

300 PROGRAM COSTS

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300.1 ALLOWABLE AND UNALLOWABLE COSTS

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FEDERAL COST PRINCIPLES

The federal government provides uniform rules for determining allowable costs of federal grants and contracts among different types of subgrantee organizations. The basic intent of the rules is to ensure federally assisted programs bear their fair share of costs of a subgrantee's operations.

When the OPI subgrants federal funds to an entity, the entity must follow the federal cost principles that apply to their type of organization, as follows:

Subgrantee Organization	Federal Cost Principles
State, Local, and Tribal Governments (includes school districts, counties, and Tribal governments)	2 CFR, Part 225 (previously OMB Circular A-87)
Colleges, Universities, and Hospitals	2 CFR, Part 220 (previously OMB Circular A-21)
Non-Profit Organizations that are not Institutions of Higher Education	2 CFR, Part 230 (previously OMB Circular A-122)

BASIC COST REQUIREMENTS

To be an allowable charge to a federal program, a cost must be:

1. Necessary and reasonable to the performance and administration of the project;
2. Allocated equitably to the federal award, including non-federal activities;
3. Authorized or not prohibited by state or local laws or regulations;
4. In accordance with limitations and exclusions in the applicable federal cost principles (see above) regarding specific types of costs and amounts;
5. Consistently treated as non-federal costs are treated;
6. Charged either as a direct cost or an indirect cost, but not both;
7. Recorded and reported in conformance with Generally Accepted Accounting Principles (GAAP);

8. Excluded from costs used to meet matching requirements for another federal award, except where specifically allowed by program regulations;
9. Net of applicable credits;
10. Approved in advance if subject to prior approval requirements;
11. Incurred in accordance with competitive purchasing procedures, if required; and
12. Adequately supported by source documentation.

ALLOWABLE AUDIT COSTS

The cost of a Single Audit (i.e., audit performed under the provisions of the Single Audit Act and OMB Circular A-133 for an entity spending more than \$500,000 in federal funds) is an allowable cost of federal programs either as a direct or indirect charge. However, a subgrantee may only allocate the cost of a Single Audit directly to federal programs after adopting an allocation plan as described in the applicable federal costs principles (see [Federal Cost Principles](#) above).

The cost of a regular "Yellow Book" audit for an entity that does not spend \$500,000 or more in federal funds is not an allowable cost of federal grants. Consequently, an entity may not charge those audit costs as direct charges to federal programs and may not charge audit costs to the entity's indirect cost pool. Non-federal funds must be used to pay for the audit.

UNALLOWABLE COSTS

The following costs are unallowable under most federal programs:

1. Alcoholic beverages;
2. Bad debt write-offs;
3. Contributions to a contingency (emergency) reserve;
4. Entertainment;
5. Fines and penalties;
6. Governor's expenses;
7. Interest on borrowings;
8. Legislative expenses (includes any political spending);
9. Excess of costs over the grant amount;
11. Termination pay (see below); and
12. Pre-award costs (i.e., costs incurred before the beginning of the grant award term), unless specifically allowed with prior approval of the OPI.

In addition, credits such as purchase discounts and price adjustments must be deducted from total costs.

Termination Pay

Subgrantees must not charge termination payouts, such as sick leave and vacation leave payouts, directly to federal grants.

Termination pay may either be paid from non-federal funds or included as part of the indirect cost rate calculation.

Accordingly, termination pay may either be:

1. Paid directly from the general fund, school food fund, impact aid fund, the compensated absences fund (non-teaching staff only) or other appropriate non-federal fund; or
2. Be included in the indirect cost rate calculation and paid using the indirect cost pool.

EQUIPMENT

Subgrantees must obtain the OPI's written pre-approval to use federal funds to purchase equipment costing over \$5,000 and having a useful life of at least one year. Obtain pre-approval either by describing planned equipment purchases on the grant application or by submitting a budget and program modification to the OPI for approval. See [Equipment and Supplies](#) in Section 500 of this handbook.

