

FINANCIAL MANAGEMENT

A SOUND INVESTMENT
IN SUCCESSFUL
VR OUTCOMES

ALLOWABLE AND ALLOCABLE COSTS

Presenters:

- ❖ Madelyn Johnson, Auditor, U.S. Department of Education, OIG, Dallas Regional Office, Madelyn.johnson@ed.gov, (214) 661-9554
- ❖ David Steele, Chief SMPID Fiscal Unit, U.S. Department of Education, Rehabilitation Services Administration, david.steele@ed.gov, (202) 245-6520



WHAT IS THE ED-OFFICE OF INSPECTOR GENERAL (OIG)?

The investigating and auditing component for the Department of Education (ED) program offices.

WHAT DOES OIG DO?

Conduct internal and external audits of any recipient of Department funds.

An audit is the objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

BASICALLY, OIG:

- ◉ Verifies “What Is”
- ◉ Compares “What Is” to “What Should Be”
- ◉ Tries to determine why “What Is” is different from “What Should Be”
- ◉ Determines the impact of “What Is” being different from “What Should Be”
- ◉ Makes recommendations to help “What Is” become “What Should Be”

CRITERIA: “WHAT SHOULD BE”

The rules that govern a particular program, activity, function, or government organization.

- Laws
- Regulations
- Guidance
- Directives
- Policies and Procedures

COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS

(2 CFR 225, PREVIOUSLY OMB A-87)

Why is it important?

- Provides guidelines concerning reimbursement requirements
- Provides uniform standards of allowability
- Provides uniform standards of allocation
- Simplifies intergovernmental relations
- Encourages consistency in treatment of costs

WHAT FACTORS AFFECT THE ALLOWABILITY OF COSTS?

(2 CFR 225)

1. Necessary and reasonable for the proper and efficient performance and administration of federal awards
2. Allocable to federal awards under the provisions of 2 CFR 225
3. Authorized or not prohibited under state or local laws or regulations

FACTORS AFFECTING ALLOWABILITY (CONTINUED)

4. Conform to any grant or contract limitations or exclusions per 2 CFR 225 cost principles, federal laws, award terms and conditions, or other governing regulations as to types or amounts of cost items (e.g., Education Department General Administrative Regulations “EDGAR”)
5. Consistent with recipient’s policies, regulations, and procedures that apply to both federal award and other activities of the recipient
6. Accorded consistent treatment

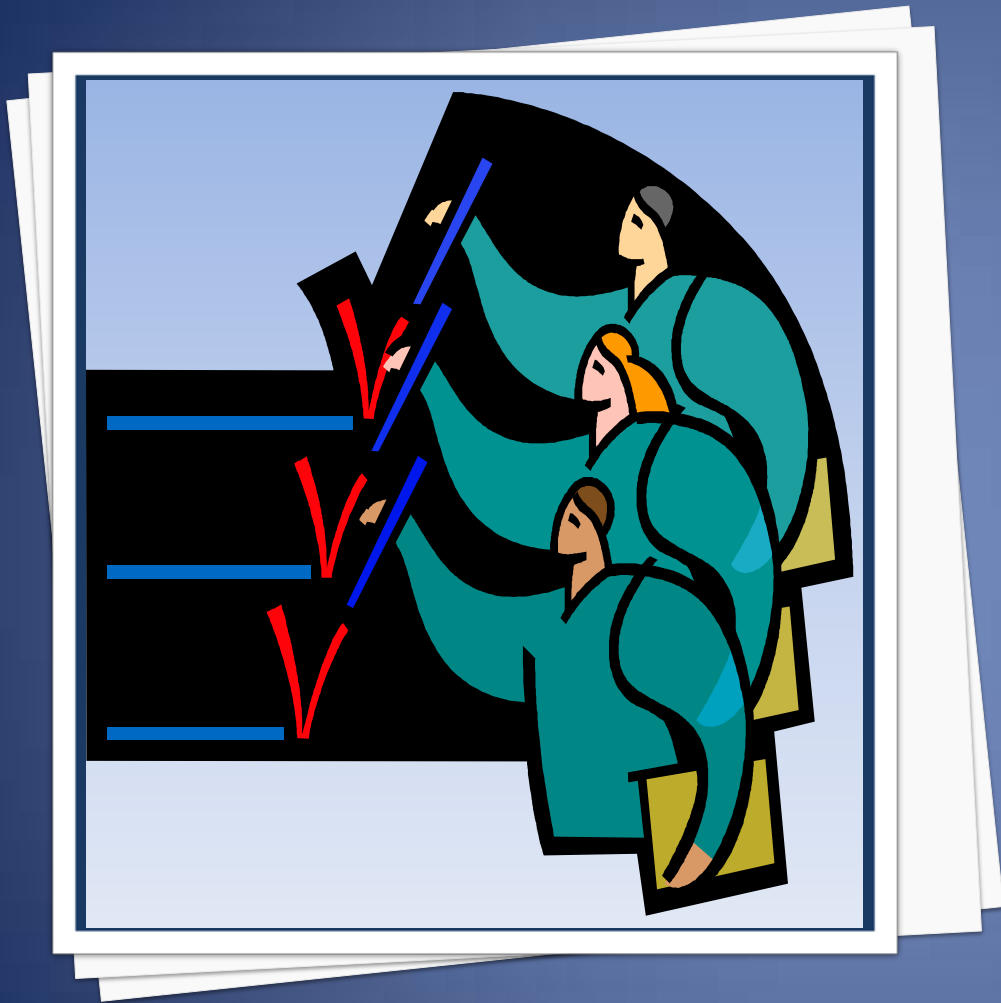
FACTORS AFFECTING ALLOWABILITY (CONTINUED)

