases supported by funds from USDA/FNS, the depreciation threshold for these purchases remains at \$5,000.

4. Vehicles

- a. **Any vehicles purchased by the county using Federal and /or State funds require prior approval from the Controller's Office prior to purchasing.** Reimbursement for all vehicles is made at the administrative rate. When a vehicle is purchased for use by a Department of Social Services (DSS), the cost is allocated between the programs that will be using it. However, with *prior* approval of the North Carolina Division of Social Services (NCDSS) program staff and the Division of Social Services Deputy Director of Operations, and the assurance that the vehicle will be used *exclusively* for one specific program, the cost of the vehicle may be direct charged. To direct charge the vehicle's costs, the county must submit a request that includes their assurance of exclusive use and the plan of use (how many clients will use it, who else will be using it, why no other resource can be used, etc.).

The total costs claimed each month may be determined in one of the following ways:

- (1.) Depreciation - Reimbursement for the vehicle may be claimed on a monthly basis over its useful life. The Division has determined that the useful life of a vehicle is 110,000 miles. Therefore, an estimate of the number of miles to be driven per month, divided into the 110,000 will determine the useful life of the vehicle in months. By dividing the purchase price by the useful life in months, the result is the maximum monthly reimbursement amount. If experience shows that the actual and estimate for monthly mileage use are significantly different, then the maximum monthly allowance must be adjusted.

Note: According to the Office of Controller State Policy (OSC), "The general rule is that **careful** estimates of useful lives that later prove to be incorrect based on new information should be considered changes in estimates. Changes in estimates must be handled prospectively (i.e., restatement of prior years is prohibited)."

For example, a vehicle is purchased during 2002 with the established policy stating the useful life to calculate depreciation is based on 100,000 miles. Even though during 2004, the same vehicle continues to be in use and had not fully depreciated, but a new revised policy has instituted the useful life as 110,000 miles, the vehicle purchased during 2002 would continue to calculate depreciation based on the policy in place when the vehicle was originally purchased.

If the 110,000 mile basis is not appropriate, an alternative method may be requested. The request **must** be sent to the DHHS Controller's Office and include your justification for the alternative.

- (2.) Use allowance - Reimbursement for the vehicle may be claimed on the basis of use. By dividing the purchase price by 110,000 miles (useful life as above) the result is the cost per mile. For example, if the purchase price of a vehicle was \$22,000, the mileage rate is \$0.20/mile. The cost per mile is then multiplied by the total miles on the log for the month to determine the reimbursement amount for the current month.
- (3.) Expensed - With the prior review by NCDSS program staff and the approval of the Deputy Director of Operations, a county may expense a vehicle that costs up to \$25,000.
- (4.) Mileage - Reimbursement for the vehicle may be claimed using the allowable rate for the county, up to the limit of the IRS rate (such as, 22 or 30 cents per mile). This method normally takes into account all maintenance, insurance, etc.; so any of these costs included in the rate may not be claimed in addition to mileage rate.
- (5.) Regardless of the method of reporting for reimbursement, the county must maintain an ongoing log that accounts for the purpose of use for 100% of the miles driven. The county must also maintain invoices, logs, worksheets, and other records as necessary to support the claim for reimbursement. For items numbered (1) through (3) above, other expenses, such as maintenance, insurance, gas, etc. may be claimed for reimbursement in addition to the mileage rate.
- (6.) The purchase of a vehicle must be in accordance with policy contained in Code of Federal Regulations at 45 CFR Part 95 as well as other policies relative to equipment purchases and management of property.
- (7.) An ownership interest is maintained in a vehicle purchased with any federal funding. Therefore, a vehicle expensed cannot be disposed of without the same percentage of proceeds, or unused portion, being returned to the federal program(s) as was used to reimburse for it. For example, if a county that normally follows the use allowance method expensed a \$20,000 vehicle (\$10,000 federal funds and \$10,000 county funds) and disposed of it after only 27,500 miles of use, the county would have to return \$7,500 to the federally funded program. This is determined by computing the unused portion of the vehicle, which is $75\% \{(110,000 - 27,500)/110,000\}$, and the amount of the purchase that was expensed to the federally funded program, which is \$10,000. The amount due the federal program is the unused portion of the federal funding or 75% times \$10,000.
- (8.) For information on allowing non-program participants to ride on a vehicle previously direct charged to a specific program, please contact the division of Social Services.