GRANT PERIOD

Costs must be incurred within the grant award period to be allowable, unless pre-award costs were specifically authorized in writing by the grantor. That is, obligations must occur between the beginning date of the grant period and not later than the ending date of the grant period.

The award period is stated on the Grant Award Notification (GAN). Most OPI-administered grants are awarded for 12 months (July 1 through June 30) or 15 months (July 1 through September 30).

DISALLOWANCE OF COSTS

An auditor or OPI reviewer may question the costs charged to a grant program, resulting in costs being disallowed. The OPI may require the subgrantee to refund grant money for disallowed costs, or money may be withheld from future payments to the grantee.

A subgrantee may appeal a decision of the OPI (see [Hearings and Complaints](#) in Section 200 of this handbook).

300.2 INDIRECT COST RECOVERIES

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DEFINITION OF INDIRECT COSTS

An "indirect cost" (IDC) is a cost incurred for a common or joint purpose benefiting more than one cost objective, but not readily assignable to the specific programs benefited. The IDCs are "pooled" and charged by allocation to various programs.

Common examples of indirect costs are centralized accounting and purchasing functions of an organization that participates in multiple programs and activities. The costs of the shared functions can be spread among all the organization's activities, including grant and non-grant activities, using an indirect cost allocation.

An "indirect cost rate" is a percentage that has been approved for charging indirect costs to a subgrantee's state and federal programs. The indirect cost rates for public school districts must be approved annually by the OPI. Other types of entities, such as colleges and non-profit organizations, generally have a federal cognizant agency that is responsible for approving that subgrantee's indirect cost rate. See [Indirect Cost Application and Information](#).

An "indirect cost recovery" is the amount charged to a federal grant using an approved IDC rate. A subgrantee may "draw" IDC recoveries from a grant award as expenditures are incurred. The approved indirect cost rate times the direct grant expenditures incurred equals the allowable indirect cost recovery amount that the subgrantee may request. The amount of a grant award is not affected by the amount of IDC recovery, but the amount available for direct costs of the project is smaller if IDC recoveries are drawn from the award.

APPLYING FOR AN INDIRECT COST RATE

Indirect costs are optional. A subgrantee must have an approved indirect cost rate before applying indirect costs to grants administered by OPI or any other grantor agency.

Public school districts may apply for an indirect cost rate by submitting a "Certification and Request for Authorized Indirect Cost Rate" application to the OPI School Finance Division for approval. An elementary and high school district operating under a combined school board will apply for a single combined rate for the school system. An application filed in the Spring (usually by March 31) is the basis for a rate applicable to awards received in the following school year. See [Indirect Cost Application and Information](#).

Subgrantees which are not public school districts should contact the federal agency which awards them the greatest amount of federal funds ("federal cognizant agent"). That agency is responsible for approving the subgrantee's indirect cost rate and ensuring overall compliance with indirect cost recovery regulations.

INDIRECT COST RATES FOR GRANT AWARDS TO COOPERATIVES/CONSORTIUMS

The prime applicant of a consortium may apply their approved rate to claim IDC recoveries if the grant program allows it.

When an elementary school district and a high school district form a consortium to apply for a grant, the school system's combined IDC rate will apply.

Pass-through entities (i.e., subgrantees that receive the IDEA grant and transfer it to members of their consortium or cooperative) may not claim any IDC recoveries on pass-through funds.

Special education cooperatives are not authorized to claim indirect cost recoveries on OPI-administered programs.

SPENDING INDIRECT COST RECOVERIES

Section [20-9-507](#), MCA, allows indirect cost (IDC) recoveries to be spent at the discretion of the trustees. Accordingly, the school district should adopt a policy addressing how they will spend indirect cost recoveries. The subgrantee should use IDC recoveries for general administrative expenses and should not accumulate IDC recovery money beyond the end of the fiscal year unless a spending plan has been approved by the trustees. The subgrantee may accumulate IDC recoveries to a level that is adequate to pay termination payouts (unused vacation and sick leave) for federally paid employees.

