Allowability of Costs – Federal Programs

Expenditures must be aligned with approved budgeted items. Any changes or variations from the state-approved budget and grant application need prior approval from the state.

Delegation of Responsibility

When determining how the school will spend its grant funds, the Business Manager will review the proposed cost to determine whether it is an allowable use of federal grant funds *before* obligating and spending those funds on the proposed good or service. **The decision for such determination shall be in writing and provide justification for the allowability determination.**

Allowability Determinations

All costs supported by federal education funds must meet the standards outlined in **applicable laws and regulations, including but not limited to**, 2 CFR Part 3474 and 2 CFR Part 200, Subpart E, which are listed below. The Business Manager must consider these factors when making an allowability determination. A section entitled, *Helpful Questions for Determining Whether Costs are Allowable,* is located at the end of this document.

Part 200 sets forth general cost guidelines that must be considered, as well as rules for specific types of items, both of which must be considered when determining whether a cost is an allowable expenditure of federal funds. The expenditure must also be allowable under the applicable program statute (e.g., Title I of the Elementary and Secondary Education Act (ESEA), or the Carl D. Perkins Career and Technical Education Act (Perkins)), along with accompanying program regulations, nonregulatory guidance and grant award notifications.

Restrictions in state and local rules or policy also must be considered. For example, travel and other job-related expenses incurred by employees are not allowable unless they also are in compliance with Joint Operating Committee Policy 331 (Job Related Expenses) and related administrative regulations.

Whichever allowability requirements are stricter will govern whether a cost is allowable.

Except where otherwise authorized by law, determination factors **for allowability of costs** include the following:

1. **Be Necessary and Reasonable for the performance of the federal award.** A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision to incur the cost was made. For example, **reasonable** means that sound business practices were followed, and purchases were comparable to market prices.

   When determining reasonableness of a cost, consideration must be given to:

- Whether the cost is a type generally recognized as ordinary and necessary for the operation of the school or the proper and efficient performance of the federal award.

- The restraints or requirements imposed by factors, such as: sound business practices; arm's-length bargaining; federal, state and other laws and regulations; and terms and conditions of the federal award.

- Market prices for comparable goods or services for the geographic area.

- Whether the individual incurring the cost acted with prudence in the circumstances considering responsibilities to the school, its employees, its students, the public at large, and the federal government.

- Whether the school significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost. (2 CFR 200.404)

Whether a cost is **necessary** will be determined based on the needs of the program. Specifically, the expenditure must be necessary to achieve an important program objective. A key aspect in determining whether a cost is necessary is whether the school can demonstrate that the cost addresses an existing need, and can prove it. For example, the school entity may deem a language skills software program necessary for a Language Instruction Education Program.

When determining whether a cost is necessary, consideration may be given to:

- Whether the cost is needed for the proper and efficient performance of the federal award program.

- Whether the cost is identified in the approved budget or application.

- Whether there is an educational benefit associated with the cost.

- Whether the cost aligns with identified needs based on results and findings from a needs assessment.

- Whether the cost addresses program goals and objectives and is based on program data.

2. **Allocable to the federal award.** A cost is allocable to the federal award **or other cost objective** if the **cost is** assignable to the federal award **or other cost objective** in accordance with the relative benefit received. This means that the federal grant program derived a benefit in proportion to the funds charged to the program. (2 CFR 200.405)

   For example, if fifty percent (50%) of a teacher's salary is paid with grant funds, then that teacher must spend at least fifty percent (50%) of his/her time on the grant program.

3. **Consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the school entity.**

4. **Conform to any limitations or exclusions set forth as cost principles in 2 CFR Part 200 or in the terms and conditions of the federal award.**

5. **Consistent treatment.** A cost cannot be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been assigned as an indirect cost under another award.