b. Contract providers may purchase vehicles subject to the conditions listed below:

- (1.) The Contractor will retain title to the vehicle(s) and will immediately transfer title to the Department of Health and Human Services upon termination of the contract; dissolution of articles of incorporation or other similar action that may have an adverse effect on the Contractor's ability to carry out the provisions of the contract, whichever occurs first.
- (2.) The Contractor may not trade or otherwise dispose of the vehicle(s) without written consent of the Division of Social Services.
- (3.) The purchase of the vehicle(s) must be in accordance with policy contained in Code of Federal Regulations at 45 CFR Part 95 as well as other policies relative to equipment purchases and management of property.
- (4.) Conditions and requirements (a) through (c) must be incorporated in each year's contract and shall remain in effect as long as a valid contract exists or until the vehicle(s) useful life (as defined by the Division of Social Services) is exhausted, which occurs first.

H. Travel

County staff is authorized reimbursement for official travel that is within the context of a county-wide travel plan approved by the Board of County Commissioners and maintained in the county for review and audit. In the absence of such a county plan, reimbursement of claims submitted to the Division shall not exceed the maximum allowable under state policy.

I. Staff Development and Training

Costs for training, meetings/conferences, seminars or workshops, payment for books; training supplies and equipment; tuition; registration for training sessions; travel and per diem for trainees; cost of space rented for training are proper charges. If any of these costs are client-related and can be identified to a particular program or funding source, then the costs should be charged directly to that program or funding source. Furniture and supplies cannot be direct charged.

Note: Documentation is required at the county level to support agendas and costs.

J. Convention Registration

State law allows reimbursement of the actual amount of convention registration fees as shown by a valid receipt or invoice [G.S. 138-6(a), (4)].

K. Lease/Purchase Agreements

A lease of personal property with an option to purchase the property is subject to the laws and contracting requirements mentioned under FORMAL BIDDING, INFORMAL BIDDING, and

LOW VALUE PURCHASES. The total estimated expenditure determines which of these types of purchases/contracts applies to the lease-purchase.

For accounting purposes, lease-purchase agreements are recorded as purchases of fixed assets with the related incurring of debt. Counties are cautioned that they may not enter into a lease-with-option-to-purchase without complying with the applicable bidding requirements. Such a lease-option agreement must be let to contract after complying with the competitive bidding rules, even though the rental payments will be credited toward the purchase price should the option be exercised at some later date.

Counties are further cautioned that, in awarding a contract for the purchase of equipment, they may not take into consideration the terms of a lease with a lessor under which the county can be given credit (on the purchase price of the equipment) for amounts already paid the lessor.

And finally, counties may not claim State/Federal Financial Participation in that portion of the total amount of a lease agreement that exceeds the amount that the leased equipment could have been purchased for at the outset.

Policy: A lease is an agreement between a lessor and a lessee that gives the lessee the right to use property, plant or equipment for a specific period of time in return for stipulated cash payments. Leases are classified as either capital or operating.

Capital Leases: According to Financial Accounting Standards Board (FASB) Statement 13, "Accounting for Leases", a lease is considered a capital lease if it meets any **one** of the following criteria:

The lease transfers ownership of the property to the lessee by the end of the lease term.

The lease contains an option to purchase the leased property at a bargain price.

The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property (e.g., lease term four years, estimated life five years).

The present value of rental and other minimum lease payments equals or exceeds 90 percent of the fair value of the leased property less any investment tax credit retained by the lessor (e.g., future minimum lease payments \$9,000, fair value \$10,000).

Operating Leases: To determine if a lease is operating, review the four criteria above. If it does not meet any of the criteria, the lease is considered an operating lease. All costs incurred are expensed when recording operating lease activity. Neither an asset nor an obligation is recorded for operating leases. Accordingly, rental payments are recorded as rental expense in the operating statement. Note disclosure is required on the financial statements.

