



THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.
SMART START COST PRINCIPLES: QUESTIONS & ANSWERS
LAST UPDATED SEPT 24, 2018

This Question and Answer (Q&A) document is intended as a resource in understanding and applying the Smart Start Cost Principles. **It is important that you review these questions and answers in conjunction with the Smart Start Cost Principles for any detailed requirements, prohibitions, and limits that apply.** If you have specific questions, please contact NCPC for guidance.

Note that this document, like the Smart Start Cost Principles, addresses the allowability of various expenses to be paid with Smart Start funds or Smart Start Program Income. Expenses listed as unallowable can be charged to non-Smart Start funds if the alternate fund source allows for that expenditure.

ADVERTISING

Q: Can we use Smart Start funds to advertise a community event or fundraiser? Does it matter if the advertising expenses are for fliers, radio spots, television ads, newspaper ads or inserts, etc.?

A: Any costs charged to Smart Start funds must be reasonable (not excessive).

Costs to advertise or promote a community event are allowable if the event is an allowable use of Smart Start funds, for example, a community fair for families to promote early childhood services. Costs for any advertising medium are allowable unless specifically prohibited in the Cost Principles (e.g., billboards).

Costs to advertise a fundraising event should generally be charged to a separate (non-Smart Start) fund where all special event receipts and expenses are recorded.

**CAPITAL AND
REPAIR AND
MAINTENANCE**

Q: Can we use Smart Start funds to buy a storage shed?

A: The cost of a storage shed is generally allowable if it is not a permanent structure. One of the factors in the Cost Principles regarding “capital” classification is whether or not an expenditure adds to the permanent value of property. If a shed is built on-site and cannot reasonably be moved to a new location, it would be considered capital and therefore unallowable. If the shed is a temporary structure and could reasonably be moved to a new location, it is not considered capital, but classified as equipment.

Additionally, the cost must be reasonable (not excessive), and appropriate competitive bidding requirements must be followed for the purchase (if applicable, based on dollar threshold).

Q: Can we use Smart Start funds to buy or replace an external sign so that people can find us?

A: The cost of a sign is generally allowable if it is not permanently attached to the building or land. If a sign is affixed to the building or land in such a way that it could not reasonably be moved to a new location, or would cause capital repairs if removed, it would be considered capital and therefore unallowable. If the sign could be removed and relocated to a new location, it is not considered capital, but classified as equipment.

Additionally, the cost must be reasonable (not excessive), and appropriate competitive bidding requirements must be followed for the expenditure (if applicable, based on dollar threshold).

If the cost of the sign includes development or design of a logo or a logo set-up fee, those costs would be prohibited under Cost Principles **B. 25. Promotion and Public Relations**.

Q: Can we use Smart Start funds to paint our office?

A: Painting costs are typically allowable because periodic painting is generally considered basic upkeep and does not add to the permanent value of the property. The cost must be reasonable (not excessive), and appropriate competitive bidding requirements must be followed for the expenditure (if applicable, based on dollar threshold).

Q: Our HVAC system needs to be replaced; can we use Smart Start funds to replace it?

A: HVAC system replacement is considered a major (capital) repair and the expense is unallowable.

Q: Our phone and voicemail system needs to be replaced; can we use Smart Start funds to replace it?

A: The cost of a new phone/voicemail system is generally partially allowable. One of the factors in the Cost Principles regarding "capital" classification is whether or not an expenditure adds to the permanent value of property. If the phone system replacement involves rewiring all or part of the phone wires within the walls/ceilings, that portion of the expense is considered part of the structure and as such is a capital improvement and unallowable (both the labor and materials). Expenditures for a new server, handsets, or other equipment are allowable if they could be moved to a new location. The cost must be reasonable (not excessive), and appropriate competitive bidding requirements must be followed for the expenditure (if applicable, based on dollar threshold).

Q: The carpet at our Partnership's office is 16 years old. In some places, it is coming apart and poses a possible trip hazard. Can we use Smart Start funds to replace it?

A: Carpet replacement costs are typically allowable because it is considered basic upkeep and does not add

to the permanent value of the property. The cost must be reasonable (not excessive), and appropriate competitive bidding requirements must be followed for the expenditure (if applicable, based on dollar threshold).

Q: The carpet at our Partnership's office is in disrepair. Can we use Smart Start funds to replace the carpet with laminate or vinyl tiles, or can we only replace carpet with carpet? We anticipate that alternate flooring will hold up better with wear and tear, and will be easier to clean than carpet.

A: Alternate flooring options may be allowable with documented concerns about cleaning or durability, and/or if the cost is comparable to basic commercial carpet. If replacing carpet with an alternative, it is suggested that cost comparisons for carpet are obtained. The cost must be reasonable (not excessive), and appropriate competitive bidding requirements must be followed for the expenditure (if applicable, based on dollar threshold).

CONDOLENCES

Q: A community leader who served on our board for 10 years, including 6 years as Board Chair, has just passed away. Can we use Smart Start funds for condolences for this former board member?

A: No. The Cost Principles allow for condolences for a Partnership board member (present tense); this does not include past board members or prospective board members. The expense would be allowable if the hospitalization or death occurred during a person's term as board member.

Q: If the condolences are for a staff member who works for a service activity, why can't the expense be charged to that service activity?

A: Smart Start accounting guidance states that costs must be directly related to the provision of services to be charged to those services. Examples include salary, travel, equipment, supplies, and other expenses that are

CONTRIBUTIONS AND DONATIONS

reasonable and necessary to deliver the services. Condolences are not directly related to the provision of services.

Q: Can Smart Start funds be used to provide incentive payments to parents or providers who achieve stated programmatic goals?

A: Yes, incentives are not considered contributions or donations. Reasonable (not excessive) incentives that serve a documented legitimate purpose within the scope of an activity are allowable, provided the items comprising the incentives are not otherwise prohibited by the Cost Principles. Note that cash or non-cash incentives for participants should be referenced in the Contract Activity Description (CAD).

Q: Our Executive Director participates in regular Rotary luncheon meetings as a form of community outreach and networking for the Partnership. The invoice for lunch includes a \$10 fee for lunch and \$5 for the Rotary Foundation. Can we use Smart Start for the total \$15 payment?

