

ILLINOIS STATE BOARD OF EDUCATION

Division of Funding and Disbursement Services

State and Federal Grant Administration Policy, Fiscal Requirements and Procedures

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Division of Funding and Disbursement Services (E-320)

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Springfield, IL 62777

217/782-5256

www.isbe.net

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ISBE Home Page www.isbe.net

Division & Program Areas

Funding & Disbursements

General Grant Info (Located in the Resources Box – right side of the screen)

Fiscal Policy/Procedures/Requirements

Direct link http://www.isbe.net/funding/pdf/fiscal_procedure_handbk.pdf

Purpose Statement

The general purpose of this document is to inform internal agency staff and external customers of the policies, procedures and guidelines that govern all state and federal grants awarded from the Illinois State Board of Education, to ensure sound accounting practices and to provide consistency in the administration of grants. **These procedures and guidelines do not supersede state statute, administrative rules, federal law or regulations that may govern each specific program.**

Glossary of Acronyms and Terms

Acronyms

CFDA – Catalogue of Federal Domestic Assistance. A number assigned by the federal government to uniquely identify all federal grant awards.

ED - United States Department of Education.

eGMS – Electronic Grants Management System. An umbrella term used to describe the variety of state and federal grants developed by ISBE and accessed via IWAS.

FRIS – Financial Reimbursement Information System. The accounting system used by the Division of Funding and Disbursement Services to distribute all state and federal funds to recipients. The FRIS Inquiry system allows public access to all state and federal funds administered by ISBE.

ISBE – Illinois State Board of Education.

IWAS – Illinois State Board of Education Web Application Security. A password protected portal that allows ISBE internal and external clients the ability to access systems developed by ISBE.

LEA – Local Education Agency.

OMB – Federal Office of Management and Budget.

TRS – Teachers' Retirement System.

Terms

A-133 Audit - A single audit is an organization-wide audit that includes both the entity's financial statements as well as its federal awards. Effective January 2004 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires entities that expend \$500,000 or more a year in federal awards to have a single or program-specific audit conducted.

Administrative Agent - A legal representative assigned by a joint agreement that is responsible for the receipt and distribution of grant funds to the joint agreement members.

Amendment – A modification to the scope or finances of a previously approved grant application. Amendments are necessary when the scope of a project changes significantly or if the expenditure of a budgeted cell exceeds a variance of 20% or \$1,000 whichever is the greater.

Audit - The examination of records and documents and the securing of other evidence by a qualified accountant for one or more of the following purposes: (a) determining the propriety of proposed or completed transactions, (b) ascertaining whether all transactions have been recorded, (c) determining whether transactions are accurately recorded in the accounts and in the statements drawn from the accounts.

Budget (Grant) – A project plan in which goals, objectives and ideas are translated into expenses which are segregated by Function and Object per the Illinois Program Accounting Standard
<http://www.isbe.net/rules/archive/pdfs/100ARK.pdf>.

Carryover - Funds that are not obligated or expended by the grant recipient of a federal grant at the end of the project period. When permitted, the grant recipient may apply to the ISBE to utilize these funds in the next project period.

Cash Accounting Basis – Accounting method that records expenditures as they are actually paid.

Competitive Grants – A grant for which the awarding agency may select the grant recipient from among all eligible recipients based on objective criteria scored by readers who examine the programmatic, technical and anticipated outcomes of an application. The awarding agency can decide the amount of funding to be awarded based upon the final scores awarded.

Cost Allocation Plan - A document that states how a district will identify, accumulate and distribute certain allowable administrative costs in grants and identifies the allocation methods used for distributing the costs.

Cumulative – In context of expenditures reported by the grant recipient, it is the aggregate amount of grant funds expended from the project begin date through a particular reporting period.

Depreciation Allowance - An estimate of the annual cost of using an item that is based on its acquisition cost divided by its assumed or estimated useful life.

Discretionary Grants - A grant for which the awarding agency generally may select the grant recipient from among all eligible recipients, may decide to make or not make an award based on the programmatic, technical, or anticipated outcomes of an application, and can decide the amount of funding to be awarded.

