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Revised Policy - Vol. 43, No. 1 - UGG/EDGAR Revisions

6114 - COST PRINCIPLES - SPENDING FEDERAL FUNDS

The Superintendent is responsible for the efficient and effective administration of grant funds through the application of sound management practices. Such funds shall be administered in a manner consistent with all applicable Federal, State, and local laws, the associated agreements/assurances, program objectives, and the specific terms and conditions of the grant award.

Cost Principles

A cost is reasonable if it does not exceed an amount that a prudent person would incur under the circumstances prevailing when the decision was made to incur the cost. Except where otherwise authorized by statute, costs shall meet the following general criteria in order to be allowable under Federal awards:

- A. Be necessary and reasonable for proper and efficient performance and administration of the Federal award and be allocable thereto under these principles.

To determine whether a cost is reasonable, consideration shall be given to:

1. whether a 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 such factors as sound business practices, arm's length bargaining, Federal, State, local, tribal, and other laws and regulations;
3. market prices for comparable ~~costs~~ ~~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 or membership (if applicable), the public at large, and the Federal Government;~~ and
5. ~~the degree to which the cost represents a deviation from the Board of Education's established written policies and procedures for incurring costs~~ ~~whether the cost represents any significant deviation from the established practices or Board of Education policy which may unjustifiably increase the expense.~~

While Federal regulations do not provide specific descriptions of what satisfies the necessary element beyond its inclusion in the reasonableness analysis above, whether a cost is 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.

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

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

A cost is allocable to the Federal award if the ~~cost is goods or services involved are chargeable or~~ assignable to ~~that the~~ Federal award in accordance with the relative benefit received.

This standard is met if the cost:

1. is incurred specifically for the Federal award;
 2. benefits both the Federal award and other work of the District and can be distributed in proportions that may be approximated using reasonable methods; ~~or and~~
 3. is necessary to the overall operation of the District and is assignable, ~~in part,~~ to the Federal award in accordance with ~~these~~ cost principles ~~mentioned here~~.
- B. Conform to any limitations or exclusions set forth in the cost principles in ~~2 C.F.R. Part 200~~ or in the terms and conditions of the Federal award, including prohibitions regarding costs incurred for telecommunications and video surveillance services or equipment ~~or as a substantial or essential component of any system or as critical technology as part of any system~~. Such prohibition also applies to funds generated as program income, indirect cost recoveries, ~~or to satisfy cost share requirements~~.
- C. Be consistent with policies and procedures that apply uniformly to both Federally-financed and other activities of the District.
- D. Be accorded 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 allocated to a Federal award as an indirect cost under another award.
- E. Be determined in accordance with generally accepted accounting principles.
- F. Be representative of actual cost, net of all applicable credits, or offsets.
- The term applicable credits refers to those ~~transactions that offset or reduce direct or indirect costs receipts or reductions 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; ~~insurance refunds or rebates~~; and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the ~~District/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.
- G. Be not included as a match or cost-share ~~requirements of any other Federally-financed program in either the current or a prior period~~, unless the specific Federal program authorizes Federal costs to be treated as such.
- H. Be adequately documented:
1. in the case of personal services, the Superintendent shall implement a system for District personnel to account for time and efforts expended on grant-funded programs to ~~ensure/assure~~ that only permissible personnel expenses are allocated;
 2. in the case of other costs, all receipts and other invoice materials shall be retained, along with any documentation identifying the need and purpose for such expenditure if not otherwise clear.
- I. ~~Administrative closeout costs may be incurred until the due date of the final report(s). If incurred, these 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. ~~At its discretion, the Federal agency is~~

authorized to waive prior written approvals to carry forward unobligated balances to subsequent budget periods.

The budget period means the time interval from the start date of a funded portion of an award to the end date of that funded portion during which recipients are authorized to incur financial obligations of carry out authorized work and expend the funds awarded, including any funds carried forward or other revisions pursuant to 2 C.F.R. 200.308 the law. Prior written approval from the Federal awarding agency or State pass-through entity may be required to carry forward unobligated balances to subsequent budget periods unless waived.

