**Rhode Island Department of Education**

**Adult Education Funding Application**

**Budget Guidance**

**Guidance for Budgeting Salary & Fringe Benefits**

If you are planning to budget a salary against a grant, you **must** budget any corresponding benefits for that position against the grant at the same level (FTE) of support. If there are insufficient funds to budget both the full salary and benefit costs against the grant, then they must be reduced proportionately.

For every salary (compensation) budget line (51000) created, a fringe benefits line (52000) must also be created based on that FTE percentage. Combine the net benefits cost (ex: health, retirement, taxes) for each compensation line in the budget.

For example, if you have a .70 FTE in the salary line, you must also have .70 FTE in benefits. If there are 12 total compensation lines in a program budget there should also be a total of 12 fringe benefit lines.

* Each position is either a salary or a per hour basis please make the determination based on the contract with each position. **There is no need to convert hourly based employees to FTEs.** When budgeting hourly based employees please provide full cost basis and leave the FTE column blank. On the fringe section of your budget provide the rate of benefits paid for each specific line. Total cost should be based on the total salary budgeted on the 51000 budget line.
* Required for both salaried and hourly staff.

**Example**

**100% of Salary** **70% On ABE budget**

**Salaries** $10,000.00  $7,000.00

**Benefits** $2,500.00 $1,750.00

1. **Purchased Services**

* ***Professional and Technical Services***

***Consultants*:** For each consultant detail service to be provided, hourly or daily fee and estimated time on the project.

***Consultant Expenses:*** List all expenses to be paid from the grant to the individual consultants in addition to their fees (i.e., travel, meals, lodging, etc.)

***Contracts:*** Provide a description of the product or service to be procured by contract and an estimate of the cost.

**\*\*Stipend expenditures are not allowable\*\***

* ***Property Services***

Property related expenses (e.g., rent, reproduction, telephone, janitorial, transportation, printing, insurance or other services) by major type and the basis of the computation (# of months x costs per month/year). If available, provide the square footage and the cost per square foot for rent or number of months x monthly rental cost.

**Reminder-Please include the percentage of total costs that each funding source supports**

**e.g. total rent=$20,000, JDF pays 10%=$2,000**

* ***Other***

Included in this section are budget items for Transportation, Insurance, Advertising, Printing, Tuition, Travel &Hotel expenses related to attendance at trainings

***Travel*** - Itemize travel expenses of project personnel by purpose (e.g., staff to training, field interviews, advisory group meeting, etc.). Show the basis of computation (e.g., six people to 3-day training at $X airfare, $X lodging, $X subsistence). In training projects, travel and meals for trainees should be listed separately. Show the number of trainees and the unit costs involved. Identify the location of travel, if known

1. **Supplies and Materials** - List items by type (office supplies, postage, training materials, copying paper, and expendable equipment items such as books, hand held tape recorders, etc.) and show the basis for computation ( # of units x cost per unit).

Generally, supplies include any materials that are expendable or consumed during the course of the project.

**\*\*Refreshment expenditures are not allowable either as direct or indirect costs\*\* See FAQ’s below**

1. **Equipment** – Describe non-expendable items that are to be purchased and provide a complete cost basis. Non-expendable equipment is tangible property having a useful life of more than two years and an acquisition cost of $5,000 or more per unit.

(Note: Organization’s own capitalization policy may be used for items costing less than $5,000). Expendable items should be included either in the “supplies” category. Rented or leased equipment costs should be listed in the Purchased Services category. Explain how the equipment is necessary for the success of the sub-priority project. **See below --Standards for Inventory Controls for documentation and tracking requirements**

1. **Indirect Costs** - Indirect costs are allowed only if the applicant has a federally approved indirect cost rate. **A copy of the signed rate approval, (a fully executed, negotiated** **agreement), must be attached.** If the applicant does not have an approved rate, one can be requested by contacting the applicant’s cognizant Federal agency, which will review all documentation and approve a rate for the applicant organization. Cities and towns must have an approved indirect rate from the Rhode Island Department of Education (RIDE). The indirect cannot exceed the administrative capped amount.

**NOTE: Federal Regulations limit the amount of indirect costs that an agency can take on any purchased service (53000 series) to the first $25,000 of the contract.**

**Indirect costs are NOT allowable on state funds**

**For staff use: The biggest change is that we cannot cap indirect if they have an approved rate. Programs must submit a copy of the approved negotiated rate notification.**

**Colleges have an approved rate of 8%.-any funding source**

1. **Administrative Costs** – The maximum is 5% of the total amount of administrative costs that is allowable, however a waiver may be issued by the RI Department of Education for amounts up to 10%. **A copy of the administrative costs waiver must be submitted to RIDE.** All administrative costs proposed must be described in the administrative costs description. (State colleges are restricted to 8%).
2. **Required Reserve-Professional Development**

RIDE expects that programs budget for time and funds to compensate staff for engaging in minimum amounts of professional development per program year. **\*\*For more detailed information on this requirement, please refer to the current RIDE PROFESSIONAL DEVELOPMENT GUIDANCE LETTER FOR ADULT EDUCATION PRACTITIONERS**