Entitlement Grants – A grant in which funds are provided to a grant recipient based on formula, prescribed in legislation or regulation, rather than on the basis of an individual project. The formula is usually based on such factors as population, enrollment or per-capita income, or a specific need. Grant recipients do not compete for entitlement funds.

Equipment - Equipment is one of the items identified as a “capital asset” under ISBE’s [Part 100 Requirements for Accounting, Budgeting, Financial Reporting and Auditing](#) to describe an instrument, machine, apparatus, or set of articles which meets all of the following criteria:

- a. Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for longer than twelve months;
- b. does not lose its identity through fabrication or incorporation into a different or more complex unit or substance;
- c. is nonexpendable; that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit;
- d. retains its appearance and character through use; and
- e. has a cost equal to or in excess of the capitalization threshold adopted by the school board.

Excess Cash on Hand – Funds that are received but not expended at the end of any reporting period during the project year as calculated by an expenditure report.

Expenditure Report – A financial document submitted and approved by the grant recipient that reflects the funds utilized by the grant recipient by function and object for a specified period of time.

Federal Grants – Any grant that is financially supported with federal funds awarded by ISBE.

Fiscal Agent – A legal representative assigned by an entity that is responsible for the receipt and distribution of grant funds to participants.

Fiscal Year - For the federal government, it is the year beginning on October 1 and ending on September 30. For Illinois, it is the year beginning on July 1 and ending on June 30.

Function – The action or purpose for which a person or thing is used or exists indicated on a project budget. This includes activities or actions which are performed to accomplish the objectives of the project.

Grant Agreement - An agreement between the awarding agency (ISBE) and the grant recipient that includes approved activities to be implemented by the recipient, as set forth in the approved proposal and any approved amendments, the amount and term (timelines) of the grant awarded; approved budget and payment schedule and budget breakdown; program-specific terms of the grant; and certification and assurances.

Indirect Cost - Any costs that are incurred as a result of grant award activities and that provide a benefit to the grant project, but that cannot be allocated directly to a grant. Indirect costs may include costs relating to facilities, utilities, accounting and bookkeeping services, legal services, grant administration systems, procurement systems, general operating expenses, etc.

Interest – The amount of funds earned on non-expended state or federal funds deposited in an interest bearing account of a grant recipient.

Joint Agreements/Cooperatives – a collection or consortium of at least two or more local education agencies to perform a mandated service or function more equitably or efficiently.

Maintenance of Effort - A federal requirement that requires grant recipients to maintain a certain level of state and local fiscal effort to be eligible for full participation in federal grant funding. Grant recipients or sub-recipients not meeting MOE requirements face loss of a portion of their federal funds.

Object – A service or commodity obtained as a result of a specific purpose indicated on a project budget.

Obligation - Any liability for which funds are committed prior to the end of the reporting period and is expected to be paid within 90 days.

Payment Schedule – A plan of payment requests submitted by the grant recipient that reflects the amount of funds needed for a specified period of time (e.g. monthly, quarterly, semi-annually or annually).

Prepayment – Funds that are received but not expended at the end of the project grant period as calculated by the final expenditure report submitted by the grant recipient. If permissible, prepayment may be carried over into the next project year and amended for by the grant recipient.

Project Costs - All allowable costs incurred by the grant recipient, where applicable, and the value of the in-kind contributions made by the grant recipient in accomplishing the objectives of the grant during the grant period.

Project Begin Date – The calendar date at which a grant recipient may begin to conduct activities and encumber obligations that will be charged to a state or federal grant.

Project End Date – The calendar date at which a grant recipient must end all activities and encumber obligations that will be charged to the state or federal grant.

Refund Due – Amount of grant funds to be returned to ISBE or federal agency calculated by comparing final disbursements to final expenditures or due to the application of an audit adjustment.

State Grant – Any grant that is financially supported with state funds awarded by ISBE.

Supplant – State or federal funds that are received and expended to replace funds the grant recipient would have expended in the absence of state or federal funds.

Supplement – State or federal funds that are received and expended in addition to funds the grant recipient would have expended in the absence of state or federal funds.

Tydings Amendment - The statutory authority period for obligating and expending federal carryover funds. In general, under this provision, any funds not obligated and expended during the period for which they were awarded become carryover funds and may be obligated by ISBE and expended during the succeeding fiscal year. The period of availability includes the initial period authorized by the appropriations act and an additional 12 months authorized by section 412(b) of the General Education Provisions Act, 20 U.S.C. 1225(b).