A: No, only the \$10 fee for lunch is allowable. The \$5 is considered a contribution and cannot be made with Smart Start funds, as contributions and donations other than memorial donations are unallowable. The LP can either limit the payment to \$10 or include a payment for the Foundation from non-Smart Start funds.

LEGAL COSTS

Q: Can Smart Start funds be used to pay an attorney to help us update or review our personnel manual?

A: Yes, the Cost Principles do not prohibit reasonable expenditures for legal services such as consultation needed to update personnel policies, bylaws, or the like. Note that these would be allowable administrative expenses, not services.

**EMPLOYEE
SALARIES AND
FRINGE
BENEFITS**

Q: In past years, our health insurance premiums were billed as \$600 per employee per month. Due to changes in our insurance billing we now have employee-specific premiums; one employee's premium is \$900/month, and others are as low as \$350/month. Can we average health insurance costs across staff?

A: No, the actual known costs related to each activity and its staff are to be charged to each activity based upon actual staff time spent in each activity. Just like the salary for various employees cannot be averaged across staff, actual benefits costs are to be charged accordingly for each activity.

Q: The Cost Principles require personnel costs to be charged to activities based on actual time spent on each activity as documented by timesheets using "after-the-fact determination." If we have an employee split between two activities and the distribution of time fluctuates each bi-weekly pay period, must we charge their personnel expense differently with each pay period?

A: The total expense charged to each activity must reflect the actual staff time spent on each activity. However, you may choose to record the bi-weekly payrolls based on reasonable estimates IF you periodically 'true up' the expense based on actual time per the applicable approved timesheets. For example, this could be done on a quarterly basis with adjustments made as needed to correct personnel expense distribution. Note that if this approach is taken, special attention must be paid during the 4th quarter of the fiscal year in consideration of the final deadline to move funds between Smart Start activity budgets.

Q: Can we use a timesheet where employees enter their total amount of time for each day, and formulas allocate the time to activities based on pre-determined percentages from our budgets or time studies?

A: No. The Cost Principles specifically require that employees' timesheets must reflect the actual time spent on each activity. Formulas to distribute personnel time based on pre-determined percentages are not permitted.

Q: Does the requirement to charge personnel costs based on "after-the-fact determination" using timesheets mean that we must have pay periods designed with a delay between the final workday of the pay period and the pay date to allow 'lag' time for timesheet review and approval? Currently our staff is paid on the last day of the month (for that month), but they have to turn in their timesheets a week prior to month end. Since the time recorded for the last few days of the month are estimated on their timesheets, any adjustments for time worked, sick time, and the like are adjusted as needed in their next paycheck.

A: No, there is no requirement for lag time to be built into your pay periods. However, there must be a procedure to ensure that all personnel expenses are recorded based on actual time per the applicable approved timesheets. If timesheets are submitted before the payroll period ends, personnel costs can be recorded based on reasonable estimates IF you periodically make adjustments to 'true up' the distribution to reflect time worked as documented by approved timesheets. Note that if this approach is taken, special attention must be paid during the 4th quarter of the fiscal year in consideration of the final deadline to move funds between Smart Start activity budgets.

Q: Can Smart Start funds be used to pay for employee bonuses?

A: Yes. The Cost Principles do not prohibit reasonable expenditures for employee bonuses. Note that all bonus compensation must be administered through the payroll system with appropriate tax treatment and reporting.

**FINES,
PENALTIES
AND FEES**

Q: Can Smart Start funds be used to pay for a late fee assessed for filing a Charitable Solicitation License renewal after the due date?

A: No. State law requires nonprofits such as Local Partnerships to obtain a Charitable Solicitation License and renew it annually when due. Fees associated with the failure of the Partnership to comply with this State law cannot be paid with Smart Start funds.

**FOOD – IN
GENERAL**

Q: When calculating the per person cost for food purchased for an event, does the cost need to be recalculated if a few of the people expected to attend do not actually show up? For example, if we expect 20 people based on training registrations and order food for 20, but only 17 attend the workshop, do we need to recalculate per person cost based on actual attendance?

A: No, if the circumstances require food to be purchased based on estimated attendance, the per person cost compliance is based on the number of persons expected to attend. The method used to determine the number of persons expected to attend must be reasonable and documented in your files. There is no need to recalculate based on the number who attended, even if there were no-shows.

Q: What items are considered “refreshments”?

A: Generally, refreshments would be food provided that is less substantial than a meal. Examples of refreshments provided in the State budget manual include coffee, soft drinks, cookies and doughnuts. Other items might include water, juice, fruit, crackers, granola bars, yogurt, protein bars, veggie chips, etc.

Q: We host family support events attended by both adults and children. Are there separate “child” per diem amounts when assessing food costs?

A: No, there is only one set of per diem amounts for food costs. There is no distinction between children and adults when calculating the allowable food costs.

Q: For our PAT meetings, we provide food from multiple vendors. To save money, drinks and crackers are purchased in bulk at Costco or BJs, but sandwiches are ordered from a local sandwich shop. How do we determine the cost per person?

A: All purchases for a meal or refreshments for a given meeting must be added together and divided by the number of people expected to attend to get the total cost per person. The sum of the various receipts and invoices must be documented as well as the calculated per person cost.

Q: Throughout the Cost Principles provisions addressing food requirements, it notes that we are required to document the rationale or “legitimate business purpose” for providing food. Would the following rationales to provide food meet that standard: as an incentive for attendance, as a strategy to promote conversation and sharing, to sustain energy?

A: Note that the Cost Principles state that, in general, events should be planned not to conflict with meal times unless there is a specific need to plan an event at or overlapping a meal time.

It is helpful to consider meetings as falling into two categories: required, such as required trainings for staff and required meetings for Contractors/DSPs, and optional, such as a parent support group, optional provider training, board meeting, etc. The timing of the meeting is also an important factor.

A rationale of providing food as an incentive to attend or promote conversation and relationship building would make sense for a parent support group or similar event

where the recipients of services are not required to be there or participate and when they would be unable to attend during a normal workday.

However, providing food for a required staff training as an incentive to attend is not a legitimate reason, as they are employees and are required to attend some trainings whether or not food is provided.

On the other hand, if there is a specific reason the required staff training must be set for a time that runs for an extended duration or interferes with a normal mealtime, refreshments may be appropriate.

Q: We offer training to child care providers, and they are required to obtain a certain number of CEUs each year. Is this a situation where an evening training cannot include a meal because it is “required” for them to attend?

A: Most providers have multiple opportunities to obtain CEUs from multiple sources. It would be *optional* for the provider to attend the LP’s training as one possible way to obtain CEUs. If the LP documents the rationale for providing a meal, the cost of dinner would be allowable provided all other requirements are met.

Even if a provider training was required, such as a requirement of participation in the LP’s professional development activity, providing dinner may be allowable if the LP documents that providers (as beneficiaries of the service) cannot leave their facilities during the normal workday to attend. This is different from a situation where, for example, a staff member of a DSP must come to a required meeting, as they ought to be able to attend work meetings during normal business hours without conflicting with a meal time.

**FOOD - BOARD
OR COMMITTEE
MEETINGS**

Q: The Cost Principles state that food costs for board meetings are unallowable for direct service providers (DSPs), but the Partnership has four representatives of DSPs that serve on the Partnership Board. Can Smart Start funds be used for their meals at the Board meeting?

A: Yes, Smart Start funds can be used for all Partnership Board members (and required staff) at a Board meeting. The DSP is prohibited from using Smart Start funds for their organization's Board meeting expenses.

Meeting expenses (including food) may be allowable for DSP committee meetings if the committee's work is specific to the Smart Start funded activity. For example, if a Partnership funds a Professional Development Supplement activity with a DSP and that DSP holds quarterly Professional Development Supplement Program committee meetings with community stakeholders, the Partnership may view the related expenses as reasonable and necessary and therefore eligible for Smart Start reimbursement. The meetings must be referenced in the activity's CAD, as noted under Cost Principles **B. 20. Meetings and Conferences**.

Q: Our Partnership does not require Board members to RSVP for each monthly Board meeting. We have a standing (documented) practice that all Board members are expected to attend unless they notify the Executive Director (ED) that they will not be able to attend at least 3 days in advance. How do we document the number of persons expected to attend for purposes of the per person food cost calculation without RSVPs?

A: If the 'regrets only' RSVP practice is documented as noted in the question, documentation must include how many Board members are on the Board, minus the number of Board members that notified the ED that they'll be unable to attend, plus the number (and which) required staff are expected to attend.

**FOOD -
EMPLOYEE
TRAINING**

Q: We will host a staff training for new software that will be implemented for the entire organization from 9am-1pm. The trainer's schedule was such that we could not start earlier or move the training to after lunch. Can we use Smart Start funds to purchase refreshments (snacks) for staff?

A: Yes, refreshments can be provided for the staff training outlined above, since the training is at least 2 hours in duration and there is a legitimate purpose - providing refreshments because the training overlaps normal lunchtime and the trainer was not available to present the training at a different time. Documentation must include the agenda, meeting times, rationale for providing refreshments, RSVP list to support number of refreshments purchased, and calculation to document that the refreshments cost limit per person was not exceeded.

**FOOD -
EXTERNAL
MEETINGS AND
CONFERENCES**

Q: We host a weekly Circle of Parents group meeting from 5:00pm-6:15pm, as our experience shows this timeframe works best for the families we serve and enables them to attend. We have learned that participating families have many barriers (transportation, unpredictable shift work, etc.) and it is extremely difficult and impractical for parents to reliably RSVP, so parents are encouraged to come when they are able. Additionally, we have learned that providing refreshments creates an atmosphere that is more conducive to parents' participation in group sharing. Due to unpredictable attendance, we provide individually packaged refreshments such as bottled water, soda, juice and protein bars, crackers, yogurt, and veggie chips. Items not used one week are saved for the next week's meeting so no food is wasted. Are these food purchases allowable?

A: Yes, refreshments would be allowable. It is not practical to hold a meeting for families at dinnertime and not provide dinner or refreshments. Documentation must include agenda, meeting times, rationale for providing food, an explanation of how estimated attendance was determined, and calculation to ensure

food cost limit per person was not exceeded. Since the refreshments are individually packaged, the refreshments cost for future meetings can be reduced.

Note: Food costs for dinner (instead of refreshments) would also be allowable for the parent group meetings described in the question above.

Q: Our Partnership is hosting our annual DSP Orientation Training from 9am-11am to review the contract and other requirements. DSPs are required to attend. Can we use Smart Start funds to purchase refreshments (snacks)?

A: No. Based on the description of this meeting, there is no discernable legitimate business purpose to provide refreshments. Learning about Smart Start contract provisions is a requirement and is part of the DSPs' staff work responsibilities. The training does not interfere with a normal mealtime (and there would be no legitimate business reason to schedule this required meeting during a mealtime), therefore it is not reasonable and necessary to purchase food or snacks for the training.

If there are other DSP Orientation meeting expenses (such as venue rental or supplies), note that these expenses must be charged to Admin. Contracting functions are required by legislation to be considered partnership administration and cannot be charged to program coordination or any other service activities.

Q: Our Board Chair met with a prospective board member (Senior VP at a local bank) to discuss filling a board vacancy. The Banker suggested the Board Chair meet him at 9:30am at a local coffee shop. At the meeting, the Board Chair paid for both parties to have coffee and pastries. Can we use Smart Start funds to reimburse the cost of these meeting refreshments?

A: No. Smart Start staff and Board members do not have 'expense accounts,' as some for-profits might, to

entertain or meet with potential donors, potential board members, existing board members, etc. and pick up the tab for private lunches, dinners, coffee or snacks. With ever-increasing scrutiny over the use of limited State funds, Partnerships covering food costs for themselves and 1-2 others for local private meetings, for example, is not considered reasonable and necessary. If these meetings cannot be held at non-meal times and the Partnership believes it is important to pay for these food costs, non-Smart Start funds must be used.

Q: We have a bottled water service and also purchase coffee in bulk; both are available on a daily basis for staff. Both have minimal cost and are charged to office supplies as needed when replenished. If we host a committee meeting or similar small gathering, we make a pot of coffee and offer coffee and water to the attendees. Is this okay, or is special documentation required? Also, can the coffee and water used by staff be purchased with Smart Start funds?

