

SUBJECT: ALLOWABLE USE OF FUNDS/COST PRINCIPLES

Effective:

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Approved by:

1.0 Procedure

1.1 ALLOWABLE USE OF FUNDS

In accordance with District Policy CGC, District management will enforce appropriate procedures and penalties for program, compliance and accounting staff that are responsible for the allocation of Federal grant costs based on their allowability and their conformity with Federal cost principles to determine the allowability of costs. The person responsible for monitoring federal programs needs a work with business office staff.

1.2 DEFINITIONS:

Allowable cost - A cost that complies with all legal requirements that apply to a particular Federal education program including statutes, regulations, guidance, applications and approved grant awards. A framework for determining whether a cost is allowable is included in Section 1.3 of these procedures.

Education Department General Administrative Regulations (EDGAR) - A compilation of regulations that apply to Federal education programs. These regulations contain important rules governing the administration of Federal education programs, and include rules affecting the allowable use of Federal funds (including rules regarding permissible costs, the period of availability of Federal awards, documentation requirements, and grants management requirements). EDGAR is accessible at:

<http://www2.ed.gov/policy/fund/reg/edgarReg/edgar.html>.

OMB 2 CFR Part 200 and Part 3474 -Federal cost principles that provide standards for determining whether costs may be charged to Federal grants. EDGAR requires all grantees and subgrantees to follow the cost principles set out in OMB 2 CFR Part 200 and Part 3474. The link is as follows:

http://www.ecfr.gov/cgi-bin/text-idx?SID=6214841a79953f26c5c230d72d6b70a1&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl
<http://www.ecfr.gov/cgi-bin/text-idx?SID=be24d843a89f91b635618eb7a061c560&node=pt2.1.3474&rgn=div5>

1.3 DETERMINING ALLOWABLE COSTS

a. Framework for analyzing allowable costs

Federal grant programs are governed by a variety of Federal rules including statutes, regulations, and non-regulatory guidance. To determine whether a cost may be paid with Federal funds, i.e. whether the cost is permissible, staff must be familiar with these rules and how they work together.

Generally, when analyzing whether a particular cost is permissible, it is useful to perform the following analysis:

- Is the cost specifically included in the district's approved grant budget?
- Is the cost forbidden by Federal laws such as OMB 2CFR Part 200 and/or Part 3474 or EDGAR? (see below for examples)
- Is the cost permissible under the relevant Federal program?
- Is the cost consistent with the Federal cost principles in OMB 2CFR Part 200 and/or Part 3474?
- Is the cost consistent with program specific fiscal rules?
- Is the cost consistent with an approved program plan and budget, as well as any special conditions imposed on the grant?

While there are other important considerations District staff must take into account when analyzing whether a specific proposed cost is permissible, the above questions can provide a useful framework for the analysis.

b. Costs forbidden by Federal Law

OMB 2CFR Part 200 and Part 3474 and EDGAR identify certain costs that may never be paid with Federal funds. The following list provides examples of such costs. If a cost is on this list, it may not be supported with Federal funds. The fact that a cost is not on this list does not mean it is necessarily permissible. There are other important restrictions that apply to Federal funds, such as those detailed in CFR Part 225 and Part 3474; thus, this list is not exhaustive.

ALLOWABLE COSTS

Costs that may be Allowable Under OMB CFR Part 225 and Part 3474 Under Specific Conditions:

- Advisory councils
- Audit costs and related services
- Bonding costs
- Communication costs
- Compensation for personal services
- Depreciation and use allowances
- Employee morale, health, and welfare costs
- Equipment and other capital expenditures
- Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs
- Insurance and indemnification
- Maintenance, operations, and repairs
- Materials and supplies costs
- Meetings and conferences
- Memberships, subscriptions, and professional activity costs
- Patent costs
- Plant and homeland security costs
- Pre-award costs
- Professional service costs
- Proposal costs
- Publication and printing costs
- Rearrangement and alteration costs
- Reconversion costs
- Rental costs of building and equipment
- Royalties and other costs for the use of patents
- Taxes
- Training costs
- Travel costs

Costs that are Unallowable Under OMB 2 CFR Part 200 and Part 3474

- Advertising and public relations costs (with limited exceptions), is prohibited including promotional items and memorabilia, (models, gifts and souvenirs)
- Alcoholic beverages
- Bad debts
- Contingency provisions (with limited exceptions)
- Fundraising and investment management costs (with limited exceptions)
- Donations

- Contributions
- Entertainment
- Fines and penalties
- General government expenses (with limited exceptions pertaining to Indian tribal governments and Councils of Government (COGs))
- Goods or services for personal use
- Interest
- Lobbying
- Selling and marketing costs (with limited exceptions)

Costs that are Unallowable Under EDGAR (Part 76)

- The use of funds for religion
- The acquisition of real property (unless specifically permitted by programmatic statute or regulations which is very rare in Federal education programs)
- The use of funds for construction (unless specifically permitted by programmatic statute or regulations which is very rare in Federal education programs)
- Charging tuition or fees collected from students toward meeting matching, cost sharing, or maintenance of effort requirements of a program

c. Program allowability

Any cost paid with Federal education funds must be permissible under the Federal program that would support the cost.

