



Metropolitan Government of Nashville and Davidson County - Finance Dept. Policy: Disallowances and Questioned Costs

Effective Date: August 19, 2005

Revision Date: September 16, 2025

Policy Number: 5.1

Sponsor: Division of Grants and Accountability

Purpose

The purpose of this Policy Statement is to provide departmental guidance on ensuring the allowability of costs charged to grants and the appropriate course of action in situations in which costs charged to grants are questioned or disallowed.

Definitions

Unallowable Costs: Unallowable costs for the purpose of this Policy are those costs that cannot be included in the direct or indirect costs of a grant based upon grantor regulations, rules and/or laws. Unallowable costs typically are those that support an activity defined as unallowable by *2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Unallowable activities are usually outlined in grant program guidance and are often further detailed in the binding grant contract. Requirements for activities allowed or unallowed are generally unique to each grant program and can be found in the laws, regulations, and/or the provisions of the grant agreements.

The general criteria affecting allowability of costs under Federal awards are:

- **Reasonable and Necessary:** Costs must be reasonable and necessary for the performance and administration of Federal awards.
- **Allocable:** Costs must be allocable to the Federal awards under the provisions of the cost principles or GASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objective in accordance with relative benefits received.
- **Consistency:** Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. 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 was allocated to the Federal award as an indirect cost.
- **Conformity to Laws, Regulations and Sponsored Agreements:** Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements, or other governing regulations as to types or amounts of cost items.
- **Transactions that Reduce or Offset Direct or Indirect Costs:** Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- **Costs Documentation:** Costs must be documented in accordance with *2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

Questioned Costs: Costs that, during the course of an audit or monitoring review, are deemed unallowable will generally result in a finding under the specified program. Further, costs resulting in such finding(s) may be questioned by auditors or monitors and may be required to be refunded to the grantor.

Questioned costs are those costs that are questioned by the auditor or monitor because of an audit/monitoring finding:



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- Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal/State awards, including funds used to match Federal/State awards;
- Where the costs, at the time of the audit, are not supported by adequate documentation; or
- Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. (*2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*)

Special care should be taken during the grant budgeting process and the implementation of funded programs to ensure that all costs charged to specific grants are allowable under the program. This will minimize the risk of a finding and therefore minimize Metro's exposure to risk related to refunds required due to questioned costs. This will further work to maintain a positive relationship between the Metro grantee and the grantor which has funded the specific program.

General Policies

Expectations of Departments Administering Grants

All costs charged to specific grants must adhere to established cost principles and must meet the above referenced criteria in addition to any specific cost restrictions imposed by the grantor and/or the pass-through agency. Additionally, costs must be appropriately identified on all documentation to demonstrate properness. It is expected that each department administering grant programs will become familiar with guiding cost principles and ensure that all expenditures under a grant program are aligned with such principles. This will ensure that only allowable costs are charged to grants and thereby minimize the risk of related audit findings.

Standards for Questioned Costs Resolution

Should costs charged to a grant be questioned by the grantor (or their designated auditor) and ultimately required to be refunded to the grantor, Metro departments should comply with grantor requests for information to address the concern as noted below.

Departments should also immediately notify the following in the Finance Department within 7 business days of notice of any monitoring review or audit by the grantor as well as any resulting questioned costs:

- The budget analyst in the Office of Management and Budget
- The director in the Office of Financial Accountability within the Division of Grants and Accountability

A copy of all related correspondence regarding the finding shall be forwarded to the Director in the Office of Financial Accountability for review. The department shall also work with the Office of Financial Accountability, to understand and discern the appropriateness of findings prior to responding and agreeing to the determinations in the report. Should findings be determined appropriate and a refund is requested by the grantor, the Department of Finance, Office of Management and Budget will work with the department to examine the implications of the refund on their departmental budget and to determine the most appropriate funding mechanism to effectuate the refund.

Applicable Local, State or Federal Regulations

Metro. Charter art. 8, § 8.103: The director of finance shall be responsible to the mayor for the administration of the financial affairs of the metropolitan government.

Metro. Charter art. 8, § 8.104: The budget officer, with the advice and assistance of the chief accountant, shall write, revise and maintain a proper standard procedure instruction manual to be followed by all officers, departments, boards and other agencies of the government to ensure uniform accounting and budgetary procedures.

Metro. Charter art. 8, § 8.105: The chief accountant shall maintain a general accounting system and such cost



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accounting records as shall be required by the director of finance.

2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards

Associated Policies

None.

Effective Date

This Policy Statement shall become effective upon issuance and shall be applied to all Metro departments and agencies.

Approvals

Approval of the Director of Finance

I hereby approve this Policy Statement of the Department of Finance and as such agree with and authorize the actions necessary to implement its requirements.

Jenneen Reed

Director of Finance

Date: September 16, 2025