L. Lease/Rental Agreements

Competitive bidding is required based on the amounts indicated in items 3 and 4 of VIII A-2-1, *even if* the equipment is already on site on a rental or lease arrangement.

M. Other Allowable Items of Cost

1. **Bonds covering county agency employees** in their official capacities.

2. **Insurance** on facilities.
3. Allocated costs for county central supporting services (**Indirect Cost**) provided a county-wide cost allocation plan has been prepared and is on file.
4. **Agency or employee memberships in organizations** where the primary purpose is providing business, technical or professional information related to social services.
5. *Agency* subscriptions to business, technical and professional periodicals and books regarded as program related, necessary and reasonably priced.
6. **Taxes that are paid directly by an agency, and for which refunds or legal exemptions are not permitted by law, are allowable.** An example of sales taxes paid which are reimbursable are those paid to an out of state entity. Please note the following clarifications as to how this policy applies in certain instances.
 - (a) When an agency reimburses an employee for actual travel expenses (or pays the employee an allowance in lieu of such reimbursement), the county may not properly claim a refund on sale taxes paid in connection with the travel expenses. Thus, the agency may report these sales taxes to the Division of Social Services for state and federal financial participation.
 - (b) When an agency stockpiles goods (such as fuel, heaters, blankets, fans, food, etc.) which will subsequently be given or loaned to recipients who are not specifically identified when the goods are purchased, the purchases are considered to have been made by and for the agency. The sales taxes paid thereon may be properly refunded to the county by the North Carolina Department of Revenue, and therefore are not allowable for state and federal financial participation through the Division. (In this situation, the tax refund status is essentially no different than it would be if the agency bought a box of paper clips - the tax is refundable.)
7. **Notary Public fees** or necessary costs incurred in the process of securing notary status for agency employees are allowable.
8. **Physicians, dentists, psychiatrists** - when providing direct medical care **may receive up to \$75.00/hour.**
9. **Stipends for cell phone usage**-Federal regulations require reimbursement cost to be of measurable value in order for funds to be expensed. A settlement process is necessary to ensure that counties only document valid business expenditures which can withstand audits.

SECTION
II-B

Section II-B Unallowable Cost – General Information

The following costs are unallowable for State and Federal financial participation:

1. **Costs of dues, memberships, or subscriptions for agencies or employees where the primary purpose is social (ex: country clubs, dining clubs) or lobbying.**
2. Bad debts or losses arising from accounts declared uncollectible
3. Contributions to a contingency reserve or any similar provision for unforeseen events.
(For the Work First Program, such a reserve, funded by county funds, may count toward the county's required Maintenance of Effort, per G.S. 108A 27.4 (c).)
4. **Entertainment costs, amusements and social activities**
5. Fines and penalties resulting from violations or failure to comply
6. Taxes which could have been legally recouped by means of exemption or refund.
7. **Interest payments are unallowable, *with the exception of expenditures for interest incurred for the financing of buildings newly occupied.***

SECTION
II-C

Section II-C Costs Allowable with Prior Federal Approval

The following costs are allowable for state and federal financial participation (SFFP) only when written approval has been granted by the appropriate agency of the state or federal government *before* the incursion of the costs.

1. **Costs Requiring Prior Approval of the Federal Government, Through the Division of Social Services:**
 - a. ***Prior approval is required for \$1,000,000.00 or more noncompetitively acquired data processing equipment and services. For counties, this threshold is based on annual total costs (SFY).***
 - b. Competitively acquired data processing equipment and services to meet county needs and costing \$5,000,000 or *more* per acquisition requires prior approval. **For counties, this threshold is based on annual total costs (SFY).**
 - c. **Costs of space:**
 - (1) **for periods of non-occupancy**
 - (2) **acquired under rental-purchase or a lease with option-to-purchase**
 - d. **Costs of facilities, equipment, or other capital assets, as well as repairs which materially increase the value or useful life of existing capital assets.**
 - e. **Contributions to a reserve for self-insurance.**

Prior approval is required for self-insurance plans which are intended to be reserves for the replacement of property (e.g. buildings and equipment).