Selected Items of Cost

The District shall follow the rules for selected items of cost at 2 C.F.R. Part 200, Subpart E when charging these specific expenditures to a Federal grant. When applicable, District staff shall check costs against the selected items of cost requirements to ensure the cost is allowable. In addition, State, District, and program-specific rules, including the terms and conditions of the award, may deem a cost as unallowable and District personnel shall follow those rules as well.

The following rules of allowability must apply to equipment and other capital expenditures:

- A. Capital expenditures for general-purpose equipment, buildings, and land are allowable as direct charges, but only except with the prior written approval of the Federal awarding agency or pass-through entity.
- B. Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$10,000 or more have the prior written approval of the Federal awarding agency or pass-through entity.
- C. Capital expenditures for improvements to land, buildings, or equipment that materially increase their value or useful life are allowable as a direct cost but only except with the prior written approval of the Federal awarding agency or pass-through entity.
- D. All Federally-funded contracts in excess of \$2,000 related to construction, alteration, repairs, painting, decorating, etc. must comply with Davis-Bacon prevailing wage requirements.
- E. Allowability of depreciation on buildings, capital improvements, and equipment shall be in accordance with 2 C.F.R. 200.436 and 2 C.F.R. 200.465.
- F. When approved as a direct cost by the Federal awarding agency or pass-through entity under Sections A-C, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the Federal awarding agency.
- G. The District may claim the unamortized portion of any equipment written off as a result of a change in capitalization levels by continuing to claim the otherwise allowable depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency for indirect cost.
- H. If the District is instructed by the Federal awarding agency to otherwise dispose of or transfer the equipment, the costs of such disposal or transfer are allowable.
- I. Equipment and other capital expenditures are unallowable as indirect costs.

Statutory requirements may limit the allowability of costs. Any costs that exceed the maximum amount allowed by statute may not be charged to the Federal award. Only the amount allowable by statute may be charged to the Federal award.

Payments made for costs determined to be unallowable by the Federal agency, cognizant agency for indirect costs, or pass-through entity must be refunded (with interest) to the Federal Government.

Prior Written Approval

To avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the District may seek the prior written approval of the Federal agency (or, for indirect costs, the cognizant agency for indirect costs) before incurring the cost. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that cost unless prior approval is specifically required for allowability.

Cost Compliance

The Superintendent shall require that grant program funds are expended and are accounted for consistent with the requirements of the specific program and as identified in the grant application. Compliance monitoring includes accounting for direct or indirect costs and reporting them as permitted or required by each grant. Costs incurred for the same purpose in like circumstances shall be treated consistently as either direct or indirect costs, but may not be double charged or inconsistently charged as both.

Determining Whether a Cost is Direct or Indirect:

The association of costs with a Federal award (rather than the nature of the procurement transaction) determines whether costs are direct or indirect. Costs incurred for the same purpose in like circumstances must be treated consistently as direct or indirect.

- A. Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

These costs may include: salaries and fringe benefits of employees working directly on a grant-funded project; purchased services contracted for performance under the grant; travel of employees working directly on a grant-funded project; materials, supplies, and equipment purchased for use on a specific grant; program evaluation costs or other institutional service operations; and infrastructure costs directly attributable to the program (such as long-distance telephone calls specific to the program, etc.). Direct costs may also include capital expenditures if approved by the Federal ~~awarding~~ agency or pass-through entity, as well as capital expenditures for special purpose equipment with a unit cost of less than \$~~10,000~~5,000.

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.

- B. Indirect costs are those that have been incurred for a common or joint purpose benefitting more than one (1) cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Costs incurred for the same purpose in like circumstances shall be treated consistently as either direct or indirect costs.

These costs may include: general data processing, human resources, utility costs, maintenance, accounting, etc.

Federal education programs with supplement not supplant provisions must use a restricted indirect cost rate. In a restricted rate, indirect costs are limited to general management costs. General management costs do not include divisional administration that is limited to one (1) component of the District, the governing body of the District, compensation of the Superintendent, compensation of the chief executive officer of any component of the District, and operation of the immediate offices of these officers.

The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

1. Administrative or clerical services are integral to a project or activity.
2. Individuals involved can be specifically identified with the project or activity.
3. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency.
4. The costs are not also recovered as indirect costs.