SECTION A: POLICY

STATE AND FEDERAL GRANT ADMINISTRATION POLICY

Established: Aug-1994

Revised: Sept-2000, Oct-2006, Jan-2009, June-2010, Sept-2011

1. State funds will not be awarded to a grant recipient through an initial application or increased through the submission of a budget amendment after June 30 or for federal funds, after the federal grant period has expired. (See Policy #3 below regarding amendments)
2. State funded project grants will not be extended after August 31 without the approval of the Division Administrator of the Division of Funding and Disbursement Services and the Division Administrator of the appropriate program area. Requests for state and federal project end date extensions must be received at ISBE no later than 30 calendar days prior to the project end date.
3. Final budget amendments for state and federal grant programs must be received at ISBE thirty calendar days prior to the grant recipient's project end date.
4. State claim based programs with statutory deadlines will be enforced. State claims that are not received at ISBE by the statutory deadline are subject to funding delays or elimination.
5. Grant recipients with an approved state and/or federal grant program are required to submit quarterly expenditure reports. The quarterly reports are due twenty days following the end of the reporting quarter (e.g. September 30 expenditure report is due at ISBE on or before October 20). Failure to submit the report by the due date will result in scheduled payments being withheld until the required report is received.
6. Grant recipients must submit a completion expenditure report twenty days following the project end date (excluding any statutory deadline reporting requirements). If a completion report is submitted by a grant recipient with outstanding obligations, a final expenditure/liquidation report (i.e. total obligations = \$0) must be submitted no later than ninety days after the project ending date. Failure to submit the required report within ninety days may result in withholding funds for the subsequent year until the report is received.
7. Grant recipients must expend or obligate state or federal funds prior to the project end date. Most federal grant programs permit any unobligated or unexpended funds to be carried forward for one additional year unless program requirements specify otherwise.

Grant recipients that reflect unexpended funds on a state grant will receive formal notification from ISBE to return the overpayment. Upon receipt of the notification, the grant recipient must return the amount due to ISBE within 45 days unless otherwise directed. Failure to return the funds within 45 days may result in withholding funds for the subsequent year.

8. Grant recipients are not allowed to begin an activity, obligate or expend funds that will be charged to a state or federal grant until a substantially approvable initial application has been received at ISBE. Grant recipients that submit a state or federal initial application prior to the program begin date (usually July 1) will be granted an appropriate project begin date for the following fiscal year unless state appropriation authority has not been approved. Grant recipients that submit a state or federal initial application after July 1 will be assigned a project begin date no earlier than when the initial application was received at ISBE or the program begin date (whichever is later).

Grant recipients of state or federal discretionary or competitive program should not begin any activity, obligate or expend funds until ISBE provides formal approval of the application and grant amount.

Grant recipients that submit a state or federal budget amendment between the project begin and end date are not allowed to begin an activity, obligate or expend funds prior to the date of receipt at ISBE provided the scope or intent of the approved project has not changed. If the scope or intent of a project significantly changes through an amendment, ISBE programmatic approval should be obtained prior to the obligation of funds for the new activities provided in the amendment.

9. Grant recipients that are authorized to levy for Illinois Municipal Retirement Fund and Social Security benefits and includes these costs on a grant budget must transfer any reimbursement received for these expenditures back into the proper fund (Fund 50/Account 1150). The percent of employee benefits should reflect the percent of time the employee's salary is charged to the program. For State-funded projects, the State of Illinois contributes to the Teachers Retirement System (TRS) on behalf of employers under the continuing appropriation law. Contributions are adjusted annually. The State of Illinois remits these contributions directly to TRS and therefore is NOT an allowable grant expenditure. The *employer's* portion of TRS allowable costs, over and above the *on-behalf state contributions*, should be based on TRS's current guidelines and can be included in the program budget. The *employee's* portion of TRS can be included in the program budget if it has been negotiated to be paid by the employer.
10. Equipment deletion procedures must be followed for equipment purchased with:
 - Federal funds: entitlement programs;
 - State funds: designated for populations that the fund recipients are not required to serve;
 - State funds: when the entire program is paid for by the state; and
 - State funds and federal discretionary funds: if program ceases to serve the population for which the equipment was originally purchased.For all other state programs, equipment is to be retained by the fund recipient.
11. The Division of Funding and Disbursement Services will accept facsimile transmissions (fax) of required documents and reports to meet statutory deadlines. However, unless otherwise directed, an original document and signature must be provided to ISBE for audit purposes. ISBE will accept the electronic transmission grants, claims and reports from grant recipients that have approved access to applicable systems within IWAS.
12. State grant programs will follow federal grant provisions unless separate state policy, statute or rules are otherwise provided.