Self-insurance plans which satisfy the provisions of "employee fringe benefits" *do not* require prior approval since such plans would be considered "*fringe benefits*". In addition to satisfying the provisions of page II F-43, the plan **must be approved by the County Commissioners, be on file, and be applicable to all county employees** (not just DSS employees). The Division of Cost Allocation of the HHS Regional Office recommends that counties include descriptions of the provisions and methodology of the (fringe benefit) self-insurance plan and other fringe benefits in the narrative portion of their indirect cost plan. A description of any applicable (fringe benefit) self-insurance plan should be included (e.g. workmen's compensation, health insurance, etc.).

The following policies apply to self-insurance plans that qualify as *employee fringe benefits*.

- (1) *No prior approval* from the State Office is required.
- (2) *No annual adjustment to actual cost* is required. An adjustment to the reserve may be necessary if the amount in the reserve exceeds a reasonable amount.

There are two acceptable ways of determining if the reserve amount is reasonable: (a) if it has been shown by actuarial study to be reasonable or (b) if the reserve amount does not exceed the amount of actual claims paid for the prior three year period.

- (3) All counties are advised to conduct an annual review of their self-insurance plans. The review should indicate whether or not the reserve contains a reasonable amount (as discussed in Item 2 above). A review of the reserve might reveal that adjustments need to be made in the rates (e.g., if the reserve exceeds the amount of claims paid in the prior three year period).

- f. **Costs of management studies performed by governmental agencies other than the Division of Social Services.**
- g. **Prior Approval Requirement for Automated Data Processing Equipment and/or Services.** - Acquisitions of automated data processing equipment (hardware and software) and services are governed by federal regulations of the Department of Health and Human Services (DHHS) and the Department of Agriculture, Food and Nutrition Service (USDA). Prior written approval must be obtained from both the DHHS Division of Information Resource Management (DIT) and the federal government (if DHHS and/or USDA will be participating in any of the costs) in any of the following circumstances:
 - (1) **The total acquisition cost is \$5,000,000 or greater and acquired competitively (45 CFR 95.611, 7 CFR 277.18(c), Policy IIA1).**
 - (2) **The total acquisition cost is \$1,000,000 or greater, and is acquired non-competitively from non-governmental sources (45 CFR 95.611, 7 CFR 277.18(c), Policy IIA2).**
 - (3) **Federal financial participation (FFP) is being requested at an enhanced rate, regardless of the acquisition cost (45 CFR 95.611, 7 CFR 277.18(c)). This applies to equipment being acquired to access the Eligibility Information System (EIS) (Policy IIA3).**

If an acquisition does not require DIT and federal approval under the three circumstances above, DIT prior written approval is required, regardless of acquisition cost, if the project includes any of the following (Policy IIA4):

- (1) Development of software, custom modifications of purchased software, or purchase of software other than off-the-shelf software commercially available to the public for general business or personal use.

DIT and/or federal approval is obtained by submitting an Advance Planning Document (APD) to the Division of Social Services (45 CFR 95.611, 7 CFR 277.18(c), Policy IIA). Prior written approval thresholds for county acquisitions are determined based on the cumulative total for the fiscal year (Policy IIG).

Prior approval is not required for certain types of acquisitions and FFP is available at the regular rates if the acquisition does not require prior written approval by DIT and/or the federal government as described above. An ADP Equipment Acquisition Plan must be filed with the Division of Social Services prior claiming the expenditures for reimbursement; counties may wish to submit their plan before acquisition of the equipment. Items purchases which are subsequently not approved must be funded with 100% county dollars. Acquisitions in this category are:

- (1) Terminals, personal computers, personal computer printers or workstations up to the level of one such device per worker.
- (2) System printers up to one per three workers or one per floor or one per site, whichever is greater.
- (3) Local area networks or minicomputers when necessary to maximize the benefit of such devices and other devices as required to connect to the state network.
- (4) Off-the-shelf software commercially available to the public for general business or personal use.