A: Based on correspondence with DCDEE in March/April 2018, beverages can no longer be purchased with Smart Start funds except for allowable hosted meetings. The use of Smart Start funds for beverages for employees outside of allowable hosted meetings is now prohibited. Beverages purchased for employee use outside of allowable hosted meetings can be charged to non-Smart Start funds as office supplies.

This policy change was officially incorporated into the Cost Principles effective July 1, 2018. If beverages are purchased in bulk and used for both allowable hosted meetings and events as well as for employee consumption, the cost must be apportioned between Smart Start and non-Smart Start funds. The rationale for the apportionment must be reasonable and based on a documented analysis of consumption.

The cost of beverages used for allowable hosted meetings must be included in the per person cost

calculated for meals or refreshments served, and cannot (in total) exceed the related per diem. These expenses would be included in the meeting/conference expense line item.

Q: We are hosting an event where people email us to RSVP. For documentation, must we print out copies of each email, or can we maintain a list of those who have emailed us?

A: It would be sufficient to maintain a list of the individuals who RSVP rather than printing each individual email. The same approach would apply if people call to RSVP for an event.

FUND RAISING

Q: We are planning a fundraising event where the proceeds will benefit Smart Start programs. Can all the event expenses be charged to Smart Start administrative funds?

A: No. Financial reporting guidance dictates that special event receipts (GL 4611) and related special event expenses (GL 4621) are netted for financial statement presentation, and generally recorded in an 8XX series fund.

Fundraising expenses other than special events may be charged to Smart Start administrative funds if the expected funds raised would be reportable as Smart Start program match. Such expenses may include payments to a grant writer, the cost of a grant writing workshop for a staff member, or a subscription service for funding opportunities.

Q: Why can't fundraising be treated as an expense of a service activity? If we conduct a fundraising campaign for Parents as Teachers (PAT), isn't it appropriate to charge the expense to our PAT activity?

A: No. Smart Start accounting guidance states that costs must be directly related to the provision of services to be charged to those services. Examples include salary,

travel, equipment, supplies, and other expenses that are reasonable and necessary to deliver the services. Expenses incurred to **raise money** to support a service are not considered 'direct costs' of any service program and must be accounted for separately. This classification of fundraising expenses is consistent with IRS required reporting of fundraising expenses separately from program services expenses.

Also, note that if the fundraising campaign is marketed as raising money specifically for PAT, the proceeds must be classified as restricted funds and used only for PAT.

Q: Our Partnership would like to purchase software to track our donors and donations, and to help manage fundraising events. Is this an allowable Smart Start expenditure?

A: To the extent that the software is used to track fundraising events and donations reportable for the Partnership's Smart Start program match requirement, yes, Smart Start administrative funds (only) may be used for the software. If the software is used for purposes other than Smart Start program match, cost allocation may be necessary for the cost of the software. If you have a specific question about a planned purchase, we encourage you to contact NCPC for guidance.

**GIFT CARDS
AND OTHER
PRE-PAID
INSTRUMENTS**

Q: Can we reward parents who attend at least 12 of the 14 Incredible Years (IY) sessions in the series with a \$50 gift card to a store such as Wal-Mart or Target?

A: Yes, and any other stores or vendors that have age-appropriate early childhood toys and supplies and necessary parenting supplies. Gas cards would also be allowable to support the transportation costs of attending the IY sessions. It would not be allowable to provide gift cards to a store or any other vendor where the products would be limited to items prohibited as goods and services for personal use. (See Cost Principles **B. 17. Goods or Services for Personal Use.**)

**GOODS OR
SERVICES FOR
PERSONAL USE**

Q: If token items are given for board member appreciation or employee recognition, as permitted by the Cost Principles, are the costs related to this gift (wrapping paper, greeting card, delivery fee, etc.) included in the \$25 limit?

A: Yes, the \$25 limit applies to the total cost, including ancillary expenses added to the gift.

Q: Reasonably priced approved service items for use by adults are allowable. How is “reasonably priced” defined?

A: Here are a few examples: tote bags under \$10 for a provider conference may be considered reasonably priced; portfolios under \$12 for child care providers would be considered reasonably priced. If you have a specific question about a planned purchase, we encourage you to contact NCPC for guidance.

INTEREST

Q: Credit Card interest charges that are “rare” are allowable for Local Partnerships (LPs) in “justifiable” and documented circumstances. What is an example of a justifiable circumstance?

A: In early 2016, NCPC had a major technical issue that resulted in the Abila MIP being unavailable for almost two weeks, preventing normal LP check processing for bill payment. If an LP incurred credit card interest because the payment was late in this case, with the circumstances beyond the LP’s control, the interest would be an allowable (administrative) expense. However, if an LP paid credit card interest due to late payments for four out of six consecutive months, the LP’s procedures should likely be reevaluated to promote timely payment as four months out of six would not be “rare.” Under any circumstances, interest costs are unallowable for direct service providers and grantees.

Q: Can our Partnership use a line of credit with our bank in July, when cash flow is especially tight, to help cover payroll

**MEETINGS AND
CONFERENCES**

and other essential payments? If so, can the interest be paid with Smart Start funds?

A: While there is no prohibition against a Partnership obtaining and using a line of credit, this is considered borrowed capital and therefore related interest must be paid with non-Smart Start funds.

Q: One of the criteria in order for meeting and conference expenses to be charged to a service activity is that the event(s) must be identified in the CAD. How much detail is expected in the CAD? Do we have to state that food will be provided, or that a paid speaker will be contracted?

A: The intent is for the CAD to include a reference to the meetings, trainings, or events related to budgeted/expended meeting and conference expenses for hosted events. It is not required to itemize the types of meeting and conference expense (food, facility rental, speaker fees, etc.), but to simply include the nature of the events.

If you are hosting DSP trainings, a child care provider professional development conference, a community fair during the Week of the Young Child, parent education sessions, group trainings for providers by a Child Care Health Consultant, or the like, those types of events are to be listed in the CAD.

If a particular service activity requires group events for compliance with model fidelity, such as Incredible Years or Circle of Parents, no additional event references are required in the CAD beyond reference to the model as it is understood these programs include hosted events.