**Is it categorized as Equipment or Supplies?**

*Examples of items in each category can be found below:*

| *Classified with Property/Equipment* | *Classified with Supplies* |
| --- | --- |
| *Computers, Laptops, Notebook computers, I-Pads* | *Adding machines, calculators* |
| *Monitors, Printers, Projectors, Copiers, Scanners* | *Computer cables, mouse devices, flash-drive storage devices, monitor stands, mouse pads* |
| *Desks, File Cabinets, Credenzas* | *Desktop File Holders, diskettes, keyboards, drive storage devices* |
| *Software media such as Microsoft Office, Software for management systems such as Library and Operations* | *Certain Web-based software and databases for Library use* |
| *Refrigerators, Freezers, Ovens* | *Safety equipment and apparel, serving utensils* |
| *DVD Players, Televisions, DVR’s* | *Music CD’s, DVD’s, movies* |
| *Machinery such as drill presses, grinders, floor polishers, snow removal equipment, microscopes, typewriters, telephone systems* | *Small tools, such as hammers, screwdrivers, pliers, wrenches, rakes, shovels* |

*For Object Expenditure purposes, the following criteria will apply: Tangible,* ***nonexpendable****, personal property that has a useful life of more than one year shall be recorded in specific Object accounts in the 57000 (Property and Equipment) series. Tangible,* ***expendable****, personal property, irrespective of the length of the economic life is recorded in the Object 56000 (Supplies) series.*

*RIDE’s Capitalization Policy requires that tangible, nonexpendable, personal property that has a useful life of more than one year and an acquisition cost of $5,000 or more must be tagged for tracking and inventory purposes. Further, computer equipment (defined as devises or equipment that can receive, store and transmit data) with a useful life of more than one year and an acquisition cost of $500 or more must be tagged for tracking and inventory purposes.*

**54000** = Purchased Property Services – This budget section includes Cleaning, Repairs, Utilities, Rentals, and Telephone and Wireless Communications.

**55000** = Other Purchased Services – Included in this section are budget items for Transportation, Insurance, Advertising, Printing, Tuition, Travel &Hotel expenses related to attendance at trainings, School Committee Training costs, and holding accounts for Interagency Services such as services purchased from another school district or educational services agency (collaborative).

**56000** = Supplies and Materials – Items budgeted in this section include General Supplies, Energy, Maintenance Supplies, Books and Periodicals, and Technology related Supplies.  Please see guidance below concerning software and equipment.

**57000** = Property and Equipment – This section includes budgeted expenditures for Buildings, Vehicles, Furniture, Technology – Hardware and Software, and Other Equipment.  Please see guidance below concerning software and equipment.

**58000** = Miscellaneous – This series is used to budget for Dues & Fees.

**60000** = Indirect Cost – Indirect Cost Recovery within approved rate.

**Last Minute Tips for Budget Detail Pages**

**In general:**

* All requests must be **reasonable and necessary**.
* Property and equipment must be new or replacing items previously purchased with Adult Education funds, and necessary for the implementation of the Adult Education program.
* Food costs are not allowable as there is a heavy burden of proof to deem them as necessary to the program implementation (see budget guidance on using funds for meals). This includes all refreshments including those to be purchased for graduation celebrations!

**Cost Basis:**

* Describes, **in detail,** the costs of a position, service, or purchase; such as # of items x cost per item; or hourly rate x # of hours x duration.
* Cost basis supports a determination of “reasonable.”
* Do not include “supplies and materials” or “instructional materials” in the description line!
* Include the percentage of total costs that each funding source supports

e.g. total rent=$20,000, JDF pays 10%=$2,000

**Description:**

* Indicates the position to be funded, services to be provided, or item(s) to be purchased.

**Description Must Include a Justification:**

* Response links the request more specifically to the grant. Indicates how the request supports program objectives and why the request is necessary to successfully implement the project activity.
* Adequate description is provided to determine that request is necessary.
* Be specific! Review the budget guidance for detail that should be included for expenditures such as consultants, and travel.

**What is the Definition of Reasonable and Necessary?**

OMB circular A-87 requires that, for a cost to be allowable, it must be “necessary and reasonable for proper and efficient performance and administration of Federal awards.”

A-87 defines cost as reasonable if 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.”

When determining reasonableness, A-87 states that consideration should be given to:

1) whether the cost is ordinary and necessary;

2) sound business practices;

3) market prices for comparable goods and/or services;

4) whether the individuals involved acted with prudence; and

5) significant deviations from established practices

**Time and Effort**

* Federal fiscal law requires all employees, including teachers, paraprofessionals, and other staff that are paid with federal funds to document the time and effort they spend within that program. The portion of the federally paid salary should be reflective of the time and effort the individual has put forth for that federal program.
* 3 documentation options; staff fully funded with federal funds and having a fixed daily/weekly schedule, staff funded by more than one funding source, and staff who are fully federally funded with an irregular schedule.
* All positions will need to maintain an assurance of time. Full details and sample forms will be forwarded to programs with application information
* Assurances, certifications, time and effort logs, and schedules will be requested and reviewed when programs are monitored by the RIDE.

**Adult Education -- Quick Reference Guide**

**Time and Effort/Personnel Schedule Requirements**

The federal law requires all employees, including teachers, paraprofessionals, and other staff that are paid with federal funds to document the time and effort they spend within that program. The portion of the federally paid salary should be reflective of the time and effort the individual has put forth for that federal program.

