The background of the slide features a collage of US dollar bills, including a blue \$5 bill on the left and several \$100 bills in shades of green and yellow on the right. The bills are slightly blurred and overlapping.

Understanding the Adult Education State Director's Fiscal Responsibilities

Office of Career, Technical, and Adult Education
New State Director Training
Washington, D.C.
September 27, 2017



- **Sections of statute and federal regulations that govern the adult education program financial management: **AEFLA, EDGAR, Uniform Guidance****
- **Critical Topics**
 - ✓ **Matching Requirements**
 - ✓ **Maintenance of Effort**
 - ✓ **Supplement-Not-Supplant Provision**
 - ✓ **Cost Allowability and Allocation**
 - ✓ **Direct vs. Indirect Costs**
 - ✓ **Standards for Documentation of Personnel Expenses**
- **Internal Controls and Monitoring Expenditures**

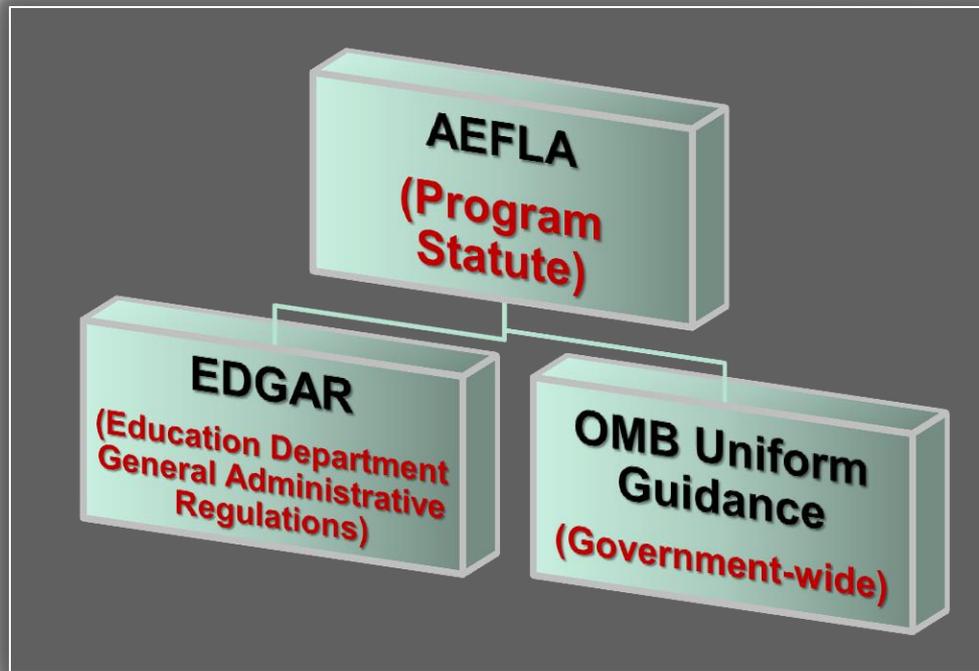
ADULT EDUCATION FISCAL BINGO

Adult Education Fiscal Bingo

- ➡ Move about the room, introducing yourself to fellow participants.
- ➡ Find someone who fits the description in one of the squares and write that person's name in the square. Use each person's name only once.
- ➡ When you complete one entire row or one entire column or diagonal cells, yell “**Bingo!**”



MAKING SENSE OF THE LAWS AND REGULATIONS THAT GUIDE OUR WORK



Why Three Sources?

After Congress passes legislation, OMB often interprets the law's main requirements, which provides guidance to federal and state agencies. Then individual federal agencies can further refine and regulate requirements, as the Department of Education has done in EDGAR.