Many Federal education programs detail specific required and/or allowable uses of funds for that program. Issues such as eligibility, program beneficiaries, caps or restrictions on certain types of program expenses, and other program expenses, and other program specific requirements must be considered when performing the programmatic analysis.

The two largest Federal K-12 programs, Title I, Part A and IDEA, do not contain a use of funds section delineating the allowable uses of funds under those programs. In those cases, costs must be consistent with the purposes of the program in order to be allowable.

d. Federal cost principals

OMB 2 CFR Part 200 and Part 3474 defines the parameters for the permissible uses of Federal funds. While there are many requirements contained in OMB 2 CFR Part 200 and Part 3474, it includes five core principles that serve as an important guide for effective grants management. These core principles require all costs to be:

- **Necessary** for the proper and efficient performance or administration of the program.
- **Reasonable.** In other words, it should be clear to an outside observer why a decision to spend money on a specific cost made sense in light of the cost, needs, and requirements of the program.
- **Allocable** to the Federal program that paid for the cost. This means that a program must benefit in proportion to the amount charged to the Federal program—for example, if a teacher is paid 50% with Title I funds, the teacher must work with the Title I program/students at least 50% of the time. This also means that recipients need to be able to track items or services purchased with Federal funds so they can prove they were used for Federal program purposes.
- **Authorized** under state and local rules. This means that all actions carried out with Federal funds must be authorized and not prohibited by state and local laws and policies.
- **Adequately documented.** A recipient must maintain proper documentation so as to provide evidence to monitors, auditors, or other oversight entities of how the funds were spend over the lifecycle of the grant.

OMB 2 CFR Part 200 and Part 3474 also contains specific rules on selected items of costs. Costs must comply with these rules in order to be paid with Federal funds.

e. Program specific fiscal rules

All Federal education programs have certain program specific fiscal rules that apply. Determining which rules apply depends on the program; however, rules such as supplement, not supplant, maintenance of effort, comparability, caps on certain uses of funds, etc. have an important impact when analyzing whether a particular cost is permissible.

Many state administered programs require LEAs to use Federal program funds to supplement the amount of state, local (and in some cases other Federal) funds they spend on education costs, and not to supplant – or replace – those funds. Generally, the “supplement, not supplant” provision means that Federal funds must be used to supplement the level of funds from non-Federal sources by providing additional services, staff, programs, or materials. In other words, Federal funds normally cannot be used to pay for things that would otherwise be paid for with state or local funds (and in some cases with other Federal funds).

Auditors generally presume supplanting has occurred in three situations:

- District uses Federal funds to provide services that the District is required to make available under other Federal, state or local laws.
- District uses Federal funds to provide services that the District provided with state or local funds in the prior year.
- District uses Title I, Part A or Migrant Education Program funds to provide the same services to Title I or Migrant students that the District provides with state or local funds to nonparticipating students.

These presumptions apply differently in different Federal programs, and also in school wide program schools. Staff should be familiar with the supplement not supplant provisions applicable to their program.

f. Approved plans, budgets and special conditions

As required by OMB 2 CFR Part 200 and part 3474 all costs must be consistent with approved program plans and budgets. This includes the district's Consolidated Application to the Missouri Department of Education and school-level plans such as school wide plans or Federal school improvement plans.

Costs must also be consistent with all terms and conditions of Federal awards, including any special conditions imposed on the district's grants.

1.4 TRAINING

The district will provide training on the allowable use of federal funds to all staff involved in federal programs through activities such as:

- Distributing federal guidance documents;
- Distributing District policies and procedures;
- Developing templates, checklists and other guidance documents as appropriate;
- Internal training sessions;
- Routine staff meetings; and
- Informal technical assistance.

The District will promote coordination between all staff involved in federal programs through activities such as:

- Routine staff meetings;
- Joint training sessions;
- Policies and procedures that address all aspects of federal grants management;
- Sharing information that has cross-cutting impact such as single audits, monitoring reports, letters from oversight entities, etc.

1.5 SANCTIONS

Any district employee who violates this Procedure will be subject to appropriate discipline as reflected by comments to be placed in their annual employee evaluation.

Legal References: Education Department General Administrative
Regulations
Federal education program statutes
General Education Provisions Act
OMB 2 CFR Part 200
OMB 2 CFR Part 3774