The purpose of documenting time and effort is to ensure that a program does not use adult education funds to compensate an employee for time spent on any other program.

**There are 3 documentation options; staff fully funded with federal funds and having a fixed daily/weekly schedule, staff funded by more than one funding source, and staff who are fully federally funded with an irregular schedule.**

* Staff funded **by more than one funding source** or who are **fully federally funded on an** **irregular** **schedule** must keep a time and effort log and time sheet which must be signed every month.
* For those individuals with a salary that is **fully federally-funded** and they have a **regular, fixed daily schedule** with the adult education program, an assurance must be signed at least every six months. The individual and their supervisor must both sign the assurance after the time has occurred. This certification should also include documentation of time spent on the federal program (copy of daily planner, schedules, time sheets, daily logs, etc.). Programs that have fully funded federal personnel must maintain an assurance every six months (at a minimum) documenting that staff have worked solely for the one particular federal program.

When addressing this requirement, programs are responsible to keep documentation that outlines how the time and effort requirements are met for all staff being paid with federal funds either using a time documentation schedule or time and effort log. All positions will need to maintain an assurance of time.

**Assurances, certifications, time and effort logs, and schedules will be requested and reviewed when programs are monitored by the RIDE.**

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**You will need to know:**

* Names of individuals being paid with federal adult education funds
* Funding sources used to compensate staff
* Staff members positions, # of hours worked and scope of services provided
* Staff Schedules ( 3 options) fully funded with federal funds-fixed schedule, funded by more than one source or federally funded with an irregular schedule)



**Documentation to keep on file:**

* Organized evidence or documentation that all staff being paid with federal funds have documented their time and effort (daily, monthly, quarterly or by periodic certification)
* Documentation of adult education staff time spent on the federal program (copy of daily planner, schedules, time sheets, daily logs, etc)
* Signed time and effort logs- monthly basis minimum
* Signed semi-annual certification(for staff fully federally funded) (if applicable)
* Fixed Schedule form for staff paid by more than one funding source but has a fixed daily schedule.

(April 2014)

**Template for Assurance of Time**

From \_\_\_\_\_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(Start Date) (End Date) (Employee Name)

spent \_\_\_\_\_\_ of his/her time on adult education program activities as evidenced (FTE) by the enclosed schedule.

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\*Employee Date

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\*Supervisor Date

*\*Signatures must be dated AFTER the last date of service.*

**Semi-Annual Certification**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | Adult Education Program Name: | | | Federal Program: | | | Six-Month Period: | through | | Month/Year | Month/Year | |

I certify that the employee(s) listed below worked 100% of their time on activities authorized by the federal program state above.

*Signatures must be dated AFTER the last date of service.*

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| --- | --- | --- | --- | --- | --- |
| **Employee Name** | **Title** | **Employee** **Signature**   |  |  | | --- | --- | |  |  | | **Date** |
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\*Supervisor’sSignature

Date

**This form is to be completed every six months for any employee who is paid solely with federal funds from a single federal grant**.

1. **Using Adult Education Funds to Pay for Conferences, Meetings and Food**

Frequently Asked Questions to Assist U.S. Department of Education Grantees

To Appropriately Use Federal Funds for Conferences and Meetings

# Using Federal Grant (Discretionary and Formula) Funds to Host a Meeting or Conference

1. **May a grantee receiving funds from the U.S. Department of Education (Department) use its Federal grant funds to host a meeting or conference?**

Yes. Federal grant funds may be used to host a meeting or conference if doing so is:

1. Consistent with its approved application or plan;
2. For purposes that are directly relevant to the program and the operation of the grant, such as for conveying technical information related to the objectives of the grant; and
3. Reasonable and necessary to achieve the goals and objectives of the approved grant.
4. **What are examples of “technical information” that may be conveyed at a meeting or conference?**

Examples of technical information include, but are not limited to, the following, each of which must be related to implementing the program or project funded by the grant:

* Specific programmatic, administrative, or fiscal accountability requirements;
* Best practices in a particular field;
* Theoretical, empirical, or methodological advances in a particular field;
* Effective methods of training or professional development; and
* Effective grant management and accountability.

1. **What factors should a grantee consider when deciding whether to host a meeting or conference?**

Grantees should consider whether a face-to-face meeting or conference is the most effective or efficient way to achieve the desired result and whether there are alternatives, such as webinars or video conferences, that would be equally or similarly effective and more efficient in terms of time and costs than a face-to-face meeting. In addition, grantees should consider how the meeting or conference will be perceived by the public; for example, will the meeting or conference be perceived as a good use of taxpayer dollars?

1. **Are there conflict-of-interest rules that grantees should follow when selecting vendors, such as logistics contractors, to help with a meeting or conference?**

Grantees, other than States, must, as appropriate, comply with the minimum requirements in 34 CFR 74.42 and 80.36(b)(3) and should follow their own policies and procedures (or their local or State policies, as applicable) for ensuring that there are no conflicts of interest in the procurement process.