Where a Federal program has a specific cap on the percentage of administrative costs that may be charged to a grant, that cap shall include all direct administrative charges as well as any recovered indirect charges.

Effort should be given to identify costs as direct costs whenever practical, but allocation of indirect costs may be used where not prohibited and where indirect cost allocation is approved ahead of time by the Ohio Department of Education and Workforce ("DEW") ~~(ODE)~~ or the pass-through entity (Federal funds subject to 2 C.F.R. Part 200 pertaining to determining indirect cost allocation).

~~Equipment and other capital expenditures are unallowable as indirect costs.~~

Timely Obligation of Funds

Financial obligations are orders placed for property and services, contracts and subawards made, and similar transactions that require payment under a Federal award that will result in expenditures by a recipient or subrecipient under a Federal award. ~~This term is used when referencing a recipient's or subrecipient's use of funds under a Federal award.~~

The following list illustrates when funds are determined to be obligated under the U.S. Department of Education regulations:

If the obligation is for:

- A. Acquisition of property - on the date which the District makes a binding written commitment to acquire the property.
- B. Personal services by an employee of the District - when the services are performed.
- C. Personal services by a contractor who is not an employee of the District - on the date which the District makes a binding written commitment to obtain the services.
- D. Performance of work other than personal services - on the date when the District makes a binding written commitment to obtain the work.
- E. Public utility services - when the District receives the services.
- F. Travel - when the travel is taken.
- G. Rental of property - when the District uses the property.
- H. A pre-agreement cost that was properly approved by the Secretary under the cost principles in 2 C.F.R. Part 200, Subpart E - Cost Principles - on the first day of the project period.

Period of Performance

All financial obligations must occur during the period of performance. Period of performance means the time interval between the start and end date of a Federal award, which may include one (1) or more budget periods. Identification of the period of performance shall be specific to the Federal award and consistent with 2 C.F.R. 200.211 and does not commit the Federal agency to fund the award beyond the currently approved budget period~~Period of performance means the total estimated time interval between the start of an initial Federal award when the District is permitted to carry out the work authorized by the grant and the planned end date. The period of performance may include one (1) or more funded portions or budget periods.~~ The period of performance is dictated by statute and will be indicated in the Grant Award Notification ("GAN")~~(GAN)~~. As a general rule, State-administered Federal funds are available for obligation within the year that Congress appropriates the funds for. However, given the unique nature of educational institutions, for many Federal education grants, the period of performance is twenty-seven (27) months. This maximum period includes a fifteen (15) month period of initial availability, plus a twelve (12) month period for carryover. For direct grants, the period of performance is generally identified in the GAN. Note, however, that certain Federal awards have specific requirements that restrict the use of funds beyond the initial period of performance.

In the case of a State-administered grant, financial obligations under a grant may not be made until the application is approved or is in substantially approvable form, whichever is later. In the case of a direct grant, a grantee may use grant funds only for obligations it makes during the grant period unless an agreement exists with the ~~awarding~~ agency or the pass-through entity (e.g., ~~DEWODE~~) to reimburse for pre-approval expenses.

If a Federal ~~awarding~~ agency or pass-through entity approves an extension, or if the District extends under C.F.R. 200.308(e)(2), the Period of Performance will be amended to end at the completion of the extension. If a termination occurs, the Period of Performance will be amended to end upon the effective date of termination. If a renewal is issued, a distinct Period of Performance will begin.

For both State-administered and direct grants, regardless of the period of availability, the District shall liquidate all financial obligations incurred under the award not later than ninety (90) calendar days after the conclusion of the period of performance of the award (or an earlier date as agreed upon by DEW and the District)~~end of the funding period unless an extension is authorized~~. Any funds not obligated within the period of performance or liquidated within the appropriate timeframe are said to lapse and shall be returned to the ~~awarding~~ agency. Consequently, the District shall closely monitor grant spending throughout the grant cycle.

Legal

2 C.F.R. 200.216, 200.344(b), 200.403-.407, 200.413(a)-(c), 200.430(a),
200.431(a), 200.439(b)(2)

2 C.F.R. 200.458

34 C.F.R. 76.707-.708(a), 75.703