Acquisitions by central county data processing facilities of data processing equipment and services from commercial sources that are acquired primarily to support public assistance programs are subject to the prior written DIT and federal approval requirements. Data processing equipment and services are considered to be primarily acquired to support public assistance programs when these programs may reasonably be expected to either be billed for more than fifty percent (50%) of the total charges made to all users of data processing equipment and services during the time period covered by the service agreement or directly charged for the total cost of the purchase or lease of data processing equipment or services (45 CFR 95.605).

- h. **Building space and related facilities.** - The cost of space in privately or publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately-owned building in the same locality. **The cost of space procured for grant program usage may not be charged to the program for periods of nonoccupancy, without authorization of the grantor Federal agency.**
- i. **Capital expenditures.** - The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency. When assets acquired with Federal grant funds are (a) sold; (b) no longer available for use in a federally-sponsored program; or (c) used for purposes not authorized by the grantor agency, the Federal grantor agency's equity in the asset will be refunded in the same proportion as Federal participation in its cost. In case any assets are traded on new items, only the net cost of the newly-acquired assets is allowable.

**SECTION
II-D**

Section II-D Cost of Space

It is the responsibility of each county (or contract provider) to secure and maintain the adequate housing to efficiently meet particular needs of its Department of Social Services (or other provider agency) in the administration of the social services programs. Toward that end, costs incurred in providing such space will generally be allowable and eligible for state and federal financial participation.

Claims may be made for cost incurred in:

1. **Paying rent and attendant service and maintenance costs** in privately owned buildings
2. **Providing service and maintenance for buildings owned by the county** (or provider agency).
3. **Making repairs or alterations to buildings owned by the county** (or provider agency)
4. **Providing adequate and necessary parking areas for facilities owned by the county** (or provider agency)
5. Upfit and/or renovations for buildings acquired by the county via lease/purchase agreements. No costs for uplift and or renovations may be claimed for leased space unless ownership passes to the county at the end of the lease term.

Such reporting must be for actual costs incurred in providing a benefit to the social service programs and must be reasonable and necessary for proper and efficient administration of those programs. In addition, such reporting must be net of all applicable credits, and may not be included as a cost of other federally funded programs in either the current or a prior period.

The Division of Social Services does not currently engage in the approval of cost-of-space agreements, nor does it require claimants to secure three letters of comparable rent. Nevertheless, counties are reminded of the federal requirement that the total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. Effective July 1, 1984 the State's method of implementing this requirement is as follows: (a) for publicly owned buildings, reimbursement is limited to no more than the actual cost; (b) for rented or leased space, either competitive procurement is required *or* justification for a sole source is required.

1. ***Rent and/or Service and Maintenance in Leased/Rented Buildings (from private owners or other public agencies)***

A copy of the signed lease agreement executed in accordance with N.C. General Statute 159 must be kept on file. Unless specifically authorized to do so by the County Board of Commissioners, DSS directors may not sign leases for facilities.

Costs are allowable if documented *and* if the following procurement procedures are followed:

If the expenditure of funds during the lease period (or for one year, whichever is longer) exceeds \$90,000, *formal bidding* procedures must be followed (advertising, receiving of sealed bids, etc.). A new lease *or* a renewal would both require formal bidding if the lease/rental cost exceeds \$90,000.

If the amount of the rental/lease is from \$30,000 to \$90,000, an informal bidding process is required (quotations from vendors on price and availability may be solicited by phone, letter or similar methods).

2. ***Service and Maintenance Costs in County Owned Buildings (or Provider Agency Owned Buildings)***

Financial participation is available for service and maintenance costs that are necessary to maintain space suitable for continuous occupancy by the local department. **Examples might include the costs associated with utilities, insurance, security, janitorial service, elevator service, painting, decorating, and up keeping of grounds, normal maintenance repairs, and depreciation.** A county may claim FFP for DSS occupied space only; no claim may be made for the cost of idle, excess, or unoccupied space, except with prior written approval of the grantor federal agency. In addition, **actual expenditures for interest incurred for the financing of buildings is allowable for buildings newly occupied on or after October 1, 1980.**

Reporting for service and maintenance may be on the basis of actual current expenditures, or they may be on the basis of a "fixed" amount which is derived from the actual certified (audited) expenditures of the previous fiscal year.