1. **When a meeting or conference is hosted by a grantee and charged to a Federal grant, may the meeting or conference be promoted as a U.S. Department of Education event?**

No. Meetings and conferences hosted by grantees are directed by the grantee, not the U.S. Department of Education. Therefore, the meeting or conference may not be promoted as a U.S. Department of Education meeting or conference, and the seal of the U.S. Department of Education must not be used on conference materials or signage without Department approval. In addition, all meeting or conference materials paid for with Federal grant funds must include appropriate disclaimers, such as the following, which is provided in EDGAR § 75.620 and states:

The contents of this (insert type of publication; e.g., book, report, film) were developed under a grant from the U.S. Department of Education. However, those contents do not necessarily represent the policy of the U.S. Department of Education, and you should not assume endorsement by the Federal Government.

# Using Federal Grant Funds to Pay for Food

1. **When a grantee is hosting a meeting, may the grantee use Federal grant funds to pay for food, beverages, or snacks?**

Generally, there is a very high burden of proof to show that paying for food and beverages with Federal funds is necessary to meet the goals and objectives of a Federal grant. When a grantee is hosting a meeting, the grantee should structure the agenda for the meeting so that there is time for participants to purchase their own food, beverages, and snacks. In addition, when planning a meeting, grantees may want to consider a location in which participants have easy access to food and beverages.

While these determinations will be made on a case-by-case basis, and there may be some circumstances where the cost would be permissible, it is likely that those circumstances will be rare. Grantees, therefore, will have to make a compelling case that the unique circumstances they have identified would justify these costs as reasonable and necessary.

If program offices have questions, they should consult with their program attorney.

**May Federal grant funds be used to pay for food and beverages during a reception or a “networking” session?**

In virtually all cases, using grant funds to pay for food and beverages for receptions and “networking” sessions is not justified because participation in such activities is rarely necessary to achieve the purpose of the meeting or conference.

**May a grantee enter into a contract with a hotel under which Federal grant funds will be used to provide meals, snacks, and beverages as part of the cost for meeting rooms and other allowable conference-related costs?**

Federal grant funds may only be used for expenses that are reasonable and necessary. In planning a conference or meeting and negotiating with vendors for meeting space and other relevant goods and services, grantees may only pay for allowable costs. If a hotel vendor embeds food and beverage costs into a hotel contract for meeting space, the grantee should work with the hotel to have the food and beverage costs identified and “backed out” of the contract, and have the price they are paying for meeting space appropriately adjusted to reflect the fact that food and beverages are not being purchased. The fact that food and beverages are embedded in a contract for meeting space does not mean that the food and beverages are being provided at no cost to the grantee.

**What if a hotel or other venue provides “complimentary” beverages (e.g., coffee, tea) and there is no charge to the grantee hosting the meeting?**

The grantee has an obligation, under these circumstances, to confirm that the beverages are truly complimentary and will not be reflected as a charge to the grant in another area. For example, many hotels provide complimentary beverages to all guests who attend a meeting at their facility without reflecting the costs of those beverages in other items that their guests or, in this case, the grantee purchases. As noted above, it would not be acceptable for a vendor to embed the cost of beverages in other costs, such as meeting space.

**May indirect cost funds be used to pay for food and beverages**?

The cost of food and beverages, because they are easily associated with a specific cost objective, such as a Department grant, are properly treated as direct costs, rather than indirect costs. As noted above, Federal grant funds cannot be used to pay for food and beverages unless doing so is reasonable and necessary.

1. **May Federal grant funds be used to pay for alcoholic beverages?**

No. Use of Federal grant funds to pay for the cost of alcoholic beverages is strictly prohibited.

1. **May a grantee use non-Federal resources (e.g., State or local resources) to pay for food or beverages at a meeting or conference that is being held to meet the goals and objectives of its grant?**

Grantees should follow their own policies and procedures and State and local law for using non-Federal resources to pay for food or beverages, including its policies and procedures for accepting gifts or in-kind contributions from third parties. However, if non-Federal funds are used to pay for food at a grantee-sponsored meeting or conference, the grantee should make clear through a written disclaimer or announcement (e.g., a note on the agenda for the meeting) that Federal grant funds were not used to pay for the cost of the food or beverages. Grantees should also be sure that any food and beverages provided with non-Federal funds are appropriate for the grantee event, and do not detract from the event’s purpose.

1. **May grantees provide meeting participants with the option of paying for food and beverages (e.g., could a grantee have boxed lunches provided at cost for participants)?**

Yes. Grantees may offer meeting participants the option of paying for food (such as lunch, breakfast, or snacks) and beverages, and arrange for these items to be available at the meeting.

# Using Federal Grant Funds to Pay for Costs of Attending a Meeting or Conference Sponsored by ED or a Third Party

1. **May grantees use Federal grant funds to pay for the cost of attending a meeting or conference?**

If attending a meeting or conference is necessary to achieve the goals and objectives of the grant, and if the expenses are reasonable (based on the grantee’s own policies and procedures, and State and local laws), Federal grant funds may be used to pay for travel expenses of grantee employees, consultants, or experts to attend a meeting or conference. To determine whether a meeting or conference is “necessary,” grantees should consider whether the goals and objectives of the grant can be achieved without the meeting or conference and whether there is an equally effective and more efficient way (in terms of time and money) to achieve the goals and objectives of the grant (see question #3). To determine whether the expenses are “reasonable,” grantees should consider how the costs (e.g., lodging, travel, registration fees) compare with other similar events and whether the public would view the expenses as a worthwhile use of Federal funds.