LIMITS ON THE RECOVERY OF INDIRECT COSTS

There are five major limitations that affect the amount of indirect costs a subgrantee may recover. These limitations are:

1. Approved Rate or Lower Rate Allowed by Federal Program

The rate negotiated with the OPI or federal cognizant (oversight) agent is the maximum allowable indirect cost for any federal program in which the subgrantee participates. Federal law or grant conditions may further limit the amount of indirect costs or the indirect cost rate. For example, if the subgrantee has an approved restricted rate of 5 percent and the law allows only a 3 percent rate of recovery for a particular program, then the subgrantee can only recover indirect costs equal to 3 percent of the direct costs under that program and up to 5 percent under the other programs in which they participate. Some grants may prohibit any recovery of indirect costs.

2. Availability of Funds

Recovery of indirect costs on grants is subject to the availability of funds. Most restricted grants are allocated to the state as a block grant in which each subgrantee is entitled to a maximum grant amount. The total direct costs plus indirect costs cannot exceed the maximum entitlement.

3. Direct Costs Incurred

Indirect costs are recovered only to the extent of direct costs incurred. The indirect cost rate is applied to the direct cost amount expended less capital outlay and transfers to other entities, not to the total grant award.

4. Rates Approved after the Grant Begins

A subgrantee may apply for a rate midyear; however, indirect costs may only be applied and drawn after the rate is approved. Based on expenditures incurred after the date of the rate approval, the subgrantee may apply and draw indirect costs. Expenditures prior to the rate approval cannot be used as a basis for indirect costs. Consequently, a subgrantee who applies for a rate midyear must report to the OPI program accountant the amount of the total of expenditures to date. The OPI will monitor to allow IDC recoveries after the rate is approved.

5. Period for Which Rates are Applicable

An indirect cost rate approved by the OPI is effective for one year. The rate is valid from July 1 through June 30 of the applicable fiscal year of approval or the term of the grant award. To recover indirect costs, a subgrantee applies the indirect cost rate in effect for a given fiscal year or the term of the grant award to the direct expenditures less capital outlay during that fiscal year or the term of the grant award.

USING THE INDIRECT COST RATE

Once the proposal has been approved by the Office of Public Instruction or federal cognizant agent, the subgrantee may elect to:

1. Apply the approved and applicable rate to all eligible state and federal projects;
2. Apply the approved and applicable rate only to specific eligible projects;
3. Not apply the rate to any projects; or
4. Apply the rate approved or less than the rate approved. If the rate applied is less than the rate approved, it is not necessary to apply the reduced rate uniformly to all projects.

BUDGETING FOR INDIRECT COST RECOVERIES

The following formula determines the amount that may be budgeted for indirect cost recoveries:

$$\begin{array}{l} \text{Budgeted} \\ \text{IDC Recovery} \end{array} = \frac{\text{Approved Indirect Cost Rate \%}}{(1.00 + \text{Indirect Cost Rate \%})} \times \begin{array}{l} \text{Total Award} \\ \text{less Capital} \\ \text{Outlay and Transfers} \end{array}$$

“Capital outlay” includes payments for equipment and facilities acquisition. The IDC recovery cannot be claimed for capital outlay expenditures. Exclude those expenditures from the award amount in calculating the budgeted IDC recoveries.

CALCULATING AND RECORDING ACTUAL INDIRECT COST RECOVERIES

The IDC recoveries may be taken on actual expenditures incurred, less capital outlay and transfers to other entities.

Example: If actual total direct expenditures less capital outlay are \$10,000 and the IDC rate approved by OPI is three percent, a subgrantee could “take indirects” up to \$300. This amount should be “transferred” from the grant to the “Indirect Cost Recovery” project in the Miscellaneous Programs Fund (15) where it should be spent for administrative and overhead expenses at the discretion of the trustees ([20-9-507](#), MCA). (See page 14 of the [Indirect Cost Rate Instructions](#) for coding of this transaction)

INDIRECT COST RECOVERIES SUBJECT TO AUDIT

The IDC recoveries are subject to review during the subgrantee's annual audit. The OPI will also monitor final expenditure reports to ensure IDC recoveries were appropriate.