SECTION B: REQUIREMENTS

EQUIPMENT

Definitions

Equipment is one of the items identified as a “capital asset” under ISBE’s [Part 100 Requirements for Accounting, Budgeting, Financial Reporting and Auditing](#) to describe an instrument, machine, apparatus, or set of articles which meets all of the following criteria:

- a. Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for longer than twelve months;
- b. does not lose its identity through fabrication or incorporation into a different or more complex unit or substance;
- c. is nonexpendable; that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit;
- d. retains its appearance and character through use; and
- e. has a cost equal to or in excess of the capitalization threshold adopted by the school board.

Capitalization threshold means a dollar figure above which the cost of an item will be depreciated.

Acquisition Cost – The net invoice unit price of the asset or equipment, including the cost of modifications, attachments, accessories or auxiliary apparatus necessary to make the equipment usable for the purpose for which it was acquired. Other charges such as the cost of installation, transportation, taxes, duty or protective in-transit insurance shall be included or excluded from the unit acquisition cost in accordance with the grant recipient’s regular accounting practices.

Current Fair Market Value – Term used to describe the value of an asset obtained from two signed bids from potential purchasers or two appraisals from authorized appraisers for the purpose of disposing of or transferring equipment. When the equipment is being traded in for like or similar equipment used in the same program for the same purpose, the trade in value constitutes the current fair market value of the traded in equipment.

Purchase

All equipment purchased with state or federal funds must be in accordance with the regulations of the funding source. The equipment purchased must be reasonable and necessary to effectively operate the program.

Each application for a grant shall fully describe the need for such equipment and how such equipment will be used. Equipment, as well as other costs, must be included in an approved budget or amendment prior to purchase (when applicable).

Lease purchases of equipment are authorized. Lease purchases that span more than one grant year are permissible. Costs can be recovered from more than one year of grant funds. The following provisions should be understood related to such situations:

- documentation should be retained that substantiates the decision to enter into a lease purchase agreement rather than a direct purchase;
- grant continuation from the Illinois State Board of Education cannot be guaranteed;
- interest and finance charges cannot be charged to federal grants, but can be charged to state grants;
- grant recipients must keep financial and programmatic records that document the disbursement of funds associated with the agreement; and
- lease purchases must be budgeted as purchased services rather than equipment.

Inventory

The title to property acquired with state or federal funds shall be held by the public agency responsible for administering such property. Inventories of equipment purchased by the fund recipient should be maintained on all items for the useful life of the equipment, except as noted in [Part 130 IL Administrative Code, Determining Special Education Per Capita Tuition Charge](#).

Management

Procedures for managing equipment (including replacement equipment) whether acquired in whole or in part with grant funds, until disposition takes place, as a minimum, must meet the following requirements:

1. Property records must be maintained that include:
 - a) a description of the property;
 - b) a serial number or other identification number;
 - c) the source of property;
 - d) who holds title;
 - e) the acquisition date and cost of property;
 - f) percentage of state/federal participation in the cost of the property;
 - g) the location, use and condition of the property; and
 - h) any ultimate disposition date including the date of disposal and sale price of the property.
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years to verify the existence, current utilization and continued need for the property.
3. A control system must be developed to ensure adequate safeguards to prevent loss, damage or theft of the property. Any loss, damage or theft shall be investigated and fully documented.
4. Adequate maintenance procedures must be developed to keep the property in good condition.
5. If the fund recipient is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
6. All equipment or property purchased with grant funds shall be identified and marked as such.