Note that this requirement only pertains to service activities; the Administration CAD need not reference events as it is expected that Partnerships will host Board and committee meetings, at a minimum. Also, the Administration CAD has standard text and is not editable.

**PROMOTION
AND PUBLIC
RELATIONS**

If you have any questions about references to events with related meeting and conference expenses in service activity CADS, you are encouraged to contact NCPC for guidance.

Q: How can we determine whether a proposed promotional expenditure is allowable or not?

A: If the cost is reasonable and the other requirements outlined in the Cost Principles are met, promotional expenditures are generally allowable if they connect families or providers to Smart Start services or educate the community about early childhood programs and their importance. If you have any questions about a proposed promotional expenditure, please contact NCPC for guidance and provide a draft of the item, as appropriate.

Q: The Cost Principles state that the cost of billboards is unallowable. Does this apply to all outdoor advertising?

A: The prohibition against billboards is interpreted to refer to large roadside signs, such as the one shown here. The prohibition applies to static, digital, flipping, or any other form of large billboard. There is some advertising that might be referred to as a billboard but does not fall within the description above. Allowable advertising would include digital advertising on a TV screen in a public place, ads or signs on a bus or on a bus stop booth, or other small ads in public places.



Q: What kind of banners or similar items are allowable for outreach? The Cost Principles state costs associated with printing a logo on a banner is allowable if the item also includes contact information. They also state that costs of meetings or events for general promotional activities, including displays, posters and banners, are unallowable.

The new section added July 1, 2018 states outreach display items are okay if there is information to connect people to services. What are some examples of what is allowable?

A: If a banner, display, tablecloth, or the like is being designed, some form of contact information must be included that would allow a person to access services. This could be a website, phone number, email address, or similar contact information.

Additionally, program-specific outreach display materials available for purchase from the purveyor of that program are also allowable, even if not customizable with local contact information, provided these materials are reasonable in cost and used in conjunction with contact information and/or opportunities to access services. For example, an LP may order the Dolly Parton's Imagination Library (DPIL) tablecloth from Dollywood Foundation to use for a table at outreach events, and use it along with print materials listing the enrollment website, or with a staff member on hand to assist families with onsite enrollments via a laptop or tablet, or potentially both.

RENTAL COSTS

Q: Our Partnership is considering a 2-year lease of a vehicle for use by staff for business travel, as we believe it will reduce staff travel costs. Is it allowable to lease a vehicle, such as a compact car?

A: There is no prohibition against leasing equipment, including a compact car, if an analysis documents anticipated savings over alternatives, such as mileage reimbursement. Note that such a car lease arrangement would require careful consideration of insurance requirements and costs, maintenance costs, and the terms of the lease, including any termination provisions that might be available due to reductions in Smart Start funding.

**TRAVEL – IN
GENERAL**

Q: If a vehicle is leased for an extended period (or purchased), how would the related costs be allocated?

A: It depends. As with any equipment, the costs for the vehicle must be charged to the activities that benefit from use of the vehicle. Partnerships are encouraged to contact NCPC for assistance in developing a methodology to fit your circumstances.

Q: The Cost Principles state that costs must be reasonable and prohibit excess costs “for the convenience or personal preference of the employee.” How would this be applied to staff travel to a distant town the night before a meeting that begins the next morning?

A: Reasonableness is based on what a prudent person would do given the circumstances. For example, it is reasonable to travel the evening before and stay overnight in another town to attend a 9am meeting that takes place 3 hours away. It is not reasonable to travel the evening before for a 9am meeting that takes place 1 hour away.

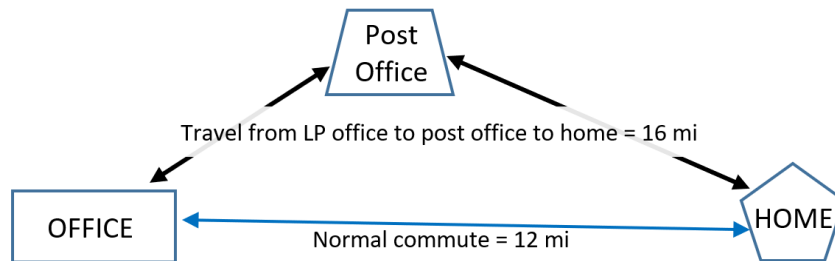
Q: The Cost Principles state that no reimbursement shall be made for commuting. In this example, an employee works Monday through Friday at our office and then also travels to the office on Saturday during year-end reporting to complete work by an NCPC deadline. Is the employee’s mileage reimbursable for travel to and from the office on Saturday?

A: No, driving from home to the employee’s office or normal duty station (and back) is commuting and not reimbursable, regardless of when the travel takes place.

Q: The Cost Principles state that no reimbursement shall be made for commuting, but what if an employee runs a work-related errand on their way home from the office? For example, an employee leaves the partnership office at 4:30 to drop off important time-sensitive outgoing mail at the post office. The employee’s normal one-way commute home

is 12 miles, but with a stop at the closest post office, their trip home is 16 miles. What, if anything, is reimbursable?

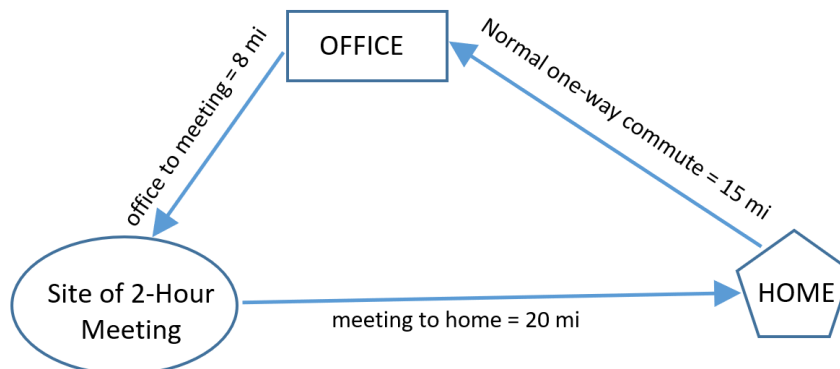
A: As noted in the Cost Principles, the extra miles driven for the business errand are reimbursable:



Reimbursable miles are calculated as the actual trip including the errand minus the normal commute, or $16 - 12 = 4$ miles, so 4 miles are reimbursable.

