

ESEA Federal Programs Reference Brief

# General Cost Allowability

## What the Federal Law, Regulations, and Guidance Says

### Federal Statute

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Each program within ESEA is authorized for a specific purpose, intended to support improved outcomes for identified groups of students. While allowable activities are often specified in the authorizing statute, states and districts must also look to regulations from the U.S. Department of Education (ED) for direction on how to spend federal funds in allowable ways.

### Federal Regulations

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All the administrative requirements for ED are found in the Education Department General Administrative Regulations (EDGAR), including Part 200 of Title 2 of the Code of Federal Regulations, commonly referred to as the Uniform Grants Guidance (UGG). The administrative rules and cost principles contained in Part 200 are applicable to all federal funding. This means that any use of federal funds must meet the basic cost principles as described in UGG and not be listed as an unallowable cost.

### Federal Guidance

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The U.S. Department of Education has issued several guidance documents for specific ESEA programs that outline allowability of costs for that program. The U.S. Department of Education has developed [Allowable Costs and Activities training](#) for state and district use. The 60-minute course provides grantees and subgrantees a high-level overview of the concepts and regulations behind using federal grant funds for allowable costs and activities.

## Written Cost Allowability Procedures

Written procedures such as those required per [2 CFR §200.302\(b\)\(7\)](#) are not a reiteration of the federal requirements or the policies or goals. Rather, procedures are the step-by-step process a district follows to ensure compliance with the federal requirement. Written procedures on Allowable Costs must address how the subrecipient is ensuring that costs on the federal grant, and ultimately claimed, are allowed under the individual federal program and in accordance with the cost principles established in the Uniform Grant Guidance.

DEED created a [cost allowability resource](#) to support districts in documenting cost allowability procedures. It includes a list of questions to consider when documenting procedures. This is not an all-inclusive list, but rather guidance to be used when writing the step-by-step procedures. These questions represent the types of information DEED looks for when the subrecipient's written procedures are selected for monitoring.

## Determining Allowability

In making determinations about cost allowability, districts must consider the following:

## Cost Principles

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There are seven basic cost principles outlined in [2 CFR §200.403](#) -

- **Necessary, Reasonable and Allocable** –
  - To be considered **necessary**, the cost must be essential for the operation of the program. Consider whether the cost is needed to achieve the project's objectives.
  - A cost is considered **reasonable** if it is not excessive and is based on prudent purchasing practices. Consider if the cost reflects what a prudent person would pay under similar circumstances.
  - A cost is **allocable** if it benefits the program in proportion to the percentage charged to the program.
- **Conform to limits or exclusions** – The cost must conform to any limitations or exclusions described in EDGAR, the cost principles, other federal laws, terms and conditions of the grant award, or other governing regulations.
- **Consistent with policies, regulations, and procedures** – Grantees must follow their own internal procedures. Costs for federal funds cannot be subject to different rules than non-federal funds.
- **Accorded consistent treatment** – Costs should be treated consistently in similar circumstances. For example, a cost must not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
- **Determined in accordance with Generally Acknowledged Accounting Principles (GAAP)** – GAAP provides a framework for financial reporting that ensures consistency and transparency. It's important to follow these principles when managing federal awards.
- **Not included as a match or cost share** – Programs that include a cost share or matching requirement may not use federal funds to meet that obligation.
- **Adequately documented** – See [§§ 200.300](#) through [200.309](#). Proper documentation is essential to substantiate costs charged to federal awards. This includes keeping detailed records such as invoices, receipts, and timekeeping records. Adequate documentation ensures that costs are transparent and can be verified during audits.

Additionally, [34 CFR §76.50](#) dictates that costs to federal grants are:

- Not prohibited under state or local law - While state and local laws do not have to explicitly authorize a particular cost, any costs that are prohibited under state or local law are not considered allowable.

## Supplement, Not Supplant Requirements

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In general, ESEA funds allocated to districts must be supplemental to other funds available to schools and districts. ESEA funds may not be used to take the place of, or supplant, other funds. Each ESEA program has its own set of Supplement, Not Supplant rules. For more information on each program's requirements, refer to DEED's [Supplement, not Supplant Requirements](#) document.

## Cost Allowability Checklist

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DEED created a [cost allowability checklist](#) to assist in determining whether a cost is allowable. In determining the allowability of an item, districts must first apply the basic cost principles (above) and ensure the district can answer “yes” to each question in the checklist.

## Unallowable Costs

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While the allowability of costs often depends on the circumstances, there are some costs that are specifically prohibited in UGG. UGG identifies 55 “items of costs” that receive clarification regarding the allowability, in general, for using federal funds. DEED has compiled a [list of unallowable costs under UGG](#) for district reference.

[2 CFR §200.420 Considerations for selected items of cost](#) - This section of UGG provides principles to be applied in establishing the allowability of certain items involved in determining cost, in addition to other requirements of this subpart.

## DEED Recommendations

**Develop a system that works for you** – Developing a system of internal controls for requesting and making purchases with federal funds, as well as approving and documenting expenditures, is key. Establishing policies help prevent unallowable costs from being charged to federal awards.

**Educate staff** – Make sure everyone understands their roles and responsibilities within the system you create. This ensures that the system is well understood and helps safeguard against confusion and errors. Consider providing regular training and reminders.

**Build relationships** – Collaboration between fiscal staff and federal program staff is central to ensuring all purchases meet allowability requirements. Consider regularly scheduled meetings to facilitate communication and collaboration.

**Maintain clear documentation** – Keep detailed records of all expenses charged to federal funds. Ensure documentation supports the necessity, reasonableness, and allocability of cost.

## Questions for Reflection

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- How does the cost/purchase meet a need identified in our needs assessment?
- How does the cost/purchase help us achieve the goals in our school/district plan?
- What is the size of this cost (reasonable) in comparison to the overall budget?
- Will purchase of this item be considered reasonable by the general public if such purchase made the newspaper?
- Does the cost/purchase meet the purpose of the program?
- Will the cost/purchase benefit the program in proportion to the percentage the program pays for the item?
- Does the cost adhere to the district’s written policies?
- Would this cost be required in the absence of the ESEA funds?
- Does the cost align with the district’s approved application for those funds?

## DEED Resources

ESEA Spending Handbooks: [Title I, Part A](#), [Title I, Part C](#), [Title I, Part D](#), [Title II, Part A](#), [Title III, Part A](#), [Title IV, Part A](#), [McKinney-Vento](#)

[Determining Allowable Costs with Federal Funds Required Written Procedures](#)

[Cost Allowability Checklist](#)