Disposition

These procedures should be followed for the transfer or deletion of equipment that is obsolete, non-repairable, damaged, lost or stolen.

Equipment deletion procedures must be followed for equipment purchased with:

- Federal funds: entitlement programs;
- State funds: designated for populations that the fund recipients are not required to serve;
- State funds: when the entire program is paid for by the state; and
- State funds and federal discretionary funds: if program ceases to serve the population for which the equipment was originally purchased.

For all other state programs, equipment is to be retained by the fund recipient.

When equipment is *no longer needed* for the original project or program for which it was acquired, the equipment may be used, if needed, in other projects or programs currently or previously sponsored by a federal or state agency unless ISBE has required an equipment transfer. The equipment may be retained, sold or otherwise disposed of if the equipment is not needed in any federal or state sponsored project or program. The following specific procedures to eliminate any item from the inventory must be followed:

1. Items of inventory may be retained, sold or otherwise disposed of with no further financial obligation to the federal/state agency if the equipment has an acquisition cost/per unit current fair market value of **less than \$5,000**. The disposition of such items should be so noted on the equipment inventory maintained by the entity.
2. Items of equipment with an acquisition cost of **\$5,000 or more**, please follow the procedures below:
 - Obtain two signed bids from potential purchasers or two appraisals from authorized appraisers to determine the per unit current fair market value.
 - If the per unit current fair market value is less than \$5,000, see item 1 above.
 - If the per unit current fair market value is \$5,000 or more, the equipment **may not be disposed of, transferred or traded in without ISBE approval**. The procedures below are to be followed to delete such equipment:
 - Submit information along with bids or appraisals to the ISBE's Division of Funding and Disbursement Services via the *Equipment/Deletion Transfer System* in IWAS.
 - The Illinois State Board of Education will issue instructions that authorize the sale of the equipment to the highest bidder, the entity may purchase the item at the highest appraisal price or the equipment may be traded in. If the equipment is sold, \$100 or 10% of the sales proceeds, whichever is greater, may be deducted and retained from the amount otherwise due for selling and handling expenses.
 - The remaining funds from the sale of the equipment may be retained by the grant recipient as long as the funds are deposited in the grant program from which the original expenditure was made. Subsequent expenditures must be used for allowable costs and provision of services permitted by the grant program and should be used in the same year of sale.
 - If the equipment was sold for a federal program that requires maintenance of effort (MOE) (e.g. Individuals with Disabilities Education Act), expenditures from the sale of equipment shall not be included in the grant recipient's MOE calculation.
 - A check payable to the Illinois State Board of Education must be forwarded to the Division of Funding and Disbursement Services.
 - Federal Entitlement funds: The amount returned will be added to the entity's funds applicable to the project year in which the equipment is sold. If the district wishes to use the additional funds available to them, an amendment must be filed.
 - Federal Discretionary funds: The amount returned will be added to the appropriate federal grant.
 - State funds: The amount will be returned to the General Revenue Fund of the state.
3. If the item has been damaged, lost, or stolen, an official investigation by the proper authority should be conducted and fully documented. A copy of this information must be retained by the entity and indicate compliance on the *Equipment Deletion/Transfer* information transmitted to the Division of Funding and Disbursement Services.

Permission to dispose items from inventory will be granted, following review and approval of the *Equipment Deletion/Transfer* information via the internet.

Transfer

The Illinois State Board of Education reserves the right to transfer equipment if the grant activities cease to exist for the grant recipient for which the equipment was originally acquired.

The following specific procedures to transfer any item from the inventory must be followed:

- Complete the *Equipment Deletion/Transfer* information via the internet.
- Permission to transfer the items from the inventory will be granted, following the review and approval of the *Equipment Deletion/Transfer* information.
 - The Illinois State Board of Education will issue instructions that arrange for the transfer of the equipment to the receiving entity at the time of approval.
 - The transferring entity and the receiving entity will receive documentation of transfer following the review and approval of the *Equipment Deletion/Transfer* information.
- The receiving entity must include the transferred equipment on their permanent inventory. The transferring entity must delete the equipment from their permanent inventory

For further information contact the Division of Funding and Disbursement Services at 217/782-5256.