Q: How do we calculate mileage when an employee attends a meeting off-site either before coming into the office, or travels directly home after an off-site meeting?

A: Similar to the post office errand example above, business travel that exceeds the employee's normal commuting distance in this situation is reimbursable.

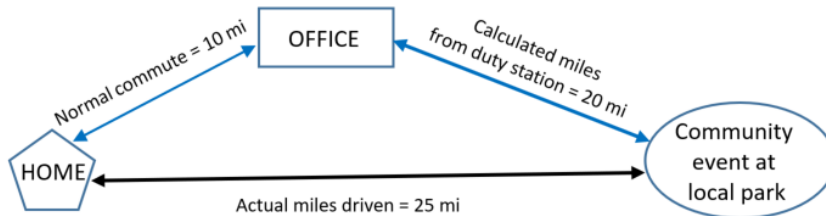


The employee's commute to the office is not reimbursed. After leaving the office, the employee travels 8 miles to the meeting, and 20 more miles home, or 28 miles total. The difference between that total and their normal commute home ($28 - 15 = 13$ mi) is reimbursable

business travel. The same calculations would apply if this trip took place in reverse, with the employee driving from home to the meeting, and then to the office, and then home.

Q: We hold community events that take place outside of normal business hours (sometimes in the evening, sometimes on a weekend) at locations other than our partnership office. What mileage is reimbursable for staff working these functions at these locations when they travel directly to and from home?

A: The intent of the State Budget Manual and Smart Start Cost Principles is to reimburse staff for reasonable and efficient business travel. The provision outlined in 30. e) states that mileage is to be measured from the closer of the duty station or point of departure to destination (and return). Therefore, each business trip can be evaluated on that basis. For example, consider an employee who travels to a required Smart Start business function from their home to a local park where the event is hosted and then back home:



In this example, the employee travels 50 miles (25 x 2) from their home to the park and back home. Mileage is measured from the closer of the duty station or point of departure, which in this case is the duty station (office). Therefore 40 miles (20 x 2) is reimbursable.

Some partnerships employ a practice where an employee's normal commute to and from the office is deducted from the actual mileage for simplicity, instead of calculating what the mileage would have been between the office and the destination. This is also

considered an acceptable method to determine the most efficient and cost-effective reimbursable travel. If this practice were used in the above example, reimbursable mileage would be calculated as the total trip ($25 \times 2 = 50$) less the normal commute ($2 \times 10 = 20$), or $50 - 20 = 30$ reimbursable miles. Every effort should be made to ensure mileage is calculated in a consistent manner, and in consideration of the most efficient and cost-effective business travel.

Q: Do travel expense reports need to include the purpose of the travel?

A: Yes, travel expenses can only be paid with Smart Start funds for legitimate business travel that is reasonable and necessary. The purpose of travel must be documented in order to determine that the travel can be paid with Smart Start funds.

Q: Do travel expense reports need to include the departure and arrival times?

A: Yes, if meals are reimbursed. The meals eligible for reimbursement on the first day of overnight travel are dependent on the time the trip begins, and the meals eligible for reimbursement on the last day of overnight travel are dependent on the time the trip ends. Therefore, the departure and return times for the trip are required.

Q: Does our Partnership need to update its existing travel policies every time there is a change to the Cost Principles or State Budget Manual?

A: An annual review of all policies and procedures is strongly recommended, as processes do change over time.

Local travel policies and procedures must be in compliance with the Cost Principles, which are generally only updated at the beginning of a fiscal year.

The State Budget Manual and/or related State Travel rates may change during a fiscal year. This may include changes to the IRS mileage reimbursement rate, generally adopted by the state. At any time that State rates change for mileage, per diems, lodging, refreshments, those limits must take effect locally to coincide with the effective date of the State change.

Other changes to State policies are evaluated by NCPC and incorporated into the Cost Principles on a periodic (typically annual) basis. While LPs may choose to adopt the impact of such changes earlier, compliance is required when the Cost Principles are changed. Partnerships may wish to include the Smart Start Cost Principles by reference and state they will be followed, as this may prevent the need for minor updates to travel policies over time.

Q: Must all staff complete a cost analysis between rental cars and personal mileage for all trips greater than 100 miles?

A: It depends. Each Partnership is to establish a reasonable policy for its staff and its subcontractors to promote efficient travel at the lowest cost. Each Partnership, its activities, and its local options for resources such as rental cars are unique. Therefore, the Partnership must develop its policy and document the research and rationale used in developing the policy.

For example, if local rental car costs are higher due to travel time to/from a rental car agency, additional insurance, etc., a higher threshold for a cost comparison analysis may be used if the Partnership documents its rationale for using a higher threshold (and how its threshold was determined).

A new policy that was included in the State Budget manual effective January 1, 2018 is to allow personal vehicle mileage reimbursement for round trips over 100 miles to be reimbursed at a rate not to exceed \$.33/mile. If an LP wishes to update its policy to match the State policy, staff would forego rental car analysis and instead the LP would reimburse all personal mileage round trips over 100 miles at this rate. If the LP adopts this policy, personal mileage for round trips up to 100 miles are still reimbursable at the standard State mileage rate. For example, an 80-mile round trip would be reimbursable up to the standard rate (currently $.545 \times 80 = \$43.60$), and a 160-mile round trip would be reimbursable up to a rate of \$.33/mi ($.33 \times 160 = \52.80). If the LP adopts this policy, for all trips greater than 100 miles, the entire mileage reimbursement is calculated at \$.33/mile. It is not \$.545 for the first 100 miles, and \$.33/mile for miles greater than 100.

Partnerships are not permitted to choose a hybrid policy that uses a rental car analysis for some round trips over 100 miles, and a reduced mileage rate for other round trips over 100 miles.

Q: Our Partnership uses a rental car analysis to determine the lowest cost option, but sometimes an employee requests not to use their personal vehicle even though it is the less expensive option. Is this allowed?

A: Yes, this is allowed for trips greater than 100 miles round trip (or the locally established threshold). It is unreasonable to expect each employee to use their personal vehicle for business travel in all cases. There could be a variety of reasons why an employee would prefer not to use their personal car (older vehicle with maintenance concerns, leased vehicle with mileage limitations, family circumstances, etc.).