1. **What should a grantee consider when planning to use Federal grant funds for attending a meeting or conference?**

Among other considerations, grantees should consider how many people should attend a meeting or conference on its behalf. The number of attendees should be reasonable and necessary to accomplish the goals and objectives of the grant. The grantee should also determine whether it is necessary to attend the entire meeting or conference, or whether attending only a portion of the meeting or conference is reasonable and necessary.

1. **What travel expenses may be paid for with Federal grant funds?**

Grantees may use Federal grant funds for travel expenses only to the extent such costs are reasonable and necessary and do not exceed charges normally allowed by the grantee in its regular operations consistent with its written travel policies. In the absence of an acceptable written policy regarding travel costs, grantees must follow the Federal travel and subsistence rates established by the General Services Administration. 48 CFR 31.205-46(a) (established under subchapter I of Chapter 57, Title 5, United States Code (“Travel and Subsistence Expenses; Mileage Allowances”)). Federal grant funds may be used to pay expenses for transportation, per diem, and lodging if the costs are reasonable and necessary. Grantees should follow their own travel and per diem rules and costs when charging travel expenses to their Federal grant. As noted in the cost principles, grantees that do not have travel policies must follow:

…the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code (“Travel and Subsistence Expenses; Mileage Allowances”), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under sponsored agreements (48 CFR 31.205-46(a)).

See 2 CFR Parts 220, 225, and 230.

**Questions Regarding the Allowable Use of Federal Grant Funds**

1. **What resources are available to help grantees determine whether costs associated with meetings and conferences are reasonable and necessary?**

Grantees must follow all applicable statutory and regulatory requirements in determining whether costs are reasonable and necessary, especially the U.S. Office of Management and Budget’s Cost Principles for Federal grants that are set out at:

* 2 CFR Part 225 (OMB Circular A-87; State, Local, and Indian Tribal Governments), (<http://www.gpo.gov/fdsys/pkg/CFR-2011-title2-vol1/xml/CFR-2011-title2-vol1-part225.xml>);
* 2 CFR Part 220 (OMB Circular A-21; Educational Institutions), (<http://www.gpo.gov/fdsys/pkg/CFR-2011-title2-vol1/xml/CFR-2011-title2-vol1-part220.xml>); and
* 2 CFR 230 (OMB Circular A-122; Non-Profit Organizations) (<http://www.gpo.gov/fdsys/pkg/CFR-2011-title2-vol1/xml/CFR-2011-title2-vol1-part230.xml>).

1. **May Federal grant funds be used to pay for entertainment?**

Federal grant funds may not be used to pay for entertainment, which includes costs for amusement, diversion, and social activities.

1. **Is it allowable for a person whose travel costs are being paid with Federal grant funds to attend a conference in Washington, DC, and lobby members of Congress while in town?**

Appropriated funds may not, except under very limited circumstances,[[1]](#footnote-1) be used for expenses related to any activity designed to influence the enactment of legislation, appropriations, regulations, administrative actions, or Executive Orders proposed or pending before the Congress or the Administration. To the extent that a portion of time at a conference is spent on lobbying activities, costs associated with the lobbying, including transportation to and from Washington, DC, lodging, and per diem, may not be charged to the Federal grant. For example, if a meeting or conference lasts for two days and a visit to lobby a member of Congress requires an additional day of travel, 1/3 of all costs involved in attending the meeting or conference, including travel to and from Washington, DC, may not be charged to the grant.

1. **What are the consequences of using Federal grant funds on unallowable expenses?**

The Department may seek to recover any Federal grant funds identified, in an audit or through program monitoring, as having been used for unallowable costs, including unallowable conference expenses.

**Inventory Controls**

**Standards for Inventory Management Systems**

The specific federal rules that apply to an entity’s inventory management system depend on (1) what type of entity is receiving the federal funds, and (2) whether the funds are received directly from the U.S. Department of Education (ED) or through the state.

This guide outlines the specific Education Department General Administrative Regulations (EDGAR) thresholds that apply to certain recipients of federal funds, it is perhaps more important to understand the overriding influence of the cost principles as they related to inventory management and the tracking of items purchased with federal funds. In essence, the cost principles contained in Office of Management and Budget (OMB) Circulars A-21, A-87 and A-122 require all expenditures of federal funds to be –at a minimum-necessary, reasonable, allocable to the program, allowable under the program and legal under state and local law. It is nearly impossible to demonstrate that items purchased with federal funds comply with these cost principles, and benefit the applicable program, if the times cannot be tracked and located by the federal grant recipient.

Accordingly, from a practical perspective, proper inventory management for items purchased with federal funds is reduced to the following: if a recipient purchases an item with federal funds, the recipient is best protected against adverse audit or monitoring findings if it has a system to track the item, regardless of its value. This concept will be discussed more in section II of this chapter.