INTEREST INCOME REQUIREMENTS

Federal Funds

Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), the *Code of Federal Regulations, Title 34-Education, Part 80 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C-Post Award Requirements, Section 80.21 Payment*, requires grant recipients to promptly, but at least quarterly, remit interest earned on advances. ISBE will facilitate the return of federal interest income to the appropriate federal agency. The grant recipient may keep actual interest amounts up to \$100 per year gained on federal deposits per bank account, if applicable, for administrative purposes. Grant recipients have discretion to set up account(s) that are non-interest bearing to avoid returning interest.

Federal regulations do not require grant recipients to return interest earned on federal funds on an individual program basis, interest may be returned in total for all federal programs. However, if interest is returned for multiple programs, the grant recipient must indicate the interest split by program and program year. Grant recipients are prohibited from reducing or offsetting federal interest earnings for the temporary use of non-federal cash resources for federal programs. For example, although a grant recipient may have temporarily supported a federal program with non-federal funds, the amount of interest that the grant recipient could have earned on those non-federal funds cannot offset or be netted against the interest earned on the unspent funds of that or another federal program.

To ensure compliance with federal administrative requirements, school district and charter school fiscal officials should develop internal controls and a sound methodology to calculate and return, at least quarterly, interest earned in excess of \$100 on federal program funds. Interest calculation methodologies must be based on actual, not estimated, interest earnings on federal funds.

The following guidelines are designed to assist federal program grant recipients in calculating interest on unexpended federal program cash advances.

Calculating Interest When Federal Cash is or can be Segregated from Other Grant Recipient Resources

If federal funds are maintained in a manner in which the grant recipient can specifically determine the amount of interest earned on federal funds for a particular period (at least quarterly), then that is the interest amount that must be reported and remitted to ISBE. The interest due on federal cash balances should reflect the **actual amount of interest earned on the unexpended federal program funding advances**. Therefore, interest calculations should be based on applicable interest rates applied to actual federal cash held in the grant recipient's bank.

Calculating Interest When Federal Cash is Pooled with Non-Federal Funds

If federal funds are pooled with non-federal funds in the grant recipient's bank, then the grant recipient must reasonably determine the federal portion of total earned interest for the period. Since the amount of federal cash available for program costs can change daily, the grant recipient should apply applicable interest rates to the reporting period's average daily federal cash balances. Average daily federal cash balances can be calculated by combining all federal program cash, both negative and positive, for each day of the reporting period, using federal program resource codes, then dividing by the actual number of days in the reporting period. If the combined federal cash available under this approach is negative for any day during the period, the grant recipient must record the average daily federal cash balance as zero to avoid reducing or offsetting federal interest earnings for the temporary use of non-federal cash resources for federal programs (see the sample calculation methodology below for an example of this situation).

If the grant recipient includes non-federal match funding in the federal program resource codes, the grant recipient may reduce the daily federal cash balances by the corresponding proportionate share of required cash match for each program. For example, if federal program Title XYZ has a 20 percent match requirement and the grant recipient accounts for the non-federal match in the Title XYZ federal program resource code, then the 20 percent proportionate share of match may be excluded from the calculated daily and average daily balances.

Sample Calculation Methodology – Federal Interest

Total of all federal daily balances in reporting period (e.g. January 1 – January 31) = \$17,700

Step 1: Calculate the Average Daily Balance

- Divide the total of all daily balances in reporting period by the actual number of days in reporting period
- Total of all daily balances in the reporting Period = \$17,700
- Actual number of days in the reporting period = 31
- Average daily balance = \$571

Step 2: Calculate the Annual Interest Amount

- Multiply the average daily balance by the actual interest rate
- Average daily balance = \$571
- Actual interest rate = 2.4267%
- Annual interest amount = \$14

Step 3: Calculate the Daily Interest Amount

- Divide interest amount by number of days in year.
- Annual interest amount = \$14
- Number of days in year = 365
- Daily interest amount = \$0.038

Step 4: Calculate the Total Federal Interest Due

- Multiply the daily interest amount by number of days in reporting period
- Daily interest amount = \$0.038
- Number of days in reporting period = 31
- Total federal interest due = \$1.18