7. Determined in accordance with Generally Accepted Accounting Principles
8. Not included as cost or match in any other federally-funded program



FACTORS AFFECTING ALLOWABILITY (CONTINUED)

9. Net of all applicable credits
10. Be adequately DOCUMENTED in accordance with requirements



BIG 3 TEST

**MUST PASS ALL
THREE TO BE
CHARGED...**

- Allowable
- Allocable
- Necessary & Reasonable

ED-OIG ALLOWABILITY ISSUES IDENTIFIED WITH EXAMPLES:

ED-OIG issued a Management Information Report (MIR) on July 21, 2009 to provide the Department with information that might be beneficial in overseeing grants provided to state educational agencies (SEAs). The MIR summarizes:

- ⦿ Pervasive fiscal issues reported in 41 OIG audit reports issued during FY 2003 - FY 2009
- ⦿ 3 OIG investigations that resulted in criminal convictions of LEA officials during October 1, 2002 - December 31, 2008

MIR COMMON FINDINGS

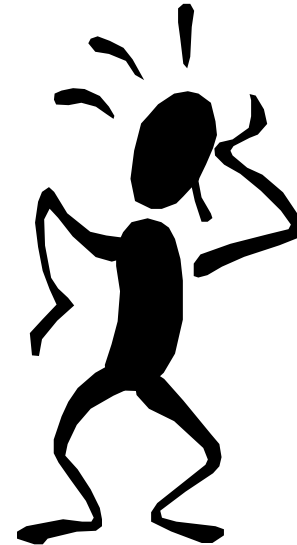
- ◉ Non-Personnel Costs Unnecessary (or Unreasonable) to Carry Out the Grant or Not for Program Purposes
- ◉ Unallowable Costs Resulting from Contracts with Missing Required Elements, Lack of Approval, or Expenditures that Exceeded the Contract Amount
- ◉ Poor Internal Controls Over Purchase Cards and Gift Cards
- ◉ Unsupported Adjusting Journal Entries
- ◉ Violations of Cost Principles -- Food Purchases
- ◉ Property/Inventory Control

INTERNAL CONTROL WEAKNESSES IDENTIFIED - QUESTIONED COSTS

- ◉ Instances of inadequate policies and procedures
- ◉ No policies and procedures
- ◉ Policies and procedures not implemented
- ◉ Misunderstanding of the regulations and guidance
- ◉ Inadequate monitoring

DEPARTMENT/RSA ALLOWABILITY ISSUES IDENTIFIED WITH EXAMPLES:

- ◉ Non-VR costs charged to award (remember the program requirements)
- ◉ Noncompliance with EDGAR requirements
- ◉ Costs not adequately documented



DOCUMENTATION REFERENCES (EDGAR)