**Summary of EDGAR-Specific Rules Regarding Equipment and Supplies**

From a legal perspective, as with the other two threshold systems (financial management and procurement), states and local governments (including school districts) managing state-administered programs are permitted to follow state and local inventory management procedures. Specifically, in a state-administered program, state and local governments may “use, manage, and dispose of equipment” acquired by a federal grant in a manner consistent with state laws and procedures. Other entities, such as school districts receiving funds directly from ED, must follow the specific requirements pertaining to equipment outlined in Sections 80.32(c)-(e) of EDGAR; institutions of higher education (IHEs), hospitals and nonprofits must follow Section 74.34 of EDGAR. Entities are encouraged to consult counsel to determine which standards apply in a given circumstance.

**Equipment Requirements by Grantee Type**

|  |  |
| --- | --- |
| TYPE OF GRANTEE OR SUBGRANTEE | PROCUREMENT PROCEDURES TO BE USED  (Caveat: Even where an entity is legally permitted to follow state or local equipment management procedures, it must still ensure that the basic cost principle requirements of necessary, reasonable, allocable, and legal are met, as well as other state, local and federal rules.) |
| States  Local governments receiving funds through the state | Use, manage and dispose of equipment acquired under a grant in accordance with state and local procedures. |
| Local governments receiving funds directly from ED  “Other grantees and sub grantees” | Use existing state or local procurement procedures if they comply with Sections 80.32(c)-(e) of EDGAR.  Otherwise, implement procedures specified in those Sections of EGAR. |
| Institutions of higher education  Hospitals  Other nonprofit organizations | Implement policies and procedures that comply with Section 74.34 of EDGAR. |

All recipients of federal education funds should be familiar with the specific requirements outlined in EDGAR, because ED monitors appear to be conceptually applying the EDGAR equipment standards as an internal control “yardstick” when determining whether expenditures meet federal cost principle requirements even where the EDGAR standards may not formally be required. Moreover, the Office of Inspector General (OIG) often issues findings citing agencies for having weak internal controls when property purchased with federal funds is lost or not easily accounted for through an inventory management system.

The basic threshold equipment management requirements are summarized in this section of Federal Education Grants Management. For simplicity, this summary is aligned to the organization of Sections 80.32(c)-(e) of EDGAR; entities are advised to consult the appropriate section of EDGAR that applies to their particular grant and circumstances before expending funds.

**Definition of Equipment**

As described in the definition section of Section 80.3, for state and local governments, “equipment” is tangible, nonexpendable personal property that has a useful life of more than one year and an acquisition cost of $5,000 or more. State and local governments may set a lower threshold for defining equipment, but not a higher one (many states define equipment as having an acquisition cost of $1,000 per unit). If a state or local government sets a lower threshold, such as entities, as well as other grantees and sub grantees must use that lower number for defining equipment.

EDGAR requires that grantees and sub grantees maintain controls over equipment through a compliant inventory management system. Elements of a compliant inventory management system are discussed below.

**Property Records**

Grantees and sub grantees must keep very specific records to document the location and use of equipment purchased with federal funds. A grantee or subgrantee that cannot identify each piece of equipment purchased with federal funds for an auditor risks an audit finding, even if the purchase was allowable under the relevant federal program. Inventory management findings are common, as discussed in the section below.

Under Section 80.32(d)(1) of EDGAR, grantees and sub grantees to which that section applies must maintain specific property records that include:

1. a description of the property;
2. a serial number or other identification number;
3. the source of property;
4. who holds title;
5. the acquisition date and cost of the property;
6. the percentage of federal participation in the cost of property;
7. the location, use and condition of the property; and
8. any ultimate disposition data, including the date of disposal and sale price of the property.

From a practical perspective, to facilitate proper tracking of property, grantees and sub grantees should tag any piece of equipment, as well as small and attractive items (such laptops, printers and personal digital assistants) that cost less than the equipment threshold but are easily stolen or damaged. The tag should consist of a physical label with an inventory number. It is also wise to include the funding source that allowed for the purchase (i.e., the federal or state program name or local revenue source). This is an effective mechanism for demonstrating proper recordkeeping when ED monitors or OIG auditors conduct on-site visits.

**Control System**

As part of an inventory management system, grantees and sub grantees must develop a control system to ensure that adequate safeguards are in place to prevent loss, damage or theft of the property. Any loss, damage or theft must be investigated by the grantee or subgrantee.

**Physical Inventories**

Grantees and sub grantees must take a physical inventory of their equipment at least every two years and must reconcile the results. If any equipment is missing, the grantee or subgrantee must follow up as described above. A state or local government, or the grantee’s or subgrantee’s own internal procedures, may require a more frequent physical inventory (for example, every year). If so, recipients must follow the more restrictive state, local or internal rules.

**Adequate Maintenance of Equipment**

Grantees and sub grantees must ensure adequate maintenance procedures to keep equipment purchased with federal funds in good condition. Assuming they are necessary, reasonable and properly allocated, maintenance costs can generally be charged to federal grants if they:

* keep property in efficient operating condition;
* do not add to the permanent value of the property or appreciably prolong its intended life; and
* are not otherwise included in rental fees or other charges for space.

**Disposition of Equipment**

*State and local governments*

Section 80.32(e) of EDGAR establishes specific rules for disposing of equipment, depending on what the equipment will be used for and the value of the equipment. When a grantee or subgrantee no longer needs equipment for the original program for which it was purchased, the grantee or subgrantee may use the equipment for other programs that are currently, or were previously, supported with federal funds. If such a disposition is made, the transfer must be recorded in the property management system.