SECTIONS IN THE LAW

ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)

- State provisions**
 - **Section 221**—State Administration
 - **Section 222**—State Distribution of Funds; Matching Requirement
 - **Section 223**—State Leadership Activities
 - **Section 224**—State Plan
 - **Section 225**—Programs for Corrections Education and other Institutionalized individuals

- Local provisions**
 - **Section 231**—Grants and Contracts for Eligible Providers
 - **Section 232**—Local Application
 - **Section 233**—Local Administrative Cost Limits (special rule)

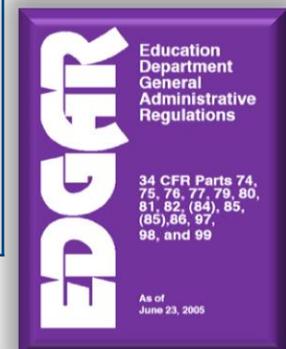
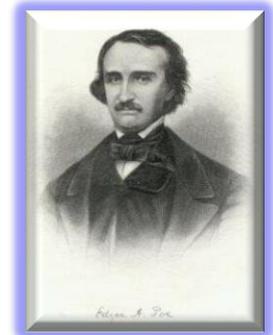
- General provisions**
 - **Section 241**—Administrative Provisions
(Supplement not Supplant and Maintenance of Effort)

OMB UNIFORM GRANT GUIDANCE

Uniform Guidance	What it covers
2 CFR Part 200 Subpart C	Pre-Award Requirements
2 CFR Part 200 Subpart D	Post-Award Requirements <ul style="list-style-type: none"> • Standards for Financial and Program Management • Performance and Financial Monitoring and Reporting • Subrecipient Monitoring and Management • Record Retention and Access
2 CFR 200 Subpart E	Cost Principles <ul style="list-style-type: none"> • Cost allocation plans • Direct vs. indirect costs • Allowable vs. unallowable costs (List of 55 costs) • Necessary, reasonable, and allocable costs • Standards for Documentation of Personnel Expenses
2 CFR Part 200 Subpart F	Audit Requirements
2 CFR Part 200 Appendix XI (OMB web site)	Compliance Supplement Information for auditors to understand the federal program's objectives, including allowable activities, matching requirements, level of effort, earmarking, period of availability of federal funds.

Education Department General Administrative Regulations (EDGAR)

Regulation from EDGAR 34 CFR*	Topic	What it covers
Part 76	State-Administered Programs	<ul style="list-style-type: none"> • Eligibility for a Grant or Subgrant • State Plans and Applications • How a Grant is Made to a State • How To Apply to the State for a Subgrant • How a Subgrant is Made to an Applicant • Indirect Cost Rates

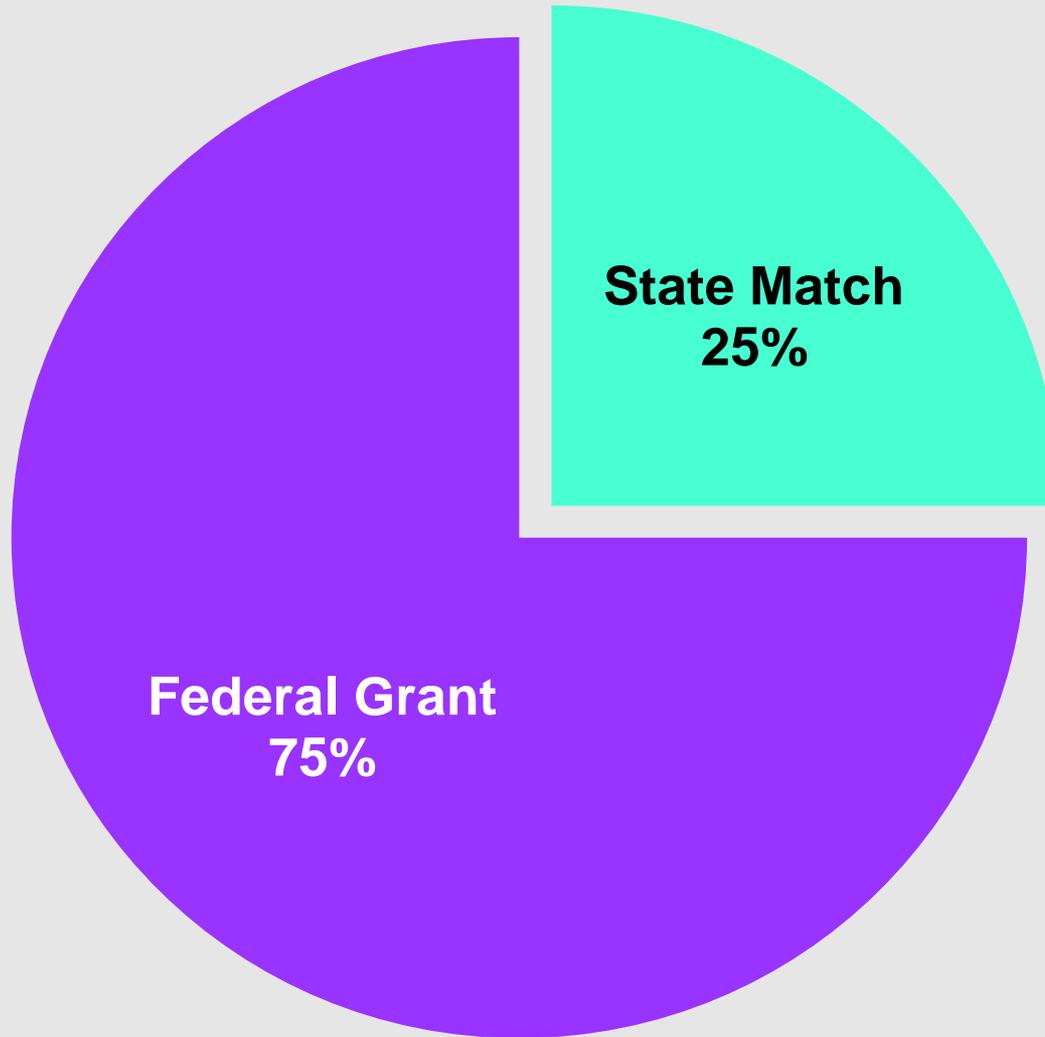


* CFR – CODE OF FEDERAL REGULATIONS



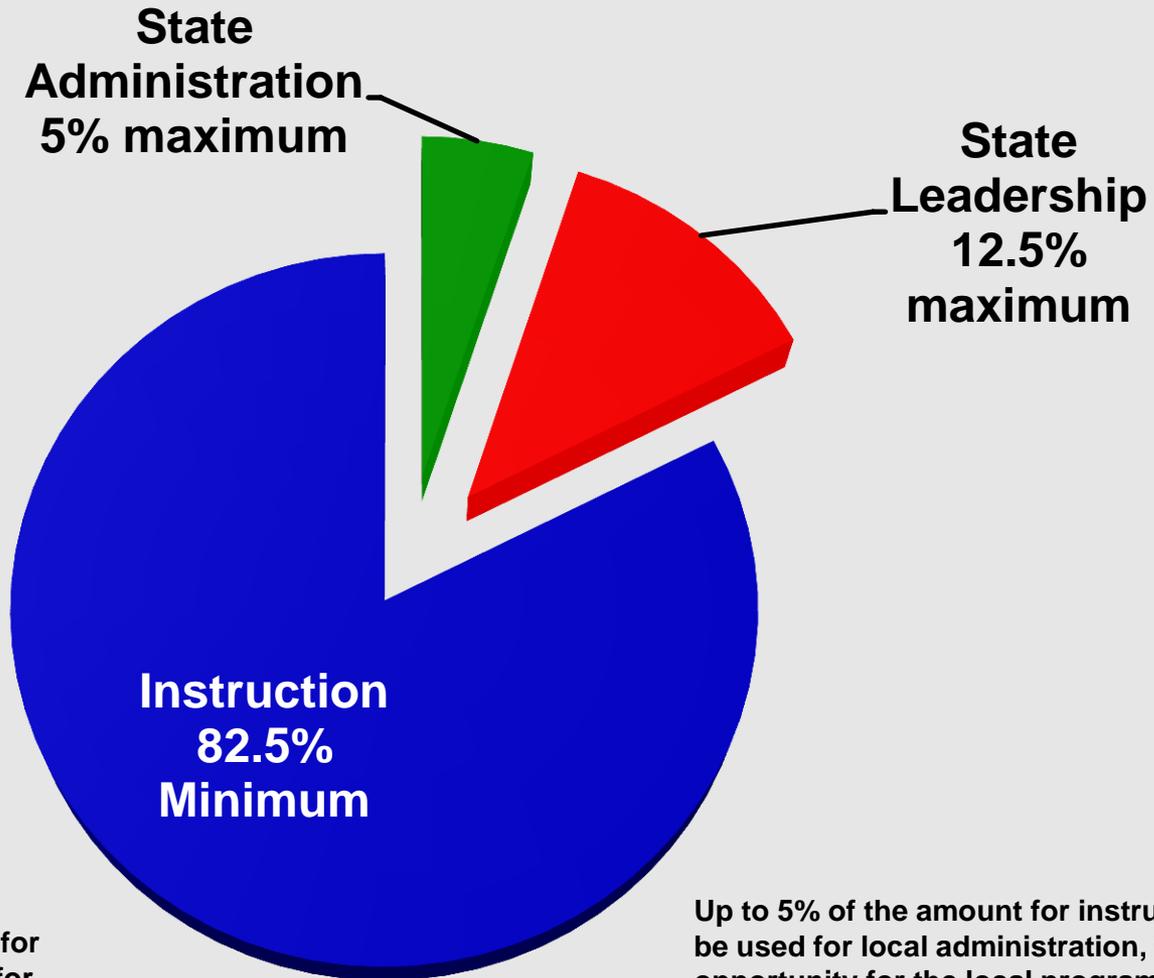
National Reporting System

AEFLA GRANT STATE MATCHING





AEFLA EARMARKS FOR THE FEDERAL GRANT



Up to 20% of the amount for instruction may be used for institutionalized individuals.

Up to 5% of the amount for instruction may be used for local administration, with an opportunity for the local program to negotiate a higher amount.



AEFLA FUNDS

“FLOORS” AND “CEILINGS”

State may use	Up to 5% of award for (or \$85,000 – whichever is greater)	State Administration (Sect. 221)
State may use	Up to 12.5% for	State Leadership Activities (Sect. 223)
State must pass through	82.5% to eligible providers for	Grants and Contracts for Eligible Providers (Sect. 231)
	Up to 20% of the 82.5% for (or 16.50% of total federal grant)	Corrections Education (Sect 225)
	Locals may use up to 5% of their grant for (see special rule)	Local Administrative Cost Limits (Sect 233)
State must match	With cash or in-kind (fairly evaluated) 25% of the total federal and non-federal funds spent on adult education in the state (or 33% of federal grant amount)	Matching Requirement (Section 222) [12% for territories]



AEFLA GRANT MATCHING THREE CRITICAL PIECES

1. Matching Requirements

(AEFLA Sect 222)

- Valuation of in-kind contributions and services
- Matching Exclusions

2. Supplement-not-Supplant

(AEFLA Sect 241 a)

3. Maintenance of Effort

(AEFLA Sect 241 b)





MATCHING REQUIREMENTS

State Match must be:

- Allowable (AEFLA and 2 CFR §200.403)
- Documented and verifiable
- Necessary and reasonable for accomplishing program objectives
- Supported by documentation of fair market value



State Match must not be:

2 CFR §200.306

- Included as contribution for other federal grants
- Met by another federal grant or contract
- Financed by program income (34 CFR 76.534)

MATCHING REQUIREMENTS (CONT.): VALUATION OF IN-KIND



Fair market value

=

**What would you pay if it
had not been donated?**





MATCHING REQUIREMENTS (CONT.): VALUATION EXAMPLES

To demonstrate that an in-kind contribution or service has been “fairly evaluated,” the grantee needs to provide documentation that supports its value.

Examples:

Classroom space—must show actual cost for comparable space in the area, or a real estate appraisal, or cost of renting same space to other organizations

Volunteer’s time—must show value of a paid teacher’s time in the same program





MATCHING: DISCUSSION QUESTION

How can you meet the matching requirement in Section 222(b)?

With your table team, list as many sources as possible. Then be prepared to share your ideas with the full group.





MAINTENANCE OF EFFORT

AEFLA Section 241(b)

To receive federal adult education funds, the state must **maintain its fiscal effort per student** or the **non-federal aggregate expenditures** for adult education.

- ▶ Ensures that states sustain their financial commitment to the adult education program and that they maintain delivery of services.
- ▶ A state's non-federal share used to meet cost-sharing requirements cannot be reduced more than 10% from year to year.

MAINTENANCE OF EFFORT (CONT.)

To determine MAINTENANCE OF EFFORT (MOE) AEFLA 241(b) (1) (A)

- ➔ Compare non-federal fiscal effort per student OR the aggregate non-federal expenditures for adult education for second and third preceding fiscal years.
- ➔ Aggregate expenditures for adult education for the second preceding year **must not be less than 90 percent** of that in the third preceding fiscal year.

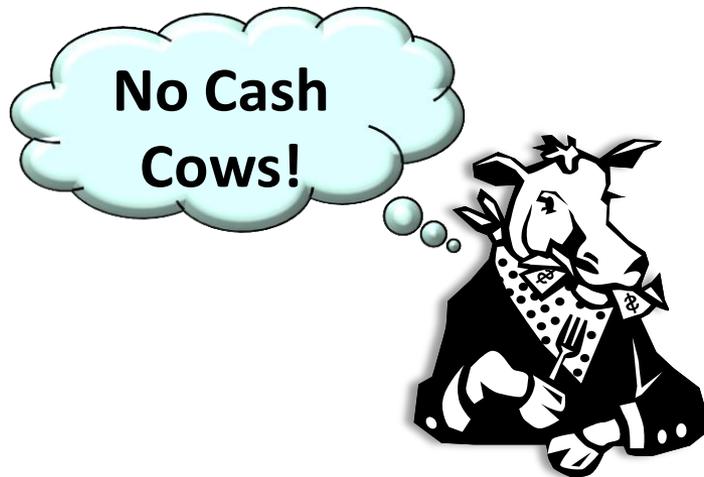


SUPPLEMENT NOT SUPPLANT

AEFLA Section 241(a): “Funds made available for adult education and literacy activities under this title **shall supplement and not supplant** other State or local public funds expended for adult education and literacy activities.”

In other words

Federal funds may not be used to pay for services, staff, programs, or materials that would otherwise be paid with state or local funds.



SUPPLEMENT NOT SUPPLANT (CONTINUED)

Supplanting would be presumed in these situations:

- ➡ Federal funds used to provide services that were supported by state or local funds in the prior year.
- ➡ Federal funds used to provide services the state or local agency is required to make available under other federal, state, or local laws.



Subpart E—Cost Principles

- 1. Factors Affecting Allowability of Costs**
- 2. Direct v. Indirect Costs**
- 3. List of Selected Items of Cost**
- 3. Standards for Documentation of Personnel Expenses**

- ✓ **55 specific costs detailed**
- ✓ **Listed in alphabetical order**



FACTORS AFFECTING COST ALLOWABILITY

All costs must be...

- ➡ **Reasonable**: incurred by a prudent person, and necessary for the performance of the project.
- ➡ **Allocable**: Charged in accordance with benefits received; proportional.
- ➡ **Authorized**: AEFLA, Uniform Guidance, EDGAR, state or local laws and regulations.
- ➡ **Adequately** documented.



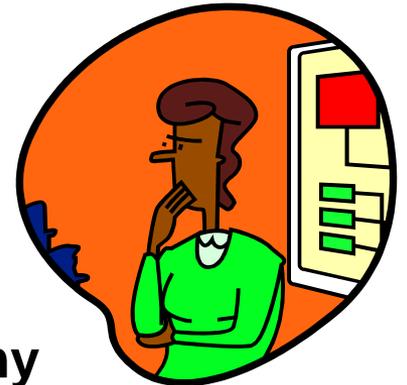
REASONABLE AND NECESSARY

➤ Practical aspects of “**reasonable**”

- ✓ Is the expense targeted to valid programmatic or administrative considerations?
- ✓ Do I have the capacity to use what I am purchasing?
- ✓ Did I pay a fair rate? Can I prove it?
- ✓ If asked to defend this purchase, how would I do it?