6. **Adequately documented.** All expenditures must be properly documented. **(2 CFR §200.300 through 200.309)**

   Direct cost allocation principles: If a cost benefits two (2) or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two (2) or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. (2 CFR 200.405)

7. **Be calculated in accordance with generally accepted accounting principles (GAAP), unless provided otherwise in 2 CFR Part 200.**

8. **Not included as a cost or used to meet cost-sharing requirements in either the current or a prior period, unless the specific federal program authorizes federal costs to be treated as such.** Some federal program statutes require the nonfederal entity to contribute a certain amount of nonfederal resources to be eligible for the federal program. **(2 CFR 200.306)**

9. **Administrative closeout costs may be incurred until the due date of the final report(s). If incurred, closeout costs must be liquidated prior to the due date of the final report(s) and charged to the final budget period of the award unless otherwise specified by the federal agency. All other costs must be incurred during the approved budget period. (2 CFR 200.308, 200.344)**

10. **Be the net of all applicable credits.** The term **applicable credits** refers to those receipts or reduction of expenditures that operate to offset or reduce **direct or indirect costs** allocable to the federal award. Typical examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the **recipient or subrecipient** relate to the federal award, they shall be credited to the federal award, either as a cost reduction or a cash refund, as appropriate. (2 CFR 200.406)

Selected Items of Cost

Subpart E of Part 200 sets forth principles to be applied in establishing the allowability of specific cost items (commonly referred to as Selected Items of Cost), at 2 CFR **200.420-200.476**. These specific cost items are listed in the chart below along with the citation to the section of Subpart E addressing the allowability of that item. These principles are in addition to the other general allowability standards, and apply whether or not a particular item of cost is properly treated as direct cost or indirect (F&A) cost. Meeting the specific criteria for a listed item does not by itself mean the cost is allowable, as it may be unallowable under other standards or for other reasons, such as restrictions contained in the terms and conditions of a particular grant or restrictions established by the **recipient or subrecipient** or in Joint Operating Committee policy. If an item is unallowable for any of these reasons, federal funds cannot be used to purchase it.

The fact that a particular item of cost is not listed is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost and based on the principles described in applicable law and regulations. In case of discrepancy between the provisions of a specific federal award and the provisions below, the federal award governs. (2 CFR 200.102, 200.409, 200.420)

School personnel responsible for spending federal grant funds and for determining allowability must be familiar with and refer to the Part 200 selected items of cost section. These rules must be followed when charging these specific expenditures to a federal grant. When applicable, employees must check costs against the selected items of cost requirements to ensure the cost is allowable, and also check **recipient, subrecipient**, school and program-specific rules.

The selected item of cost addressed in Part 200 includes the following (in alphabetical order):

Item of Cost	**Citation of Allowability Rule**
Advertising and public relations costs	2 CFR § 200.421
Advisory councils	2 CFR § 200.422
Alcoholic beverages	2 CFR § 200.423
Alumni/ae activities	2 CFR § 200.424
Audit services	2 CFR § 200.425
Bad debts	2 CFR § 200.426
Bonding costs	2 CFR § 200.427
Collection of improper payments	2 CFR § 200.428
Commencement and convocation costs	2 CFR § 200.429
Compensation – personal services	2 CFR § 200.430
Compensation – fringe benefits	2 CFR § 200.431
Conferences	2 CFR § 200.432
Contingency provisions	2 CFR § 200.433
Contributions and donations	2 CFR § 200.434
Defense and prosecution of criminal and civil proceedings, claims, appeals and patent	2 CFR § 200.435