If there are no federally supported programs that need the equipment, the disposal rules depend on the current fair market value of the equipment. If the equipment has a current fair market value of less than $5,000, the grantee or subgrantee may keep the equipment, sell it or otherwise dispose of it with no further obligation to ED. If the equipment has a current fair market value in excess of $5,000, the grantee or subgrantee may keep or sell the equipment but must pay ED a share based on the percentage of federal participation in the initial acquisition. (EDGAR does not address the scenario where equipment has a value of exactly $5,000.) It is important to note that grantees and sub grantees must follow their state or local thresholds if their thresholds for equipment are lower. ED’s share is calculated against the current fair market value if the grantee or subgrantee keeps the property or against the sale price if the grantee or subgrantee sells the property. For example, if a grantee purchased a copier with $5,000 of state funds and $5,000 of federal funds, the federal participation is 50 percent. If the grantee sells the copier for $6,000, the grantee must pay $3,000 to ED.

If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Grantees and sub grantees must take care to accurately value equipment. Ensuring proper valuation is an important part of a sound control system.

The recipient must request disposition instructions from ED, if the recipient has no use for the equipment. The department then determines whether the equipment can be used to meet ED requirements. If no ED requirements exist, the equipment’s availability will be reported to the General Services Administration to determine whether a requirement for the equipment exists in other federal agencies. No later than 120 calendar days after the recipient’s request, ED will instruct the recipient what to do with the equipment.

If the recipient is directed to ship the equipment to another agency or IHE, it will be reimbursed for shipping and any interim storage costs, as well as proportionate share of the fair market value based on its original participation. If the IHE is instructed to dispose of equipment in another manner, it will also be reimbursed for its costs.

If disposition instructions are not issued within 120 calendar days, or if the recipient is so instructed, the IHE will sell the equipment and reimburse ED an amount based on the original federal participation in the costs. However, the recipient can deduct from the federal share $500 or 10 percent of the proceeds (whichever is less) for the recipient’s selling and handling expenses.

**Supplies**

Supplies are addressed in Section 80.33 of EDGAR for state and local government.

Supplies are any tangible personal property that is not considered equipment. Generally, supplies do not cost much money and are used fairly quickly because they are perishable items (e.g., pens, paper, and printer toner). As a result, supplies do not have to be recorded in an inventory management system and do not require a formal inventory every two years; however, grantees and sub grantees must maintain enough information about their purchases to prove all costs are necessary, reasonable and allocable, as required under OMB Circular A-87. This point is critical and discussed further in the section below.

If a grantee or subgrantee has unused supplies that, in the aggregate, have a fair market value of more than $5,000 at the end of grant award, the grantee or subgrantee should use the supplies for another project that is supported with federal funds. If the supplies are not needed for another federally supported project, the grantee or subgrantee must compensate ED for its share of the value of the supplies.

**Practical Advice Regarding Inventory Management for Items Purchased With Federal Funds**

As with financial management and procurement systems, the need to show compliance with fundamental cost principles shapes inventory systems.

On a practical level, it is easy to understand that if a recipient cannot find an item purchased with federal funds, cannot account for how an item purchased with federal funds was used, it becomes very difficult to prove that the expenditure on the item was necessary, reasonable, allocable and legal.

Therefore, when OIG auditors have focused on issues of inventory, it is not uncommon for them, in practice, to hold recipients of funds to a higher standard than the standards contained in EDGAR. In essence, all recipients of federal funds are well-advised to think about how they will track all “items” purchased with federal funds, especially technological merchandise that is often stolen or broken, regardless of value. In short, if a recipient cannot find items and explain how they were used to benefit the federal program (i.e., prove that the items were allocable to the federal program), the recipient risks an audit or monitoring finding.

**Maintain an Updated Inventory Management System to Locate Equipment Purchased With Federal Funds**

Many monitoring findings indicate that recipients could not locate equipment purchased with federal funds through their inventory management system. Accordingly, recipients of federal funds should ensure that their inventory records are up-to-date so that recipients can account for all items purchased with federal funds at any given time. When ED auditors or monitors conduct a site visit, they typically request a printout of the property records, which enables them to select specific items to locate and thereby test the accuracy of the property records. Accordingly, records need to be kept as up-to-date as possible.

**Ensure a System Is in Place to Track All Items Purchased With Federal Funds, Even Items Below the Formal Equipment Definition.**

Even though certain items may not cost enough to meet the formal threshold for the definition of equipment (such as laptops, which generally cost less than the equipment definition threshold), auditors and monitors want to ensure that these types of times are appropriately accounted for so that ED can analyze whether the expenditure was consistent with the cost principles. ED also is monitoring entities to ensure that they are exercising proper internal controls over all items purchased with federal funds.

Both the OIG and departmental risk managers have paid especially close attention to how grantees and sub grantees track items that are easily stolen or damaged, such as laptop computers, personal digital assistants (PDAs), printers and other relatively small technological devices. Most of these devices cost less than $5,000 per unit, so a formal inventory is not strictly required by EDGAR. However, through audits and monitoring reports, ED has suggested-and, on occasion, demanded – that some formal system of tracking these items be in place.

