

**Allowability of Costs – Federal Programs
Policy 626 Attachment 2**

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 Charter 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.

Allowability Determinations

All costs supported by federal education funds must meet the standards outlined in Education Department General Administrative Regulations (“EDGAR”), 2 CFR Part 3474 and 2 CFR Part 200, Subpart E. The Business Manager must consider these factors when making an allowability determination.

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

General allowability determination factors 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 Charter 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 Charter School, its employees, its students, the public at large, and the federal government.
- Whether the Charter 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 Sec. 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 Charter School 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 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 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 Sec. 200.405)

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 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.
7. Be calculated in accordance with generally accepted accounting principles (GAAP), unless provided otherwise in Part 200.
8. 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 nonfederal entity to contribute a certain amount of nonfederal resources to be eligible for the federal program.
9. 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 Sec. 200.406)

Selected Items of Cost

Charter 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 state, Charter School and program-specific rules.

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