Clark County School District No. 161

FINANCIAL MANAGEMENT **7320P1**

Determining Necessity and Reasonableness of Expenses

Federal grant funds may only be spent on costs which are necessary and reasonable for the performance of the federal award. District staff must consider these elements when determining the reasonableness of a cost. 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 the allowability of a cost under a federal program, the District shall comply with the following criteria:

1. Be necessary and reasonable for the performance of the federal award and be allocable thereto under the following principles.

2. Conform to any limitations or exclusions set forth in the following principles or in the federal award as to types or amount of cost items.

3. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the District.

4. Be accorded consistent treatment. 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 has been allocated to the Federal award as an indirect cost.

5. Be determined in accordance with generally accepted accounting principles (GAAP), except, as otherwise provided for in 2 C.F.R. Subpart E – Cost Principles.

6. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also 2 C.F.R. § 200.306(b) Cost sharing or matching.

7. Be adequately documented. See also 2 C.F.R §§ 200.300 - Statutory and national policy requirements through 200.309 - Period of performance.

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

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

2. 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;

3. Market prices for comparable goods or services for the geographic area;

4. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the District, its employees, its students, the public at large, and the federal government;

5. Whether the District significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost.

While the relevant federal administrative rule does not provide specific descriptions of what satisfies the "necessary" element beyond its inclusion in the reasonableness analysis above, "necessary" is 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 District can demonstrate that the cost addresses an existing need and can prove it. For example, the District may deem a language skills software program necessary for a limited English proficiency program.

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

1. Whether the cost is needed for the proper and efficient performance of the grant program;
2. Whether the cost is identified in the approved budget or application;
3. Whether there is an educational benefit associated with the cost;
4. Whether the cost aligns with identified needs based on results and findings from a needs assessment; and
5. Whether the cost addresses program goals and objectives and is based on program data.

Cross References:

7236	Employees Paid with Federal Funds and Unexpected or Extraordinary Closures
7400	Miscellaneous Procurement Standards
7400 P1	Miscellaneous Procurement Standards- Federal Award Requirements
7400 P2	Miscellaneous Procurement Standards-Procurement Methods Under a Federal Award
7400 P3	Miscellaneous Procurement Standards-Requirements and Restrictions for Procurement Under a Federal Award-Competition
7400 P4	Miscellaneous Procurement Standards-General Procurement Standards for Federal Awards

Legal Reference:

2 CFR §§ Part 200(Subparts E and F)	Cost Principals and Audit Requirements
2 CFR §§ Part 200 et seq.	Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
2 CFR §§ Part 200.420-.475	Considerations for Selected Items of Cost
2 CFR § Part 200.404	Reasonable Costs
2 CFR § Part 200.405	Allocable Costs
2 CFR § Part 200.406	Applicable Credits

Policy History:
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