Q: Our Partnership has determined our car rental and related costs (insurance, staff time, etc.) for a one-day rental. Based on the current mileage reimbursement rate, we've determined that the break-even point - where the cost of renting versus driving a personal vehicle are the same - is 120 miles for a one-day trip. Can our procedures include a provision that employees may automatically use their personal vehicle for trips less than 120 miles for a one-day trip without additional analysis for each trip?

A: Yes, if the Partnership has documented its cost analysis to support the calculation of the 120-mile threshold. However, keep in mind that such a threshold would need to be recalculated periodically as gas prices and mileage rates change. Also, the break-even point will change for multi-day trips and that must be taken into account as well.

Q: Can our Partnership's cost analysis between rental cars and personal mileage include staff time (cost) needed to rent a vehicle?

A: Yes, the value of staff time can be included as this is an additional cost incurred in order to rent a vehicle. One option is to determine an average of the collective hourly staff rates of employees that normally travel. Other reasonable methods of determining the rate are acceptable if reasonable, documented, and applied consistently. That rate can be used in conjunction with the average time needed to rent a vehicle (setting up reservation, travel to/from the car pick-up location, time spent in line and completing paperwork, vehicle inspection and fuel level check, return visit and inspection, etc.).

Q: Can our Partnership's cost analysis between rental cars and personal mileage include the time/expense of travel associated with a staff member being dropped off/picked up for the rental? Our rental car agency assumes no risk for personal vehicles left on-site, and our employees do not feel

safe leaving their cars on the lot due to its location. A staff member picks up a fellow staff member at home and takes them to get the rental so a personal car is not left on-site.

A: Yes, if this practice is considered appropriate based on local circumstances, and the rationale is documented, these costs should be included in the cost analysis. Keep in mind that basic commuting costs, however, are not reimbursable for staff.

Q: Can our Partnership's cost analysis between rental cars and personal mileage include the cost of additional insurance offered by rental car companies or the cost of roadside assistance coverage?

A: Yes, both of these costs could be considered reasonable. If the Partnership does not have other insurance coverage, optional coverage from the rental agency may be warranted. All costs associated with car rental should be included in any cost analysis.

Q: Partnership staff rented a vehicle, and a rock hit the windshield. This resulted in a \$700 charge from the rental car agency for replacement of the windshield. Is the charge an allowable Smart Start cost, and if so, how is the cost charged?

A: Yes, the cost is allowable and should be charged to the same General Ledger account and activity as the original rental cost.

NOTE: It is strongly recommended that you carefully research your insurance coverage related to vehicle rental. While Hired/Non-Owned Auto Liability covers liability for damage caused by a rented/non-owned vehicle, it does not typically include coverage for damage to the vehicle. Many (but not all) insurers offer **Hired Auto Physical Damage coverage**. This typically covers damage to a rented vehicle, and may also cover lost revenue to the rental car agency, for which you could also be charged. Some commercial insurance packages

automatically include this coverage, while others may offer it for an additional (usually small) premium. With some insurers, it makes a difference if the rental is in the company's name (under a corporate account) or in the employee's name, so make sure you check on this and other provisions. Most rental car agencies offer a Loss/Damage Waiver for additional cost with each rental. If you do not have similar coverage in an insurance policy, you should research and consider selecting this option. Pay special attention to exclusions, for example, some Loss/Damage Waivers exclude incidents from travel on an unpaved road. Finally, certain credit cards may offer some coverage if used to rent a vehicle, but this coverage is often minimal and only applicable in limited circumstances, therefore it should generally not be relied upon as primary coverage.

Q: Is it sufficient to attach a cost analysis between rental cars and personal mileage to the employee expense reimbursement report as justification for the choice between renting or driving a personal vehicle?

A: Yes, provided that is the process outlined in your travel reimbursement procedures.

Q: Is it okay for an employee to rent a vehicle from a rental car agency closer to their home as opposed to a rental car agency close to the Partnership office? Due to the operating hours and available vehicles, it is generally less expensive for the staff member to rent from the agency closer to their home.

A: Yes, it is permitted (and advisable) to choose the lower cost option, provided that is not prohibited for any reason by the Partnership's policies and procedures. For example, if the Partnership has a corporate account with a particular rental company or office, and if that includes pre-arranged billing or insurance arrangements, those factors should be reflected in the policies and procedures.

Q: We have two employees who conduct a home visiting program. Their travel to deliver services to families' homes all over the county is daily, or nearly daily. The number of miles they will drive each day is unpredictable, as families may sometimes cancel visits, or other unforeseen situations come up. It would be nearly impossible, and incredibly time consuming, for these two employees to rent a vehicle for most of their work days. We have done an analysis and determined that the employees' time alone for renting vehicles on such a frequent basis (time to complete a cost analysis, reserve the car, travel to the rental office, wait in line, complete paperwork, inspect the vehicle, and finally return the car) would result in 3-4 fewer home visits per week per employee based on the distance to the nearest rental agency. Can we exempt these two employees' travel for normal home visiting trips from the general Partnership policy?

A: Yes, if there are extenuating circumstances (such as those described above) such that following the standard Partnership travel policy is not practical for a specific activity, and those extenuating circumstances are documented, the Partnership may exempt typical daily travel for that service activity from normal travel requirements. Note that even these employees would need to follow the Partnership's standard travel policy for unusual travel, such as a 300-mile round trip to an annual training in Virginia.

Q: Certain gratuities and tips are specified as allowable, and the Cost Principles state others may be reimbursable if reasonable. Are tips for housekeeping service in a hotel allowable? If so, how much?

A: Yes, housekeeping tips are allowable. As far as what is reasonable, the Emily Post Institute recommends \$2-5 per day.

**TRAVEL –
DAILY**

Q: The Cost Principles have several criteria for certain travel costs. What if an employee attempts to comply with a specific policy, but is unable to? For example, what if a rental car is chosen as the lowest cost option and reserved, but the rental agency does not have cars available at the time of the reservation and the employee is forced to drive their personal car or a higher cost rental car or miss the meeting? Or what if a hotel reservation is made within the state rate, but when the employee arrives the hotel is found to be under construction and the employee is presented with unforeseen issues of noise and safety, so they go across the street to a hotel that is \$15 more (and over the state rate)? Are these 'excess costs' reimbursable?