The OPI or any other grantor, including the federal government, may require a recipient to repay IDC recoveries if a recipient draws too much IDC recovery from an award. Common causes of overdrawn IDC recoveries include:

1. Using an IDC rate that exceeds the approved rate;
2. Drawing the amount of IDC recovery listed on the project budget instead of applying it to actual expenditures (for example, a subgrantee cannot draw budgeted IDC recoveries of \$500 if actual direct grant expenditures only made the subgrantee eligible for \$450 by the end of the grant period); and
3. Failing to exclude capital outlay and transfers from the actual expenditures used to calculate the amount of IDCs drawn (for example, a subgrantee cannot applying the IDC rate to a purchase of a \$5,000 copier because it is a capital outlay that is exempt from IDC recoveries, even if the purchase was pre-approved as an allowable cost of the grant award).

300.3 PROCUREMENT (PURCHASING)

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Each subgrantee should have written policies for the procurement of goods and services. The policies must be based on state and federal laws and regulations on procurement. The major requirements in state and federal laws and regulations are summarized here.

SCHOOL PURCHASING LAWS

Schools must follow section [20-9-204](#), MCA regarding bids for all purchases, including purchases using federal and state grant funds. This law requires:

1. Except for district needs that must be met due to an unforeseen emergency as defined in section [20-3-322\(5\)](#), MCA, whenever the estimated cost of any building, furnishing, repairing, or other work for the benefit of the district or purchasing of supplies for the district exceeds the sum of \$50,000, state law requires the work done or the purchase made must be by contract.

2. Each contract must be let to the lowest responsible bidder after advertisement for bids.

A school district may contract for certain services without a bid process. The bidding requirements applicable to services performed for the benefit of the district under section [20-9-204](#), MCA, do not apply to a registered professional engineer, surveyor, real estate appraiser, or registered architect; a physician, dentist, pharmacist, or other medical, dental, or health care provider; an attorney or actuary; or an accountant licensed under MCA Title 37, chapter 50.

3. The advertisement must be published in the newspaper that will give notice to the largest number of people of the district as determined by the trustees. The advertisement must be made once each week for two consecutive weeks, and the second publication must be made not less than five days or more than 12 days before consideration of bids.
4. A contract not let pursuant to this section is void.
5. Whenever bidding is required, the trustees shall award the contract to the lowest responsible bidder, except that the trustees may reject any or all bids.
6. The board of trustees is not required to let a contract for any routine and regularly performed maintenance or repair project or service that can be accomplished by district custodial/maintenance staff.
7. A school district trustee may not:
 - a) Have any "pecuniary interest," either directly or indirectly, in any contract made by the trustee while acting in that official capacity or by the board of trustees of which the trustee is a member; or
 - b) Be employed in any capacity by the trustee's own school district.

"Pecuniary interest" does not include holding an interest of 10 percent or less in a corporation;

"Contract" does not include:

- (i) Merchandise sold to the highest bidder at public auctions;
- (ii) Investments or deposits in financial institutions that are in the business of loaning or receiving money when the investments or deposits are made on a rotating or ratable basis among financial institutions in the community or when there is only one financial institution in the community; or
- (iii) Contracts for professional services, other than salaried services, or for maintenance or repair services or supplies when the services or supplies are not reasonably available from other sources if the interest of any board member and a determination of the lack of availability are entered in the minutes of the board meeting at which the contract is considered.

SPLITTING A PROJECT IS NOT PERMITTED

Section [20-9-205](#), MCA, prohibits splitting a project or purchase in order to circumvent the bid laws.

WRITTEN CODE OF CONDUCT

All subgrantees of federal grants must have a written code of standards governing performance of their employees engaged in awards and administration of contracts.