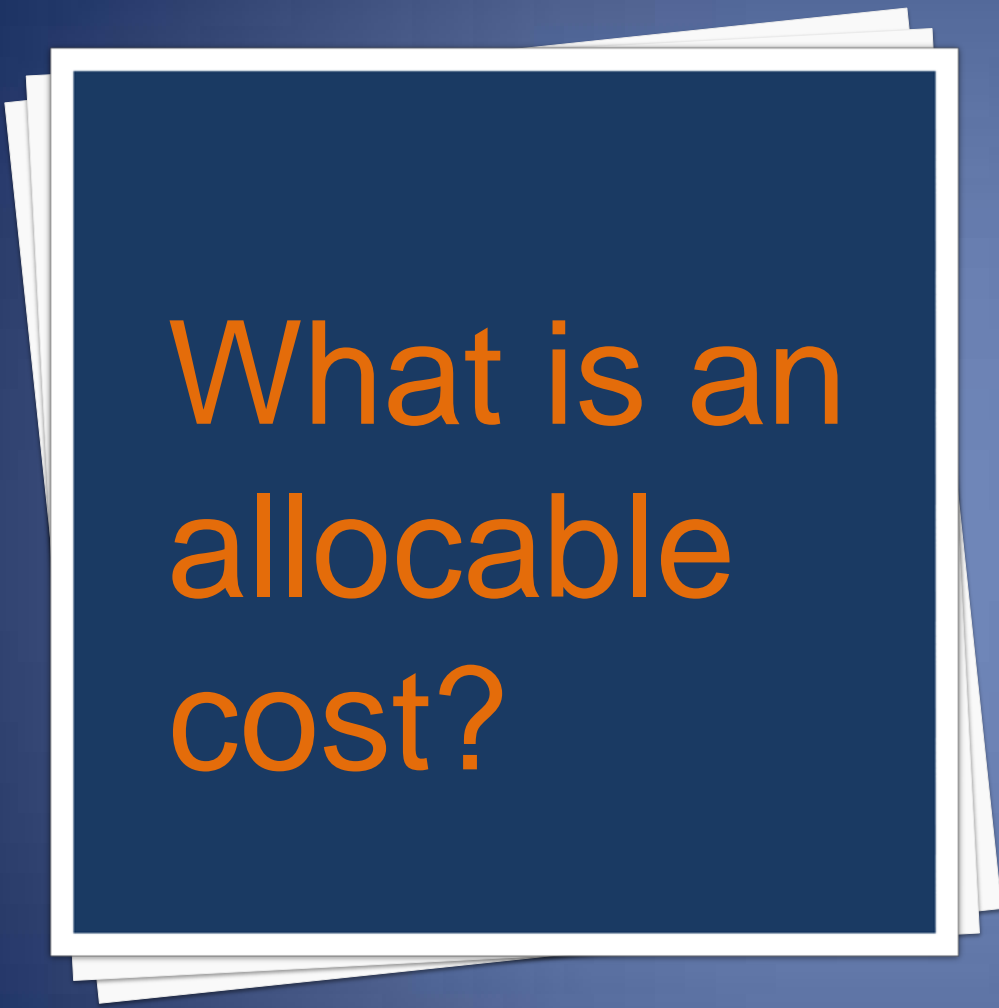
34 CFR 80.20(a) states:

- (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

DOCUMENTATION REFERENCES (EDGAR) (CON'T)

34 CFR 80.40(a) States:

Grantees are responsible for managing the day to-day operations of grant and subgrant compliance with applicable Federal requirements and that performance goals are being achieved. Grantee fiscal monitoring must cover each program function and activity.



What is an allocable cost?

A cost that creates a benefit for a cost objective -- either directly or indirectly.

WHEN IS A COST ALLOCABLE?

A cost is allocable to an award if it is treated consistently with other costs incurred for the same purpose in like circumstances and it meets one of the following criteria:

- ⦿ it is incurred specifically for the award;
- ⦿ it benefits both the award and other cost objectives and can be distributed in reasonable proportion to the benefits received; or
- ⦿ it is necessary to the overall operation of the organization, although a direct relationship to a particular cost objective cannot be shown.

ED-OIG ALLOCABILITY ISSUES IDENTIFIED WITH EXAMPLES

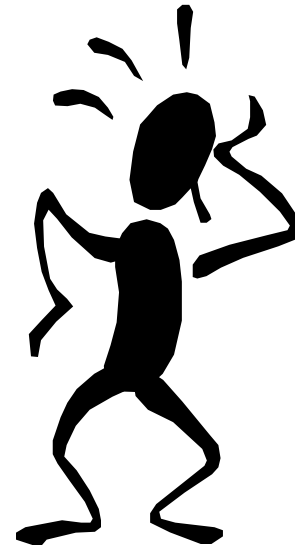
- ⦿ Personnel Costs Not Allocable to the Grant
- ⦿ Time and Effort Certifications were Missing, Incomplete, Inaccurate, or Untimely
- ⦿ Inadequate Personal Activity Reports or Timesheets Missing or Incomplete