A: Yes, in both examples the excess costs would be reimbursable, provided the employee's efforts to comply and the unforeseen circumstances are documented. (This is the same approach expected any time a standard policy cannot be followed due to a rare and unforeseen occurrence – document the circumstances for the file.)

Q: An older version of the Cost Principles allowed that breakfast or dinner reimbursement was permitted for daily travel if the workday was extended by a certain number of hours. Is this still allowed?

A: The State Budget Manual's July 2018 update establishes that reimbursement for these meals outside of overnight travel status is considered taxable compensation to the employee. Rather than having some meal reimbursements that are taxable and some that are not, no Smart Start funded reimbursement is permitted for breakfast or dinner during daily travel, regardless of whether or not the workday is extended.

Q: Lunch is reimbursable for daily travel if the employee is required to attend a meeting and the meal is preplanned and involves employees of different entities. If the meeting

**TRAVEL –
OVERNIGHT**

agenda states there is a lunch break and lunch is “on your own” is that reimbursable?

A: No, a lunch that is preplanned is one that is part of the meeting, for example, a working lunch where each attendee chooses lunch from a menu and is charged the cost. Such a working lunch would be reimbursable within per diem guidelines.

If an employee leaves a meeting for lunch on their own, or stops for lunch on their way to or from a meeting during daily (not overnight) travel, the lunch is not reimbursable.

Q: If overnight reimbursement requires prior written approval by the Executive Director (ED), what documentation is required for the ED’s own overnight travel?

A: No specific written documentation is required unless the Partnership’s travel policy requires written documentation, as it is assumed the ED approved their own overnight travel.

Q: If a purchase order is completed for an employee’s overnight travel and signed by the ED in advance of the travel, is an additional form or email required to document the approval?

A: No, if the ED has signed and dated the PO in advance, that meets the requirement of “prior written approval.”

Q: An employee will be attending a 3-day conference in a city on the opposite side of the state. The conference hotel is an Embassy Suites and the rate is \$94/night. There is a Quality Inn about 10 miles away from the conference hotel for \$67/night. If the employee stays at the Quality Inn, the employee will incur additional travel time and expense to and from the conference venue, and may miss out on peer networking opportunities at the conference hotel in the

evenings. Can the employee be reimbursed in full to stay at the conference hotel at the higher rate?

A: Yes, if the above concerns about costs, time, and access to networking are documented and the Executive Director approves the excess lodging cost in advance, the employee can be reimbursed for the cost to stay at the Embassy Suites in this example.

Q: If the cost of a hotel room is greater than the State rate, is it allowable to have two staff members share a room to bring the per-person cost below the State rate?

A: Yes, if two employees share a room and the resulting room rate cost per employee does not exceed the State rate, it is not considered excess lodging cost and no additional paperwork is required.

Q: Who is required to approve a DSP staff member's excess lodging cost, the DSP Executive Director (ED) or their designee, or the Local Partnership ED or their designee?

A: At a minimum, the excess lodging must be approved by the DSP's ED or designee. The Partnership has the authority to require the DSP to obtain advance approval from the Partnership; this would need to be clearly communicated to DSPs.

Q: If an employee attends an overnight conference and one evening there is a light reception and networking session where refreshments (light hors d'oeuvres) are served, is the employee still eligible for a dinner reimbursement?

A: Yes, just as an employee is still eligible for breakfast reimbursement even if a hotel offers a continental breakfast, an employee is still eligible for dinner reimbursement if a reception with refreshments (but not dinner) is available.

Q: What is meant by the provision in the Cost Principles that the per diem allowances can be combined for reimbursable meals when in overnight travel status?

A: If the entity reimburses based on flat per diems rather than actual receipts, this provision is irrelevant. However, if the entity's policy is to reimburse meals based on individual receipts (not to exceed per diems) this provision can be applied. For example, the per diem allowances as of July 2017 for breakfast and lunch are \$8.40 and \$11.00, respectively. For this example, an organization's policy is that meals are paid from receipts and an employee travels such that both breakfast and lunch reimbursement are allowable based on travel times. The employee's receipts are \$4 for breakfast and \$14 for lunch. The combined cost of \$18 does not exceed the combined allowances for these meals (\$19.40) and is therefore fully reimbursable. **This combined limit option can only be calculated for the reimbursable meals per day, not per trip.**

MISCELLANEOUS

Q: Our Partnership is relocating to a new office space. Are moving costs allowable? If so, can any of the cost be charged to services?

A: There is no prohibition against moving costs. As long as the relocation costs are reasonable and do not involve capital expenditures or other prohibited costs, these costs are allowable. Keep in mind that expenses, such as hiring a moving company, may trigger competitive bidding requirements depending on the cost. Moving costs can be allocated to benefitting activities. If you don't have a detailed quote from the movers, square footage can be used as a reasonable basis for allocating moving costs.

Q: One of our Direct Service Providers is planning to relocate to a new office space. Can the Partnership reimburse them for moving costs?

A: There is currently no specific prohibition against reimbursing DSP moving costs, but as noted at the beginning of the Cost Principles, all costs charged to Smart Start must be reasonable and necessary costs for an activity. It would probably be rare for circumstances to justify Smart Start reimbursement of DSP moving costs, and consultation with NCPC is strongly recommended if such reimbursement is considered.

In cases where it is justified and documented, the Partnership must ensure that the portion of moving costs charged to Smart Start activities by the DSP is reasonable. For example, Smart Start should not fund half of the moving costs if Smart Start funds one of their ten programs. Also, the Partnership should consider the amount of moving costs it is willing to reimburse, if any, as this can take away from funds available for services.

Q: Can Smart Start funds be used to purchase and mail holiday cards in our community?

A: No, DCDEE has established that expenditures incurred to create, purchase, and/or mail greeting cards are unallowable as this is not considered a reasonable and necessary Smart Start expenditure. Partnerships may use free media such as emails or e-cards to send such greetings.

Expenditures for reasonably priced thank-you cards that also serve as (or include) donation acknowledgments as required by law for charitable contributions are allowable administrative expenses.