# R 6115.01 FEDERAL AWARDS/FUNDS INTERNAL CONTROLS – ALLOWABILITY OF COSTS

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.

A. Delegation of Responsibility

When determining how the school district will spend its grant funds, the School Business Administrator/Board Secretary, 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.

B. Allowability Determinations

1. All costs supported by Federal education funds must meet the standards outlined in EDGAR, 2 CFR Part 3474 and 2 CFR Part 200, Subpart E, which are listed below. The School Business Administrator/Board Secretary, 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 Regulation.

   2 CFR 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 Policy and Regulation 6471 and related administrative regulations.

Whichever allowability requirements are stricter will govern whether a cost is allowable. General allowability determination factors include the following:

a. 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:

(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 individual incurring the cost acted with prudence in the circumstances considering 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. (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 district 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 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 Federal award 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.

(5) Whether the cost addresses program goals and objectives and is based on program data.

b. Allocable to the Federal award. A cost is allocable to the Federal award if the goods or services involved are chargeable or assignable to the Federal award 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 of a teacher's salary is paid with grant funds, then that teacher must spend at least fifty percent of their time on the grant program.

c. Consistent with policies and procedures that apply uniformly to both Federally-financed and other activities of the school entity.

d. 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.

e. 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.

f. Adequately documented. All expenditures must be properly documented.

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

h. Not included as a match or cost-share, unless the specific Federal program authorizes Federal costs to be treated as such. Some Federal program statutes require the non-Federal entity to contribute a certain amount of non-Federal resources to be eligible for the Federal program.

i. 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 expense items 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 State 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)

C. Selected Items of Cost

2 CFR 200, Subpart E, sets forth principles to be applied in establishing the allowability of fifty-five specific cost items (commonly referred to as Selected Items of Cost), at 2 CFR 200.420 through 200.475. 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 (Facilities and Administration) 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 State or in Board policy. If an item is unallowable for any of these reasons, Federal funds cannot be used to purchase it.

School district personnel responsible for spending Federal grant funds and for determining allowability must be familiar with and refer to the 2 CFR 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 State, district and program-specific rules.

The selected item of cost addressed in 2 CFR Part 200 includes the following:

| Item of Cost | Citation of Allowability Rule |
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| 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 infringements | 2 CFR 200.435 |
| 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 |

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| Maintenance and repairs 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 |
| Termination costs | 2 CFR 200.471 |
| Training and education costs | 2 CFR 200.472 |
| Transportation costs | 2 CFR 200.473 |
| Travel costs | 2 CFR 200.474 |
| Trustees | 2 CFR 200.475 |

D. Helpful Questions for Determining Whether Costs are Allowable

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

   a. Is the proposed cost allowable under the relevant program?

   b. Is the proposed cost consistent with an approved program plan and budget?

   c. 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 non-Federal (and possibly other Federal) sources, or only as a match for funds from non-Federal sources.

   d. Is the proposed cost consistent with EDGAR?

e. Is the proposed cost consistent with specific conditions imposed on the grant (if applicable)?

f. 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 Limited English Proficient (LEP) students must only be spent on LEP students and cannot be used to benefit non-LEP students.

g. Will the cost be targeted at addressing specific areas of weakness that are the focus of the program, as indicated by available data?

Any questions related to specific costs should be forwarded to the School Business Administrator/Board Secretary, who shall consult with the school solicitor for clarification as appropriate.

Adopted: