

Fiscal Guidelines for Federal and State Funded Grants

Version 18-01

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Introduction

The **Fiscal Guidelines for Federal and State Funded Grants** is intended to provide ***general*** guidance for the financial management of federal and state funded grants by local agencies. These grants must be conducted in accordance with all applicable federal and state laws, regulations and directives, including but not limited to:

- Federal and State Authorizing Legislation;
- Title 2 of the Code of Federal Regulations (CFR) Parts 200¹ and 3474 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- Title 34 of the Code of Federal Regulations (CFR) including Education Department General Administrative Regulations (EDGAR)²
- NY State Education Department Commissioner's Regulations
- NY State Education Law and State Finance Law
- NY State Education Department Policy

Funding Cycles for Federal and State Grants

All federal and state grant programs adhere to annual funding cycles, although there are significant differences between the federal and state funding calendars.

¹ 2 CFR 200 is often referred to as the Uniform Grants Guidance (UGG).

² 2 CFR 200 & 3474 applies to awards made after 12/26/14 as does Education Department General Administrative Regulations (EDGAR) Parts 75-79, 81-82, 84, 86, 97-99. For awards made prior to 12/26/14, EDGAR Parts 74 & 80 as well as the cost principles and administrative requirements outlined in the Office of Management and Budget (OMB)'s Circulars (A-21, A-87, A-122, and A-102, A-109 apply.

Federal Fiscal Year - The federal fiscal year runs from October 1 through September 30, but most federal programs are "forward funded" by the federal government and thereby made available to the states on July 1, prior to the start of the federal fiscal year. In addition, most federal grants are governed by carryover provisions which extend the life of an appropriation for an additional year. Thus, most programs funded through the U.S. Department of Education have an appropriation life of 27 months.

In order to manage local grant projects effectively and identify expenditure and carryover funds on a local and statewide basis, most federal grants to local agencies are awarded on an annual cycle. For this reason, most grants are funded on a school year basis of September 1 through August 31; however, certain programs may operate on a July 1 through June 30 basis. In addition, the NY State Education Department (NYSED) has the option to fund projects for a shorter length.

State Fiscal Year - The state fiscal year runs from April 1 through March 31. Unlike federal programs, state programs do not have carryover provisions unless specifically authorized by the State Legislature. While state funds may be disbursed up until August 31 following the end of the fiscal year, the limited appropriation life does impose severe restrictions on the time permitted for operation and closeout of individual projects. Thus, in order to manage state funds effectively, local grant projects are confined to a July 1 through June 30 cycle with the exception of special legislative projects which can run through July 31 when necessary. Again, as with federal programs, certain projects may be funded for a shorter duration within that cycle.

Application and Budgeting Processes for Grants/Grant-Contracts

Periodically, grant applications or Requests for Proposals (RFPs) are developed by the responsible NYSED program office. These documents are available on the internet and, upon request, in paper form from the program office.

- Agencies eligible to apply for funding should read the application materials thoroughly and follow all instructions contained in the application.
- A proposed budget (FS-10) will usually be requested as part of the application process. It is submitted to the appropriate NYSED program office along with all other required information.
- The NYSED program office reviews all of the grant application materials, including the budgets, and determines the grantees.
 - ❖ For competitive (or discretionary) grant programs, NYSED sends information regarding the grant program to the Office of the State Comptroller for review and approval. Upon approval, the program office then notifies applicants of approval or disapproval. Awards made through the competitive process are executed through either grants or grant-contracts.
 - ❖ Awards made through the allocational process are executed through grants.

- The same fiscal and programmatic requirements must be met under both grants and grant-contracts, but individual grant contracts must also be reviewed and approved by the Office of the State Comptroller.
- Following program office review and approval of the budget/FS-10, it is sent to Grants Finance for processing.
 - ❖ For grants, a copy of the approved budget/FS-10, accompanied by a grant status report, is mailed to the local agency by Grants Finance.
 - ❖ For grant-contracts, the approved budget/FS-10 is sent to the local agency as part of the contract which must be reviewed and agreed to (signed) by the local agency, then returned to NYSED for final state approval.
- The local agency notes any changes to the budget/FS-10 and establishes project accounting records.
- At the same time, but under separate cover, a formal Grant Award Notice (GAN) is sent to the local agency by Grants Finance. For grant contracts, the Grant Award Notice is included in the contract.
- Depending upon the program, an automatic first payment may be made. The availability and amount of first payments vary due to statutory, regulatory or policy requirements; refer to the Grant Award Notice for each grant regarding the availability and amount of the first payment. For grant contracts, refer to the contract for the Grant Award Notice and a payment schedule.
- The NYSED program office may notify local agencies of any special conditions of the grant or any requirements to provide additional information, such as performance reports.
- Subsequent budgetary changes requiring prior NYSED approval are requested by the local agency through Form FS-10-A/Proposed Amendment for a Federal or State Project. Submit FS-10-As to the NYSED program office responsible for managing the program.
- To request funds for a particular grant program, local agencies must submit Form FS-25/Request for Funds for a Federal or State Project. The amount of funds requested at any one time may only include actual expenditures to date plus, in some cases, anticipated expenditures for the next month. Submit FS-25s/Requests for Funds only when reimbursement for expenditures is required or, if permitted, expenditure of the funds will occur within the next month. There is no requirement to submit the form once a month or to submit a form requesting a zero payment. However, supporting documentation (such as copies of invoices, payroll information, etc.) may be requested.

- Once project activities are completed and **all expenditures** have been made (all bills paid), the local agency submits an original and one copy of the **FS-10-F/Final Expenditure Report** for a Federal or State Project to Grants Finance unless other/special routing instructions have been provided by the program office. Grants Finance reviews the final expenditure report, determines the final approved total of project expenditures, and reimburses any funds owed to the local agency. At this point, the grant is closed.

NYSED reserves the right to require the timely submission of a complete FS-10-F and any supporting or source documentation for monitoring or auditing purposes.

Fiscal Forms – Use and Instructions

Please note that ONLY the most current version of these forms should be used for grant/grant-contract projects. These forms may be found on Grants Finance's website (<http://www.oms.nysed.gov/cafe/>).

Form **FS-10 - Proposed Budget for a Federal or State Project** is used to:

- Assist the local applicant agency in planning for necessary project expenditures
- Provide NYSED with a specific itemization of proposed project expenditures
- Provide NYSED and the Office of the State Comptroller with the necessary documentation upon which payments can be based
- Ensure that expenditures made by the local agency have the prior approval of NYSED

Instructions:

- The specific deadline date for submittal of application materials and a proposed budget is established by each NYSED office responsible for program administration.
- Upon approval by NYSED, approved "funding dates" are assigned to projects. The start date is the earliest possible date for encumbrances in the operation of the project; similarly, the end date is the latest possible date for funds to be encumbered for the project. They may be found on the last/back page of the FS-10. Expenditures based on obligations made prior to or after the approved funding dates of the project will not be reimbursed.
- A copy of the approved FS-10 accompanied by a grant status report (called a CF121) will be returned to the agency in a window envelope. In addition, a formal Grant Award Notice (GAN) will be sent by Grants Finance, under separate cover, to the Chief Administrative Officer (CAO) of the agency.

- Depending upon the grant program, an automatic first payment may be made. The availability and amount of first payments vary due to statutory, regulatory or policy requirements; refer to the Grant Award Notice for each grant regarding the availability and amount of the first payment. For grant contracts, refer to the contract for the Grant Award Notice and a payment schedule.

Form **FS-25 - Request for Funds for a Federal or State Project** is used to:

- Report expenditures on federal or state funded projects
- Request funds for federal or state funded projects

Instructions:

- Local agencies may request funds to support grant activities by reporting actual expenditures to date plus, in some cases, anticipated expenditures for the next month. Regardless of the amount of anticipated expenditures, requests for funds may total no more than **90 percent**³ of a grant's approved annual budget.
- Certain grant programs allow payment only on a reimbursement basis and do not permit payments for anticipated expenditures. Regardless of the grant program, for-profit organizations are paid only on a reimbursement basis. In addition, any local agency identified as having a cash management system that is not in compliance with federal regulations may be limited to payments on a strictly reimbursement basis.
- For those grant programs that permit payment on anticipated expenditures, payments are allowed only when there is an immediate cash need and the local agency can demonstrate willingness and ability to maintain appropriate procedures that minimize the time between receipt and disbursement of the funds. (More information may be found in the Policy Advisory – Cash Management.)
- Before submitting a Form FS-25/Request for Funds for a Federal or State Project for additional funds to Grants Finance, a local agency must have a clear understanding of the policies and procedures regarding payments for federal and state grants. The Chief Administrator's signature (or that of a properly authorized designee) on the form will be considered confirmation of the agency's knowledge of and agreement to meet the requirements.
- Submit FS-25s/Requests for Funds for a Federal or State Grant only when reimbursement for expenditures is required or, if permitted, expenditure of the funds will occur within the next month. Unless an immediate cash need exists, there is no requirement to submit the form once a month or to submit a form requesting a zero payment.
- Documentation supporting the FS-25, including source documents and/or data from the agency's internal financial management system, may be requested for additional review, monitoring, or auditing purposes.

³ The remaining 10%, if the full amount of the approved project is expended, will be paid upon the submission and processing of the FS-10F/Final Expenditure Report for a Federal or State Project.

Form **FS-10-A - Proposed Amendment for a Federal or State Project** is used to:

- Request prior approval from NYSED for budget changes to federal or state funded grants
- Enable both the local agency and NYSED to maintain an accurate and up-to-date record of approved changes to a budget

Instructions:

- The following changes to a budget must receive prior approval from NYSED:
 - ❖ An increase in any budget category/code (salaries, purchased services, travel, etc.) by more than 10 percent or \$1,000, whichever is greater
 - ❖ An increase in the total budget amount
 - ❖ Addition of equipment (items having a unit value of \$5,000 or more and a useful life of more than one year)
 - ❖ Material changes to personnel positions (even those with no fiscal impact)
 - ❖ Addition of minor remodeling
 - ❖ Addition of indirect costs if not approved on original project budget
- The FS-10-A may be submitted at any time between the date the grantee receives the written approval of NYSED and the approved termination date of the grant as long as all prior approval requirements are met. However, NYSED program managers may set an earlier final date for submittal of budget amendment forms. Please check with the appropriate program office regarding possible deadlines.
- The date of receipt of an amendment is the earliest possible funding date for encumbrances based on that amendment. Amendments **may not** be submitted after the grant's end date or with the FS-10-F/Final Expenditure Report for a Federal or State Project.
- Since amendments need to be reviewed by the program office, they should be submitted directly to the NYSED office responsible for program administration. Amendments that are approved programmatically are then forwarded to Grants Finance where the necessary changes will be made to Grants Finance records. A copy of the approved amendment, like the approved FS-10/Budget, will be returned to the local agency for its files.

The **FS-10-F - Final Expenditure Report for a Federal or State Project** is used to:

- Report to NYSED reimbursable expenditures made by the agency for an approved project. These expenditures are compared with the approved budget category totals to determine final approved expenditures
- Serve as the basis for reimbursement of funds to the local agency

Instructions:

- The final expenditure reports should be prepared after all encumbrances have been liquidated (bills paid).
- The due date for the final expenditure report is listed on the Grant Award Notice (GAN).
 - ❖ Reports for federal projects are generally due within 90 days following the end of the project.
 - ❖ Reports for state projects are generally due within 30 days following the end of the project.

Please note that certain program managers may require earlier submission of final expenditure reports due to unique requirements of the fund source. If this is the case, the local agency will receive notification from the program manager. This program-specific requirement supersedes the standard timelines mentioned above.

- Expenditures for only one project may be reported on each final expenditure report. Copies of supporting documentation such as claim forms, travel vouchers, invoices, or contracts should **NOT** be sent to NYSED. Such documentation must be retained in the local agency project file. If it is necessary for an auditor to review this material, it will be requested.
- To ensure accuracy, the final expenditure report should be completed by staff of the local agency's business office.
- The form must provide all of the required information as listed in each column. For example, encumbrance dates must be provided and they must fall within the approved project period in order for the costs to be reimbursed. Also, check or journal entry numbers must be provided where appropriate.
- All costs are to be reported in whole dollar amounts.
- A desk review of each final expenditure report is conducted by Grants Finance to determine the reimbursable expenditures of the project. In some instances, a review of the FS-10-F that could include supporting documentation and source documents may also be conducted by the responsible program office.
- Upon completion of the desk review, a copy of the final expenditure report will be mailed to the local agency and any funds owed to the local agency will be reimbursed. If the review results in an overpayment to the local agency, the amount overpaid will be transferred to another of the agency's eligible projects (if/when possible) OR a refund check will be requested.

A Form FS- 80/ Notice of Overpayment will be mailed to the local agency that will identify the grant that was overpaid, the amount overpaid, and the grant charged for overpayment, OR will provide instructions on submitting a refund check. These procedures were designed to inform local agencies as fully as possible of NYSED's findings and to give them adequate time to review the information.

NYSED reserves the right to request at any time the timely submission of a complete FS-10-F and supporting documentation for monitoring or auditing purposes.

Reopening Grant/Grant-Contract Projects

Once the FS-10F/Final Expenditure Report for a Federal or State Project has been reviewed and the grant/grant-contract project closed, the local agency has 90 days to request that the grant/grant-contract project be reopened for further review. Requests should be submitted in writing to Grants Finance. Under normal circumstances, requests are limited to one per grant/grant-contract project. With appropriate justification, requests beyond one per grant/grant-contract project may be allowed, but they must be received within the original 90-day timeframe. *A possible exception to the 90-day timeframe would be a case where funds need to be returned to the NYS Treasury or the federal government due to actual project expenditures that are lower (after disallowed costs discovered during an audit or rebates/credits issued after the project was closed) than were previously reported.*

If there is no request from the local agency for additional review within the 90-day period, the results are considered final. However, NYSED reserves the right to reopen a grant/grant-contract project after it has been closed to either recover any unallowed costs or seek reimbursement of any additional costs that have been disclosed through separate audits or reviews.

General Guidelines

Local Responsibility

Projects must operate under the jurisdiction of the local board of education or other appropriate governing body and are subject to at least the same degree of accountability as all other expenditures of the local agency. The local board of education or other appropriate governing body is responsible for the proper disbursement of, and accounting for, project funds⁴. That is, local agencies need to have a proper financial management system⁵ in place and to establish and maintain appropriate and effective internal controls⁶.

In addition, written agency policy concerning wages, mileage and travel allowances, overtime compensation, or fringe benefits, as well as State rules pertaining to competitive bidding, safety regulations, and inventory control must be followed.

Also written procedures are required for cash management that minimizes the time elapsing between the drawdown and disbursement of funds⁷.

⁴ Part 76 of EDGAR (34 CFR 76.700 – 702) discusses general administrative responsibilities.

⁵ This is discussed in 2 CFR 200.302. Of particular note is 200.302 (b) where it specifies how federal awards are to be identified and accounted for in the financial management. Proper accounting of federal funds will help ensure that appropriate and accurate documentation from this system can be provided if/when needed.

⁶ This is defined in 2 CFR 61-62 & further discussed in 2 CFR 200.303.

⁷ This is discussed in 2 CFR 305.

Similarly, supporting or source documents are required for all grant related transactions entered into the local agency's recordkeeping system. Source documents that authorize the disbursement of grant funds consist of purchase orders, contracts, time & effort records, delivery receipts, vendor invoices, travel documentation and payment documents, including check stubs.

General Principles for Allowable Costs

Grant funds, whether from federal or State sources, must be expended on allowable activities in accordance with the approved budget and the applicable cost principles outlined in 2 CFR 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards). While 2 CFR 200 governs federal funds, NYSED also applies these same federal cost principles to state-funded grants to allow for consistency and uniformity in the administration of all grants/grant-contracts.

To be considered allowable for reimbursement, costs must meet the following general criteria:

- Be necessary and reasonable for proper and efficient operation of the program;
- Be allocable to the project and properly documented;
- Be permissible under applicable state and/or federal laws and regulations;
- Conform to policies and procedures as well as any limitations or exclusions set forth in these guidelines, laws or regulations, or other governing limitations as to types or amounts of cost items;
- Be the net amount after applying all applicable credits, such as purchase discounts, project-generated income, and adjustments of overpayments;
- Not be included as a cost in any other project or grant;
- Be consistently treated; and
- Must be accounted for in a basis that is in accordance with generally accepted accounting principles (GAAP).

Encumbrances

All encumbrances (or obligations) must be made **within the approved funding period (project period) of the grant**. Encumbrances for both federal and state projects are created on the following basis:

- Acquisition of real or personal property

- ❖ The encumbrance is made on the date on which a binding written commitment to acquire the property is made.
- Personal services by an agency employee
 - ❖ The encumbrance is made when the services are performed.
- Personal services by a contractor who is not an agency employee
 - ❖ The encumbrance is made on the date on which the agency makes a binding written commitment to obtain the work.
- Performance of work other than personal services
 - ❖ The encumbrance is made on the date on which the agency makes a binding written commitment to obtain the work.
- Public utility services
 - ❖ The encumbrance is made when the agency receives the services.
- Travel
 - ❖ The encumbrance is made when the travel is taken.
- Rental of real or personal property
 - ❖ The encumbrance is made when the agency uses the property.

Funding Dates

It is the practice of NYSED to use the earliest possible date for funding purposes. This may be as early as the date the grant application is received in NYSED in substantially approvable form, but may not be earlier than the date when the state or federal funds became available for obligation. Due to delays inherent in the project review process, written notification of approval sometimes may not occur until after the approved funding date. However, in such cases, expenditures occurring within the approved project funding dates are still allowable. The grant funding dates are indicated on the back page of the FS-10/Budget for a Federal or State Project as well as on the Grant Award Notice (GAN).

Interest Earned

Local agencies must return interest earned on federal funds above \$500. For these awards, specific guidance may be found in Title 2 of the Code of Federal Regulations Part 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards), Section 305.

This section states that interest earned amounts of \$500 per year may be retained by the local agency for administrative purposes. However, interest earned on federal advance payments in excess of \$500 cannot be retained to offset any direct or indirect program costs; they must be returned to the Department of Health and Human Services Payment Management System, known as PMS, electronically using either the Automated Clearing House (ACH) network or as a Fedwire Funds Services payment. (More information may be found in the Policy Advisory – Interest Earned on Federal Funds.)

Record Keeping and Retention

Generally, local agencies must have a proper financial management system in place, along with strong internal controls and written procedures, to properly account for funds received through a grant/grant-contract awarded by NYSED. Additionally, program as well as financial records, including supporting and source documentation, must be maintained and available for review by State and federal representatives or their duly authorized representatives.

In order to meet the requirements of both State and federally funded programs, these records must be kept for a period of six years after the last payment was made unless specified by program requirements or otherwise stated in the grant agreement.⁸ Audit or litigation will “freeze the clock” for records retention purposes until the issue is resolved.

Information on records retention may be found in:

- 2 CFR 200.333-337 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards for awards made on/after 12/26/14.
- Parts 74 & 80 of the Education Department General Administrative Regulations (EDGAR), specifically 34 CFR 74.53 & 34 CFR 80.42, for federal awards made prior to 12/26/14.
- Part 76 of the Education Department General Administrative Regulations (EDGAR), specifically 34 CFR 76.730-731.
- Records Retention and Disposition Schedules published by the New York State Archives (http://www.archives.nysed.gov/records/mr_retention.shtml)

Local agencies must retain records⁹ that show the amount of funds by grant, including total cost, how the awardee used the funds, authorizations, obligations, share of costs provided from other sources, as well as compliance with program requirements. In addition, source documents are required to support all transactions entered into the grantee's record keeping system.

Source documents that authorize the disbursement of grant funds may consist of purchase orders, contracts, time & effort records, delivery receipts, vendor invoices, travel documentation, and payment documents, including check stubs. More information and examples of the types of documents used to support payment for other types of costs (such as goods, services, travel, utilities, and property leases) may be found in Chapter XII, Section 3 and Section 4.B.1 of the Guide to Financial Operations published by the NYS Office of the Comptroller (<https://www.osc.state.ny.us/agencies/guide/MyWebHelp/>).

⁸ For projects awarded under a multi-year grant-contract, all project and contract-related documents (including the contract itself as well as the annual budgets) need to be retained for 6 years following the end of the contract.

⁹ Please refer to 2 CFR 200.302 for a discussion of how federal awards are to be identified and accounted for in the financial management system. Proper accounting of federal funds will help ensure that appropriate and accurate documentation from this system can be provided if/when needed.

Supplement-Not-Supplant

This is a provision common to many federal education program statutes. In general, this statutory requirement specifies that a State or local educational agency may allocate and use funds received under a particular federal program only to supplement and not supplant (or replace) funds from non-federal sources. This means, a local educational agency:

- may not divert state and local funds for other uses simply because these particular federal grant funds are available
- may not use these federal grant funds to pay for activities required by State law or local district policy
- may use these federal funds to expand existing programs and/or add new programs that would not otherwise be available from state and local funding sources

Grantees should carefully review applicable program statute and regulations to determine if the supplement, not supplant requirement applies in order to ensure full compliance with such requirements.

Sample of Specific Costs¹⁰

Salaries (Codes 15 and 16) - Documentation of Personnel Costs

Documentation for personnel costs must be maintained for all employees whose salaries, whether whole or part, are paid with federal funds or are used to meet match or cost share requirements. In addition to regular payroll records, sufficient documentation that accurately reflects the work performed must be maintained.

These time and effort records must (1) include all activities (federal and non-federal), (2) be supported by a system of internal controls which reflects 100% of the employee's time, (3) provide reasonable assurance that the charges are accurate, allowable, and properly allocated, and (4) must be incorporated into a local agency's official records. Personnel Activity Reports (PARs) that are properly completed and certified on a regular basis (semi-annually or monthly) are examples of time and effort records used to record salaries paid with federal funds for employees working 100 percent of the time on a federal grant, or for employees working on more than one federal grant program, on a federal grant and a State grant, or on a federal grant's direct cost and indirect cost activities.

¹⁰ 2 CFR Part 200.420 – 475 provides more information on selected items of costs.

Purchased Services (Code 40)

Purchased services include the hiring of personnel from outside the agency as consultants, as well as rentals, admission fees, tuition costs, telephone, repairs to equipment, and contracted services. When budgeting purchased services, include as much information as possible on the purpose of the expenditure and the cost basis. The cost basis may be an amount per day for a certain number of days or an amount per person or item.

Where there exists an employer-employee relationship between the local agency and project personnel, such personnel should not be budgeted as consultants; they must be listed in code 15/Professional Salaries or code 16/Support Staff Salaries as appropriate. The existence of an employer-employee relationship is determined by the degree of control exercised by the employer. An employee is usually trained by the employer, is directed in how work is to be performed, and has a continuing work relationship with the employer. An independent consultant decides when, where, and how the work is to be performed, is paid according to an agreed-upon performance or result of work, and is free to contract with work for others.

Rental costs are allowable only if the local agency is renting from an outside agency or vendor. Rent cannot be charged if the local agency actually owns the space or item involved.

Unless the project necessitates the installation of separate telephone facilities, monthly service charges may not be prorated and charged as an expense; however, toll or local usage charges specifically for grant purposes are allowed.

Supplies and Materials (Code 45)¹¹

Purchase orders may not be issued before the approved begin date of the grant or after the end date of the grant. In addition to the actual cost of each item, costs of shipment are considered part of the purchase price of such items and are eligible for reimbursement.

Internal transactions, such as supplies taken from agency stock (warehouse, supply room, etc.), should be included on the final claim. The date of the transaction or requisition date should be maintained along with any identifying data such as journal entry. Where grant personnel have made cash purchases and are reimbursed, the name of the commercial vendor should be available as well as the name of the individual making the purchase.

¹¹ Additional guidance on the disposition of supplies may be found in 2 CFR 200.314.

Travel Expenses (Code 46)

Actual expenses claimed against a grant are limited to the maximum amounts authorized by local participant agency policy. For agencies where such written policy does not exist, expenditures are allowed at no more than the state-approved maximum travel rates that were in effect at the time the travel occurred.

When local agencies provide their own school bus transportation for a project, reimbursements shall be limited to the approved rate per mile for operational costs. Only the salaries of individual bus drivers and monitors will be allowed in addition to such costs. These salaries should be budgeted and claimed under Code 16, Salaries for Support Staff.

Fringe Benefits (Code 80)

Fringe benefit rates for federal and state funded project staff must be the same used for other staff of the local agency. Fringe benefits may only be claimed for the salaries actually expended in the federal or state project.

Unemployment insurance may be claimed by local educational agencies and not-for-profit agencies only if the local agency has elected either the Tax Method or the Direct Reimbursement with Special Revenue Fund options for covering these costs. Payments for direct reimbursement without a reserve fund may not be claimed. All profit-making agencies must be under the Tax Method.

Indirect Costs (Code 90)

Indirect costs can be broadly defined as central administrative costs and certain other organization-wide costs that are incurred in connection with a grant, but that cannot readily be identified with the grant (*e.g.*, payroll preparation, central purchasing). Indirect costs generated for a grant are calculated by applying the local agency's indirect cost rate to the modified direct cost base of the grant (MDCB). These funds are used to support the central administrative costs.

The modified direct cost base (MDCB) is the total direct costs of a grant less equipment, minor remodeling, purchased services with a BOCES, the portion of each subcontract exceeding \$25,000, and any flow through funds.

The approved rate is applied against the modified direct cost base and results in an amount available for indirect cost purposes. However, the maximum rate allowable for individual grants may be set by statute, regulations or may be negotiated downward by NYSED.

The amount of actual reimbursement of indirect costs is computed by applying the approved rate to actual modified direct cost base expenditures. If actual modified direct cost base expenditures are less than those budgeted, then the amount of indirect cost funds reimbursed will be reduced accordingly.

Two types of indirect cost rates are used with programs funded through NYSED:

1. Restricted Rate - The restricted rate is applicable to all state programs and those federal programs with regulatory language requiring funds to supplement, not supplant state and local funds (*e.g.*, Title I, IDEA, etc.). Restricted rates generally range from one to eight percent.
2. Non-restricted Rate - The non-restricted rate is applicable to those federal programs that do not have supplement, not supplant provisions (*e.g.*, National School Lunch Program, School Breakfast Program). Non-restricted rates generally range from 10 percent to 25 percent.

The procedure to compute indirect cost rates varies depending on the type of local educational agency as follows:

- School Districts - Indirect cost rates for school districts are computed annually by NYSED based on data contained in each district's Annual Financial Report (Form ST-3). Districts are then notified of the rates to be used during the subsequent program year.
- BOCES - Indirect cost rates for BOCES are computed annually by NYSED based on data contained in the BOCES Annual Financial Report (Form SA-111). BOCES are then notified of the rates to be used during the subsequent program year.
- Other Agencies - Local agencies other than school districts and BOCES may negotiate indirect cost rates through their federal cognizant agency. However, in cases where a restricted rate has not been established, a local agency may use the restricted rate that is established each year by NYSED for other agencies.

For school food services programs, procedures for claiming indirect costs vary by agency and program. For specific instructions on the use of the non-restricted rate or guidance on indirect costs for these programs contact:

Child Nutrition Program Administration
New York State Education Department
Education Building Annex – Room 375
Albany, NY 12234
(518) 473-8781

Equipment (Code 20)

For purposes of NYSED grants/grant-contracts and the reporting of equipment costs, equipment is defined as tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.¹² These items are reported in code 20.

Local agencies should have a capitalization policy covering grant equipment that establishes the dollar value for capitalized equipment and other capital outlay materials. In addition, it must maintain an inventory of capital assets. The inventory must include, but may not be limited to, all items included in the equipment category for grant programs.

The inventory listing must contain the following:

- A description of the equipment, including manufacturer's model or serial number
- Identification of the grant under which the recipient agency acquired the equipment
- Acquisition date and unit acquisition cost
 - ❖ The acquisition cost includes the actual cost of the item (invoice price) as well as the cost to put it in place (*i.e.*, modifications, attachments, accessories or auxiliary apparatus needed to make it useful for the purpose for which it was obtained).
- Information on how the grant share of the cost was determined if the cost was shared by the recipient agency
 - ❖ For example, this would be the percentage of federal/state participation in the cost of the property.
- Location, use, and condition of the equipment as well as the date this information was recorded
- All pertinent information on the ultimate transfer, replacement or disposition of the equipment, including the date(s)

Additional requirements on the management of equipment (as well as supplies) purchased in whole/part with federal or State funds include policies and procedures for:

- A physical inventory of grant-acquired property and reconciling of these results with property records
- A control system to ensure adequate safeguards to prevent loss, damage, or theft of the property
- Maintenance of the property to keep it in good working order
- Disposition (as appropriate) of the property when it is no longer needed/used

In general, equipment purchased with federal (and State) funds must be used for the program/project for which it was purchased for as long as it is needed. If/when it is not needed, equipment may be used in another federally (or State) supported program/project.¹³

¹² However, a grantee may use its own definition of equipment provided that such definition would at least include all equipment defined above.

¹³ Additional guidance on the use and disposition of equipment and supplies may be found in 2 CFR 200.313 - 314.

Utilities

In claiming expenditures for utilities, the cost must be directly identifiable with, and attributable to, the individual grant. Furthermore, the agency must provide the basis for calculating the pro rata charge of the costs to the grant.

Interest and Finance Charges

Interest or finance charges incurred by the local agency are not allowed for reimbursement in federal or state funded projects.

Audit Costs for Federally-Funded Grants

The cost of a single audit performed by the participant agency's independent auditor should be recovered from indirect costs. However, in cases where an agency lacks an indirect cost rate, the pro rata share of the single audit cost may be claimed as a direct cost. Inasmuch as the performance of the audit often occurs after the grant's end date, reimbursement of the audit cost, even though the independent auditor has not yet been paid, is allowable subject to the following conditions:

- An agency must contract with an independent auditor prior to the grant's end date.
- The contract must specify a cost for the audit. The agency will then budget the pro rata share of the federal portion of the audit cost to the grant.
- Final reimbursement will be based upon substantiation of the pro rata share of the audit cost, as well as any internal transactions identifying audit charges to the grant.

New York State Sales Tax Allowance

Tax exempt agencies will not be reimbursed for New York State sales tax charges since they are not required to pay tax when purchasing supplies, equipment, etc. for the agency. Likewise, the staff of such agencies, while on official business, are also exempt from New York State sales tax, and reimbursement will not be allowed for those charges. Other persons paid by the project, such as consultants, may be required to pay the New York State sales tax on purchases of food and lodging, and in such cases, are eligible for reimbursement.

School Lunch Reimbursement Under Federal and State Programs

It is NYSED policy not to pay for costs of any food in federal and state grants in an agency which also conducts a feeding program eligible for reimbursement under the National School Lunch Act, Child Nutrition Act or Summer Food Services Program for Children. However, since the National School Lunch Act does not provide for snacks (except milk), these costs are eligible for reimbursement, if specifically approved, under most grant programs.