When reportings are based on the *fixed amount* method, the necessity of adjusting reportings to actual cost is avoided because the county is, in effect, reporting actual costs one year in arrears.

Financial participation is available in the cost of maintenance, repairs, and alterations of space occupied by county departments of social services and provider agencies. Such costs must be necessary for the maintenance of proper facilities used for the administration of the social services programs. **Routine maintenance repairs may be reported in full at the time expenditures are made, but major renovations and/or alterations must be reported on the basis of depreciation or use allowance.**

1. *Principles*

The following principles will govern financial participation in the costs of maintenance repairs and alterations:

- a. **Expenditures should be necessary and beneficial** to the successful operation of the county or provider agency program.
- b. **Where space is shared with other agencies, the cost** of repairs or alterations benefiting all agencies **must be allocated** on the basis of a reasonable pro rata share; that is, **on the basis of the amount of space occupied by the county** or provider agency **in relation to the total building space**. Where repairs and alterations benefit only one agency, these costs (whether direct expense or depreciation) will be charged to that agency. The county DSS should retain documentation to support their method of prorating shared building expenses.
- c. **The county DSS must retain documentation of depreciation schedules, which must be based on the straight line method.** The county must retain documentation of the original cost of the building and the cost of any renovations to the building.

The "standard useful life" of a masonry and steel building is assumed to be 45 years or IRS guidelines. The county DSS must document their method of determining the useful life of a building if the "standard useful life" is not used. **Also the standard useful life of mobile homes is ten years.**

2. *Distinction Between Maintenance Repairs and Major Renovations/Alterations*

The distinction between maintenance repairs and (major) renovations and alterations usually depends on whether the expenditure is for routine "up-keep" of the building or for extensive repairs or alterations involving substantial structural changes or replacements.

a. *Maintenance Repairs*

Repairs of this type are generally minor in nature and do not involve structural changes or alterations in buildings. **Examples of minor maintenance repairs include patching of a roof, painting and decorating, repairing plaster, repairing doors and locks, minor or routine repairs to elevators, plumbing, or electrical equipment, and repair of equipment parts.** Maintenance repair items should not be capitalized and depreciated. These items should be reported as expenses for the month in which they are paid.

b. *Major Renovations and Alterations*

These repairs usually involve substantial alterations and/or structural changes in buildings. **Examples of major renovations and alterations include the following: replacement of a whole roof, construction of fixed or permanent partitions, the cost and installation of heating, plumbing, air conditioning, and electrical systems.** All items classified as major renovations or alterations should be capitalized and depreciated over the anticipated life of the item or the remaining life of the building.

NOTE: No costs for major renovations and alterations may be claimed for leased space. The space must be owned by the county or must have been acquired through a lease purchase agreement with ownership passing to the county at the end of the lease term.

1. **The costs of providing parking facilities necessary for the efficient administration of the social services program will be subject to Federal financial participation.**
2. The provision of parking facilities for the use of the staff of a county department of social services, and for persons who may need to visit the offices on official business, is an important means of facilitating the administration of the public assistance programs. Since home investigations of applicants and recipients of public assistance are generally necessary in the determination of eligibility, it is usual that such investigations are made by field workers using a car. In view of the location of many county social services departments (in business districts where streets in the vicinity of the offices are congested) and of the widespread practice of metering street space in urban localities, it becomes increasingly important for field workers as well as other agency staff to have ready access to convenient parking space. For the same reasons, some provision for off-street parking is frequently necessary for the public that may need to visit the social services office on official business.
3. Financial participation is available in the cost of providing parking facilities under the policies applicable to all other joint administrative costs. Participation in such expenses would include the costs of providing parking facilities which are of benefit to both the staff of the social services and contract provider agencies, and to persons who may need to visit the office of the social services department on official business. ***Parking facilities (for the purpose of financial participation) include the rental, construction, or purchase of garages and parking lots, excluding the cost of land. For purchase and construction of a parking facility, the amount claimed must be limited to annual depreciation or use allowance that is calculated using an actual cost basis.*** However, if expenditures for parking facilities are incurred in connection with the purchase or construction of office space, they will be considered as costs of occupancy of the building for purposes of Federal financial participation under the principles governing the costs of office space.
4. **If garage or parking lot space is to be used jointly** by one or more other agencies, **the cost must be allocated** on the basis of the extent of use by each agency or the proportion of the total space allotted for use by the department of social services.