infringements	
Depreciation	2 CFR § 200.436
Employee health and welfare costs	2 CFR § 200.437
Entertainment costs	2 CFR § 200.438
Equipment and other capital expenditures	2 CFR § 200.439
Exchange rates	2 CFR § 200.440
Fines, penalties, damages and other settlements	2 CFR § 200.441
Fund raising and investment management costs	2 CFR § 200.442
Gains and losses on disposition of depreciable assets	2 CFR § 200.443
General costs of government	2 CFR § 200.444
Goods and services for personal use	2 CFR § 200.445
Idle facilities and idle capacity	2 CFR § 200.446
Insurance and indemnification	2 CFR § 200.447
Intellectual property	2 CFR § 200.448
Interest	2 CFR § 200.449
Lobbying	2 CFR § 200.450
Losses on other awards or contracts	2 CFR § 200.451
Maintenance and repair costs	2 CFR § 200.452
Materials and supplies costs, including costs of computing devices	2 CFR § 200.453
Memberships, subscriptions, and professional activity costs	2 CFR § 200.454
Organization costs	2 CFR § 200.455
Participant support costs	2 CFR § 200.456
Plant and security costs	2 CFR § 200.457
Pre-award costs	2 CFR § 200.458
Professional services costs	2 CFR § 200.459
Proposal costs	2 CFR § 200.460
Publication and printing costs	2 CFR § 200.461
Rearrangement and reconversion costs	2 CFR § 200.462
Recruiting costs	2 CFR § 200.463
Relocation costs of employees	2 CFR § 200.464
Rental costs of real property and equipment	2 CFR § 200.465
Scholarships and student aid costs	2 CFR § 200.466
Selling and marketing costs	2 CFR § 200.467
Specialized service facilities	2 CFR § 200.468
Student activity costs	2 CFR § 200.469
Taxes (including Value Added Tax)	2 CFR § 200.470
Telecommunication and video surveillance	**2 CFR § 200.471**

Termination costs	**2 CFR § 200.472**
Training and education costs	**2 CFR § 200.473**
Transportation costs	**2 CFR § 200.474**
Travel costs	**2 CFR § 200.475**
Trustees	**2 CFR § 200.476**

Prior Written Approval

A request for prior written approval to ensure reasonableness and allocability of any expense related to a federal award before incurring the cost is permissible. The elements listed below *require* prior written approval:

Reason Requiring Prior Written Approval	Citation
Cost sharing	**2 CFR § 200.306**
Program income	**2 CFR § 200.307**
Revision of budget and program plans	**2 CFR § 200.308**
Fixed amount subawards	**2 CFR § 200.333**
Compensation – personal services	**2 CFR § 200.430**
Compensation – fringe benefits	**2 CFR § 200.431**
Equipment and other capital expenditures	**2 CFR § 200.439**
Exchange rates	**2 CFR § 200.440**
Fines, penalties, damages and other settlements	**2 CFR § 200.441**
Fund raising and investment management costs	**2 CFR § 200.442**
Goods or services for personal use	**2 CFR § 200.445**
Insurance and indemnification	**2 CFR § 200.447**
Organization costs	**2 CFR § 200.455**
Pre-award costs	**2 CFR § 200.458**
Rearrangement and reconversion costs	**2 CFR § 200.462**
Travel costs	**2 CFR § 200.475**

Helpful Questions for Determining Whether Costs are Allowable -

In addition to applying the cost principles and standards described above, school staff involved in expending federal funds should ask the following questions when assessing the allowability of a particular cost:

1. Is the proposed cost allowable under the relevant program?
2. Is the proposed cost consistent with an approved program plan and budget?
3. Is the proposed cost consistent with program specific fiscal rules? For example, the school entity may be required to use federal funds only to supplement the amount of funds available from nonfederal (and possibly other federal) sources, or only as a match for funds from nonfederal sources.
4. Is the proposed cost consistent with **applicable laws and regulations**?

5. Is the proposed cost consistent with specific conditions imposed on the grant (if applicable)?
6. Is the proposed cost consistent with the underlying needs of the program? For example, program funds must benefit the appropriate population of students for which they are allocated. This means that, for instance, funds allocated under Title III of the Elementary and Secondary Education Act (ESEA) governing language instruction programs for English Learner (EL) students must only be spent on EL students and cannot be used to benefit non-EL students.
7. Will the cost be targeted at addressing specific areas of weakness that are the focus of the program, as indicated by available data?
8. **Has this expenditure been reviewed by legal for compliance if there is any uncertainty?**

Any questions related to specific costs should be forwarded to the Business Manager, who shall consult with the school solicitor for clarification as appropriate.

Refunds

Payments made for costs determined to be unallowable by either the federal awarding agency, cognizant agency for indirect costs, or pass-through entity, must be refunded with interest to the federal government in accordance with instructions from the federal awarding agency that determined the costs are unallowable unless applicable statute or regulation directs otherwise. (2 CFR 200.410)

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