ED-OIG ALLOCABILITY ISSUES (CONTINUED)

- If federal funds are used for payroll costs - time distribution records are required for work performed.
 - Semiannual Certification - at least every six months for employees working 100% on a program/cost objective
 - Personnel Activity Reports (PAR) - every month by employees working on multiple programs/cost objectives

DEPARTMENT/RSA ALLOCABILITY ISSUES IDENTIFIED WITH EXAMPLES

- ◉ Unallocable personnel costs
- ◉ Inconsistent treatment of costs
- ◉ Not able to document costs versus benefits received
- ◉ Unnecessary costs



CAUTION!



Costs allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal award or for other reasons (2 CFR 225).



CAUTION!

All benefiting activities must receive an appropriate allocation of indirect costs (2 CFR 225).

REASONABLENESS?

A cost is considered 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 was made to incur the cost.

CONSIDERATIONS WHEN DETERMINING REASONABLENESS

- ◉ Is the type of cost generally recognized as ordinary and necessary for the organization's operation or award performance?
- ◉ How does the cost compare to market prices for similar goods and services?
- ◉ Did the costs involve significant deviations from established practices of the organization which might unjustifiably increase costs charged to the award?

ED-OIG EXAMPLES

- ⦿ Unreasonable Cost - Communicator Clearboard Customized Kits VS. Page Protectors
- ⦿ Unnecessary Cost - Unused and Under-Used Purchases

CAUTION!



**AN ALLOCABLE COST MAY
NOT BE ALLOWABLE OR
REASONABLE.**

MOST COMMONLY KNOWN UNALLOWABLE COSTS



- Alcoholic beverages

- Bad debts

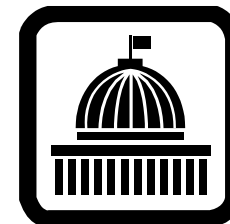
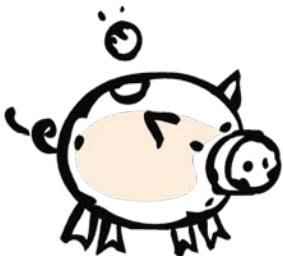
- Contingency reserves

- Entertainment

- Fines and Penalties

- Fund Raising and Investment management

- Lobbying



GENERALLY UNALLOWABLE COSTS (SOME EXCEPTIONS)

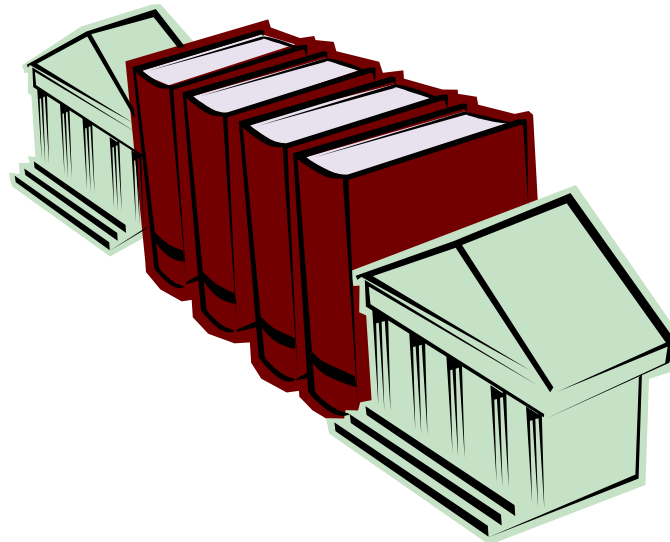
- ◉ Defense...(Legal costs)
- ◉ Donations and contributions
- ◉ Fines and penalties
- ◉ Idle facilities and idle capacity
- ◉ Membership, subscriptions and professional activities
- ◉ Losses on other agreements/contracts
- ◉ Housing and personal living expenses
- ◉ Compensation for personal services (e.g., private automobile)
- ◉ Food and beverages

What findings has
RSA identified
related to Allowable
and Allocable
Costs?

- Agencies are not managing daily operations of grant supported activities
- Agencies do not have procedures that ensure financial accountability

FOR MORE INFORMATION...

- COST PRINCIPLES FOR STATE, LOCAL,
AND INDIAN TRIBAL GOVERNMENTS
2 CFR 225
- 34 CFR 80.20(a)
- 34 CFR 80.40(a)



QUESTIONS?