➤ Practical aspects of “**necessary**”

- ✓ Do I really need this?
 - Surplus property/existing resources
 - Lease vs. purchase
- ✓ Is this the minimum amount required to meet my program needs?



- ▶ Can charge **only** in proportion to the value or benefits received by the program

Example: State purchases a large copier to use 50% in Adult Ed and 50% in a state program – can charge only half the cost to federal funds.

Note well: If you can't do it under state law, you can't purchase it with federal funds.

- ▶ **Two Methods of allocating costs:**
 - ✓ Direct cost allocation
 - ✓ Indirect cost allocation



DIRECT COSTS DEFINITION 2 CFR §200.413(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.

Direct costs may not also be recovered as indirect costs.

Examples

- Salary, wages, fringe benefits
- Consultant fees
- Subcontracts
- Materials and supplies for project work





INDIRECT COSTS

OMB UNIFORM GUIDANCE SUBPART A

INDIRECT COSTS DEFINITION (2 CFR §200.56)

Costs incurred for a **common or joint purpose** benefitting more than one cost objective, and **not readily assignable** to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Examples

- ▶ Business office functions, including accounting and finance
- ▶ Human resource functions
- ▶ Computer hardware (general purpose)
- ▶ Facilities costs (space rental, utilities, etc.)
- ▶ Maintenance



Note: Cannot assign cost as direct cost to federal grant if assigned as indirect cost under state programs.

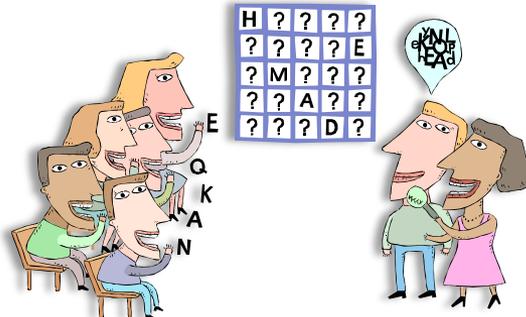


GROUP ACTIVITY

Cost Allowability Challenge

In your table teams, review the list of selected cost items on the hand-out and determine whether each item is allowable or not allowable under federal grants and contracts, as specified in the Uniform Guidance (2 CFR Part 200 Subpart E). The team with the most correct answers wins!

SELECTED COST ITEM	CIRCLE EITHER ALLOWABLE OR UNALLOWABLE	
Advertising/Public Relations	Allowable	Unallowable
Alcoholic Beverages	Allowable	Unallowable





WHEN IN DOUBT ABOUT WHETHER A COST IS ALLOWABLE ...

Ask Yourself...

1. Does it pass the **“sniff test”**?
2. How would you feel if this expenditure were reported on the **front page** of the newspaper?
3. Does this cost reflect the **spirit of the law** (i.e. purpose of adult education under AEFLA)?



STANDARDS FOR DOCUMENTATION OF PERSONNEL EXPENSES

- ▶ **2 CFR §200.430(i) applies to every employee position paid from federal funds. It also applies to subrecipients.**

Purpose

- ✓ To document that the appropriate federal program is receiving the benefit of the services supported by grant funds; and
- ✓ To verify the actual time spent on a federal program receiving the benefit of that effort.





STANDARDS FOR DOCUMENTATION OF PERSONNEL EXPENSES (CONTINUED)

Charges for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- Be incorporated into the official records of the non-federal entity.
- Reasonably reflect the total activity for which the employee is compensated.
- Encompass both federally assisted and all other activities compensated by the non-federal entity on an integrated basis.
- Comply with the established accounting policies and practices of the non-federal entity.



2 CFR §200.430 (i)(1)

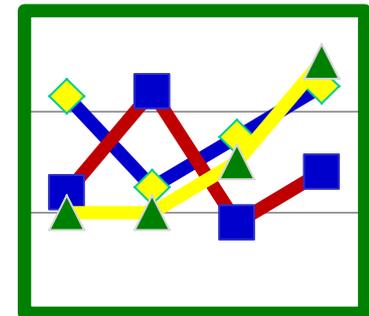
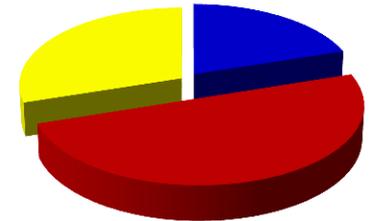


STANDARDS FOR DOCUMENTATION OF PERSONNEL EXPENSES (CONTINUED)

Charges for salaries and wages must be based on records that accurately reflect the work performed.

These records must:

- **Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.**
- **Budget estimates alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.**



Salaries and wages of employees used in meeting cost sharing or matching requirements on federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from federal awards.

2 CFR §200.430 (i)(4)



INTERNAL CONTROLS

WHAT ARE INTERNAL CONTROLS?

Tools to help program managers achieve results and safeguard the integrity of their programs

Includes processes for

- ➔ Planning
- ➔ Organizing
- ➔ Directing
- ➔ Controlling
- ➔ Reporting on agency operations



**See 2 CFR §200.302 Financial Management
and 2 CFR §200.303 Internal Controls**

BUDGET MONITORING

Actual expenditures should be compared at least monthly to the budget to ensure ...

- ▶ **All funds are used appropriately.**
- ▶ **Total funds on the grant have not been exceeded.**
- ▶ **Maximum expenditures for any cost category have not been exceeded (e.g. 5% for admin).**
- ▶ **Minimum expenditures for any cost category have been met (e.g., 82.5% for instruction).**



**Questions: Who in your agency performs these functions?
How often do you check on this?**



BUDGET VS. ACTUAL

Requires that ...

- ➔ Actual expenses are
 - ✓ reasonable,
 - ✓ allocable,
 - ✓ allowable, and
 - ✓ consistently charged.
- ➔ Mischarges are corrected in a timely manner. (e.g. cost transfers, journal entries, etc.)
- ➔ Prior approvals are obtained when required.
- ➔ Subrecipient expenses are monitored.



Questions: Who in your agency performs these functions?
How often do you check on this?

CONTROL CONSIDERATIONS

SUBRECIPIENT MONITORING

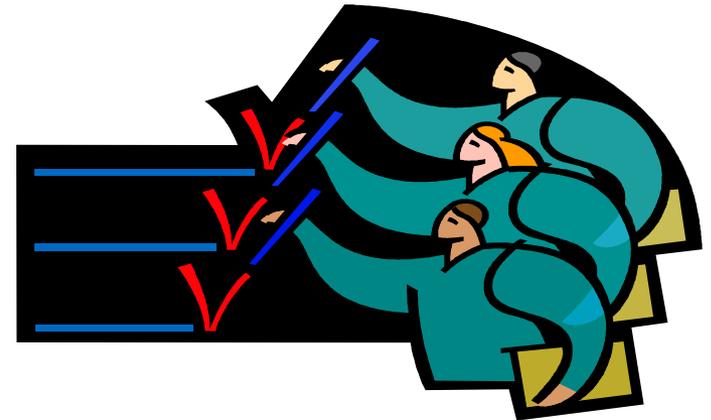
Note: The state is responsible for all funds that are awarded to subrecipients.

- **State's responsibilities** include ensuring that
 - ✓ All subrecipients are aware of provisions and requirements.
 - ✓ Expenditures are properly documented.
 - ✓ Financial reports correlate to source documentation.
 - ✓ Any finding or question about costs is resolved properly and in a timely manner.



CONTROL CONSIDERATIONS (CONT.)

- Segregating federal and non-federal expenditures in the accounting system
- Differentiating between federal grant expenditures
- Identifying equipment or property purchased with federal funds
- Preparation of **financial reports**
 - Accuracy
 - Timeliness



Questions: Who in your agency performs these functions?
How is it done?
How often do you check on this?



QUESTIONS?



The DAEL Monitoring and Administration Team and Accountability Team are available to assist you.