The code must:

1. Disallow conflicts of interest, real or perceived, from being tolerated;
2. Disallow the acceptance of gifts, tips or favors from contractors or potential contractors; and
3. Provide penalties, sanctions, or other disciplinary actions for violations of the code by the subgrantee's employees, officers, or agents or by the contractors or their agents.

FEDERAL REQUIREMENTS FOR PROCUREMENT POLICIES

Subgrantee policies for expenditures using federal grants must ensure the entity will:

1. Avoid unnecessary purchases and duplications;
2. Encourage the most economical purchases (Lease vs. Purchase, etc.);
3. Use common goods and services, such as state term contracts, etc., to get the best deals;
4. Use federal surplus items in lieu of purchasing additional items;
5. Award contracts only to responsible contractors based on such things as organizational integrity, past performance, etc.;
6. Provide full and open competition, by not:
 - a) placing unreasonable requirements on firms to qualify to do business;
 - b) requiring unnecessary bonding or experience from a firm to qualify;
 - c) allowing noncompetitive pricing between vendors;
 - d) using retainer contracts;
 - e) allowing organizational conflicts of interest;
 - f) specifying brand names instead of allowing "equal" quality products; or
 - g) applying any other arbitrary action that unfairly discourages competition.
7. Avoid geographical preferences, except those required by state law;
8. Identify all qualifying requirements in the request for proposals;
9. Include written selection procedures for procurement to ensure clear, accurate description of the technical requirements for a material, product, or service; and
10. Encourage contracts and awards with minorities.

PROCUREMENT RECORDS

Subgrantees must maintain procurement records which detail the history of purchasing decisions, including:

1. the method of procurement and why it was chosen;

2. the type of contract used;
 3. contractor selection and the basis for it; and
 4. the basis for the contractor's price.
- (See [Records Retention](#) in Section 400 of this handbook.)

RESOLVING DISPUTES

The grantee and subgrantee are responsible for resolving contractual disputes. The federal grantor agency will only handle questions of federal law and disputes over protest procedures for failure to review a complaint or process.

PURCHASING PROCESS REQUIRED

A summary of the type of process to use, depending on the organization and the amount of purchase, is shown below:

Goods/Services Under \$50,000

All subgrantee organizations may follow informal purchasing policies as adopted by their governing boards. Informal purchasing processes often involve solicitation of informal bids to ensure the best price. Subgrantees that are subject to stricter policies for procurement must follow those restrictions.

Goods/Services more than \$50,000

School districts must use formal bids and formal purchasing procedures, including formal advertising of the bid process. Montana school districts must have a contract for purchasing goods and services with a cost exceeding \$50,000.

Other subgrantee organizations may follow informal purchasing policies as adopted by their governing boards.

Goods/Services more than \$100,000

All subgrantee organizations must use formal purchasing procedures, including formal advertising of the bid process.

Federal regulations require the formal purchasing procedures to include:

1. Formal advertising;
2. Sealed bids;
3. Public bid opening process, at time and place advertised in invitation for bids; and
4. Written awarding of a fixed price contract to the lowest bidder.

REJECTING BIDS

Under state and federal laws, subgrantees may reject any or all bids. However, the entity must adequately document the reasons for their actions.

NON-COMPETITIVE PROPOSALS

Non-competitive proposals are only allowed when:

1. The purchase of goods or services is less than \$50,000 for a school district or \$100,000 for an entity other than a school district; and
2. Sealed bids or competitive proposals are not feasible; and
3. At least one of the following circumstances applies:
 - a) Item is only available from a single source ("Sole Source");
 - b) A public emergency situation will not permit a delay resulting from competitive solicitation;
 - c) The awarding agency authorizes non-competitive proposals; or
 - d) After solicitation of a number of sources, competition is determined inadequate.

Even when non-competitive processes are used, federal regulations require the subgrantee must analyze the cost to determine it is reasonable before making the purchase.