Fees for street parking or fees paid for individual parking space are not considered administrative expense and therefore are not covered for participation.

The occupancy of a building under a rental-purchase or a lease with option to purchase agreement is allowable *only* with prior approval of the federal grantor agency. The county would need to submit their plan to the Division for review and forwarding to the federal office for approval. No financial participation is available for these agreements prior to the receipt of written approval from the federal grantor.

Also under rental-purchase or a lease with option to purchase agreement, reimbursement is limited to the amount allowable if the building had been purchased outright.

SECTION
II-E

Section II-E Indirect Cost Reporting

The purpose of this section is to present certain information and requirements relating to the reimbursement of indirect costs. For information pertaining to the actual preparation of a county-wide central supporting services cost allocation plan (indirect cost plan), counties should refer to N.C. Local Government Publication No. 126 dated January, 1980, and entitled "An Introduction to Indirect Costs", as well as "Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government", which was published in December 1976 by HEW and is usually referred to as OASC-10.

Indirect Cost Defined - A direct cost is a cost which can be specifically or readily identified with a particular DSS (or contractor), and which may therefore be charged directly and in total to that agency. **An indirect cost is one which cannot be so identified, but rather is incurred for the common benefit of the DSS as well as for other activities carried on by the county. Some obvious examples of such joint-benefit costs would be: a) finance department operations, including accounts payable, payroll, and purchasing functions; b) the provision, operation, and maintenance of county government buildings, including the DSS and related buildings; and c) motor pool operations.** In addition to the term "indirect costs", these costs are more properly called "central supporting services costs", and to claim reimbursement for them, a county must prepare a cost allocation plan.

Counties now have the options of including all or a part of their cost of space in a county-wide central supporting services cost allocation plan. Cost of space normally is made up of such costs as utilities, security and janitorial services, building maintenance costs and depreciation (or use allowances), and such costs as are usually incidental to rental and lease agreements. The cost of any one of these items **can be directly charged to the appropriate "user" departments, or it can be incorporated into a central supporting service "cost pool"** and allocated on some equitable basis (such as net usable square feet), also to the appropriate "user" departments. Regardless of the option selected, counties must comply with the applicable regulations governing cost of space:

1. Costs may not be claimed for buildings that have been or would be considered to be fully depreciated.
2. **No part of the cost of land may be claimed.**
3. No claim may be made for any portion of the cost of buildings or equipment previously donated or otherwise borne directly or indirectly by the federal government.

If a private organization donates a building to the county without restrictions, an annual use allocation (not to exceed 2%) may be claimed on the portion of the building occupied by the DSS. The use allowance must be based on the fair market value of the donated structure.

4. **No claim may be made for the cost of idle, excess, or unoccupied space, except with the prior written approval of the grantor federal agency.**

Basis for an Indirect Cost Plan

Counties must prepare a plan for each and every year for which they wish to claim indirect costs. The figures used as the basis for the calculations must be the actual costs of the most recent fiscal year for which they are available. Generally, the source of these figures will be the independent CPA report for the fiscal year immediately *preceding* the fiscal year during which the plan is prepared.

Certifying the Indirect Cost Plan's Existence

Also, for each and every year for which a county wishes to claim indirect costs, they must certify to the Controller, Department of Health and Human Services that a plan has been completed and is on file in the county. The certification should take substantially the following form: (i.e. for SFY 25-26)

Pursuant to the Social Services Fiscal Manual, you are hereby informed that we have completed our cost allocation plan, prepared in accordance with CFR Chapter 2 Part 200, for the fiscal year ending June 30, 2024. The final indirect cost for the Department of Social Services (i.e. Child Support, Native American County) for fiscal year 24 is \$X,XXX,XXX; the roll forward adjustment is \$XXX,XXX and costs to be claimed are \$X,XXX,XXX.