In fact, at one time, there were discussions within ED regarding the feasibility of regulations that would formally require recipients to account for “small and attractive items,” such as laptops, printers and PDAs, that cost less than the equipment threshold. ED has never developed regulations to that effect, and there remains no regulatory definition of small and attractive items. Still, it is important for grantees and sub grantees to be aware of the scrutiny that OIG and other ED staff have afforded to these items.

**Adequate Sign-Out Procedures for Items That Are Portable**

Several monitoring reports had findings that entities did not have adequate control procedures in place for items that could be “checked out” and used off-site, such as laptop computers. As a corrective action, ED has demanded that these entities develop policies requiring items that are purchased with federal funds and taken away from their assigned location be subject to formal “check out” procedures. These “check out procedures” ensure that the person checking out the item is accountable for its proper custody.

**Adequate Tagging of Items**

Recent monitoring reports also contain findings regarding the insufficient tagging of items because the items either were not tagged or were tagged in a manner where the identification could be easily removed. As a corrective action, ED required entities to ensure that items are tagged in a manner that identifies the equipment and that the tags cannot be easily removed.

**Audit Tips**

* Be sure that any equipment purchased with federal grant funds is being used to benefit the program that provides the funding in accordance with the relative benefit received. For example, if the Migrant Education program paid 100 percent of the cost of computers, then the computers must be used exclusively to benefit the Migrant Education program. This has been a common finding in federal monitoring reviews by ED.
* Taking routine physical inventories and comparing the results to property records is a sound internal control. But it is not sufficient to conduct an inventory and then put the list away until the next time. Your inventory list should be continuously updated to reflect any change in the location or status of an item, so the item can be located on demand.
* It is a good idea for grantees and sub grantees to:
* maintain written procedures explaining how they value equipment;
* ensure employees are trained on these procedures; and
* maintain sufficient documentation to support a valuation.

Referenced from: Federal Education Grants Management: What Administrators Need to Know, 3rd Edition, Thompson Publishing

**RIDE Instructions for Adult Education Program Inventory Controls and Records**

Per EDGAR requirements for grantees and sub grantees, RIDE requires that programs funded with RIDE adult education funds maintain controls over equipment through a compliant inventory management system.

1. **Property Records--**Grantees and sub grantees must keep very specific records to document the location and use of equipment purchased with federal funds. Each adult education program will maintain a current and accurate inventory record of equipment purchased with RIDE adult education funds (*Physical Inventory Listing*). Items that must be included are printers, computers, digital cameras, laptops, fax machines, and office/classroom furniture and any other electronic equipment. Items that would **not** be included on the physical inventory listing are books, classroom libraries, classroom/office supplies, workbooks, maps, charts, globes, CD’s, and DVD’s.

The Physical Inventory Listing should include the following information:

1. a description of the property;
2. a serial number or other identification number;
3. the source of property (e.g. RIDE Adult Education);
4. who holds title(program name);
5. the acquisition date;
6. the cost of the item;
7. the percentage of federal participation in the cost of property;
8. the location (building and room number);
9. use and condition of the property; and
10. any disposition data, including the date of disposal and sale price of the property.
11. **Tagging**--From a practical perspective, to facilitate proper tracking of property, grantees and sub grantees should tag any piece of equipment, as well as small and attractive items (such laptops, printers and personal digital assistants) that cost less than the equipment threshold but are easily stolen or damaged. The tag should consist of a physical label with an inventory number. It is also wise to include the funding source that allowed for the purchase (i.e., the federal or state program name or local revenue source). This is an effective mechanism for demonstrating proper recordkeeping when RIDE or ED monitors or OIG auditors conduct on-site visits.
12. **Control System**--As part of an inventory management system, grantees and sub grantees must develop a control system to ensure that adequate safeguards are in place to prevent loss, damage or theft of the property. Any loss, damage or theft must be investigated by the grantee or sub grantee and reported to RIDE.
13. **Physical Inventories**--Grantees and sub grantees must take a physical inventory of their adult education equipment each year and must reconcile the results. If any equipment is missing, the grantee or sub grantee must follow up as described above.
14. **Ensure a System Is in Place to Track All Items Purchased With Federal Funds, Even Items Below the Formal Equipment Definition --**Even though certain items may not cost enough to meet the formal threshold for the definition of equipment (such as laptops, which generally cost less than the equipment definition threshold), programs must ensure that these types of times are appropriately accounted for so that RIDE and ED can analyze whether the expenditure was consistent with the cost principles. Programs must ensure that they are exercising proper internal controls over all items purchased with federal funds.

*NOTE: RIDE’s Capitalization Policy requires that tangible, nonexpendable, personal property that has a useful life of more than one year and an acquisition cost of $5,000 or more must be tagged for tracking and inventory purposes. Further, computer equipment (defined as devises or equipment that can receive, store and transmit data) with a useful life of more than one year and an acquisition cost of $500 or more must be tagged for tracking and inventory purposes.*

1. 2 CFR Part 230 (Cost Principles for Non-Profit Organizations), Appendix B., 25(b) and 2 CFR Part 220 (Cost Principles for Educational Institutions), 28(b). [↑](#footnote-ref-1)