We are using a roll forward method of indirect cost computations. Therefore, no rate adjustments will be claimed during the present fiscal year (24-25). The roll forward amount due us has been rolled forward into the FY 25-26 rate request, which will be claimed commencing July 1, 2025. The attached schedules reflect the proposed FY 25-26 claim.

County Finance Officer/County Manager: _____

County DSS Director: _____

As shown, the certification should be signed by both the County Finance Officer/County Manager and the County Director and should then be mailed to the County Administration Accounting Unit, Controller's Office, 2019 Mail Service Center; Raleigh, North Carolina 27699-2019. It is *required* that an applicable plan be completed and on file as of the time a claim is submitted for reimbursement. **This certification should therefore be furnished as soon as the county's annual plan is completed, but in no event later than April 15th following the state fiscal year in which reimbursement is being claimed (ex. SFY 25-26 by 4/15/2026).**

Reconciling Projected Indirect Costs to Actual

Much of the indirect cost plan methodology currently in use culminates in a projection of current or future period costs based on the verified actual costs of a prior period. In such cases, the projected costs must be reconciled to actual when the actual costs become known, and counties are therefore reminded to provide for a mechanism to accomplish this requirement.

When county owned buildings, capital improvements, and/or equipment items are used on behalf of social services programs, counties are entitled to compensation for such use by means of use allowances or depreciation. In the case of use allowances (2% annually for buildings, 6.67% for equipment) the appropriate annual allowance for a given item may be claimed each year, irrespective of the total amount that may have been claimed for preceding years. In the case of depreciation, however, the amounts claimed by the county are considered to apply toward the amortization of the item's acquisition cost and are therefore subject to certain

limits and controls. Foremost among these controls is the requirement that **appropriate property records be maintained, so as to insure that the acquisition cost of each item is amortized over an acceptable period,** and that the amount amortized does not actually exceed the item's acquisition cost. The following policies apply:

All asset depreciation charges claimed against social services programs must be supported by formal depreciation schedules. If these charges are identified by means of a central supporting services cost allocation plan, the depreciation schedules must henceforth be incorporated into the formal plan, and must include the following information for each asset item:

1. A description of the asset.
2. Date of acquisition (at a minimum, the month and year).
3. Net acquisition cost of the asset.
4. **Useful life.** This should be in accordance with applicable industry or IRS Guidelines, unless considerable justification can be provided for using an alternate span. The useful life of vehicles must be in accordance with OSBM guidelines (110,000 miles).
5. Depreciation methodology. (Currently, straight-line is the only permissible method.) Useful life should be followed when relating to vehicle purchases.
6. Total amount of depreciation taken in previous periods.
7. Amount of depreciation being taken in the current period.
8. Combined total of depreciation taken in previous and current periods.
9. Remaining undepreciated (net book) value.

Reporting the Indirect Costs - Indirect costs should be reported on the Statement of Administrative Expenditures, Form DSS-1571, Part II. Because of considerations involving the Division's draw down of Federal funds, **counties must report their indirect cost in monthly increments.**

Counties are cautioned that, with these as with other expenditure reportings, reimbursement by the Division does not constitute final acceptance or endorsement of the methodology used in preparing a plan. If upon audit or otherwise, it is determined that the costs do not meet the requirements specified in the applicable cost principles (such as reasonableness and necessity), the costs may be disallowed.

If there are questions about indirect cost plans, please call the Controller's Office (919) 527-6150.

SECTION
II-F

Section II-F CODE OF FEDERAL REGULATION (CFR) Chapter 2 Part 200

The Fiscal Manual had displayed the copy of Federal guidance on allowable costs it in its entirety. As an update, the current Federal uniform administrative requirements may be referenced using the Code of Federal Regulations (CFR), Chapter II, Part 200 with the below URL.

<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>