Note: For federal interest calculation purposes, combined daily cash balances cannot be negative. Negative combined daily balances would reduce or offset federal interest earnings due to the temporary use of non-federal cash resources. Therefore, any negative combined daily balances should be zero in calculating interest on federal cash balances

State Funds

Interest may accrue when a grant recipient receives funds from ISBE. The Illinois Grant Funds Recovery Act, 30 ILCS 705/10 states “interest earned on grant funds may be retained by the grantee when the cost of accounting for the interest or allocating the interest to principal is significant in terms of the amount of interest to be received.” Unless the grant agreement provides otherwise, all interest earned on grant funds during the grant period must be expended by the grant recipient during the grant period, but only for purposes authorized by the grant. Interest funds not expended or obligated at the end of the grant period and any interest earned on grant funds after the grant period has expired, must be returned to the state within 45 days following the end of the grant period.

Returning Interest

Interest must be returned using the following guidelines:

- Checks for interest earned on **state and federal funds** should be made payable to the Illinois State Board of Education.
- Checks should not include the return of unexpended grant disbursements. Even though unexpended disbursements and interest payments are made payable to the Illinois State Board of Education, separate checks should be issued.
- Checks must be accompanied by a statement identifying the program and the program year from which the interest was earned.
- All checks should be mailed to:

Illinois State Board of Education
Division of Funding and Disbursements Services (E-320)
100 North First Street
Springfield, IL 62777-0001

RECORD RETENTION REQUIREMENTS

Federal Funds

For federal funds, a grantee shall comply with Education Department General Administrative Regulations (EDGAR) 34 CFR §80.42. In general, records must be retained for three years after completing activities pertaining to grant funds or *if any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3-year period, the records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-year period, whichever is later.*

State Funds

For State funds, a grant recipient shall retain records for *3 years from the final date for filing of a claim any claim for reimbursement to any school district if the claim has been found to be incorrect and to adjust subsequent claims accordingly, and to recompute and adjust any such claims within 6 years from the final date for filing when there has been an adverse court or administrative agency decision on the merits affecting the tax revenues of the school district. However, no such adjustment shall be made regarding equalized assessed valuation unless the district's equalized assessed valuation is changed by greater than \$250,000 or 2%* [105 ILCS 5/2-3.33].

All purchase orders, time and effort sheets and other supporting documentation must be retained at the local level and be available for review or audit any time within three years after termination of the project or until the local entity is notified in writing from ISBE that the records are no longer needed for review or audit. Records may be disposed of:

- after the individual retention period is completed,
- provided that any local, state, and federal audit requirements have been met;
- as long as they are not needed for any litigation either pending or anticipated; and,
- if they are correctly listed on a Records Disposal Certificate submitted to and approved by the appropriate Local Records Commission.

The responsibility for retention and destruction of records is shared between ISBE and the Local Records Commission.

Prior to the destruction of any records following the three-year period, a fund recipient must contact the Local Records Commission, Illinois State Archives, Margaret Cross Norton Building, Illinois Secretary of State, Springfield, Illinois 62756 (217/782-7075).

SECTION C: PROCEDURES FOR ADMINISTRATION OF GRANTS

BUDGETS/AMENDMENTS/ PAYMENT SCHEDULES/EXPENDITURE REPORTS

(State and Federal Grant Administration Policies 3 through 10, pages 3-4)

Budgets

Budgeting is a project plan in which ideas, goals and objectives are translated into expenses which are segregated by Function and Object per ISBE's [Part 100 Requirements for Accounting, Budgeting, Financial Reporting and Auditing](#). The budget is of equal importance to the narrative and can be approached as an important final check in clarifying the practical application of the program. Careful deliberation should go into completing the budget section. No budget, when submitted, can be more than an "informed estimate" of the costs to be incurred; but careful budget planning will insure that the financial support requested will be adequate to carry out the goals of the project. The approved budget connects the proposed expenditures to program activities and objectives.

Before developing a project budget, the writer must fully understand all of the state and federal rules and regulations that govern the program. This includes allowable direct costs, indirect costs, assurances, project forms and instructions and what changes are permitted in a budget once the project is approved. The project writer should contact staff at the local level or at ISBE who understand the rules and regulations and can provide assistance to include the information that is necessary in the final document.

A complete copy of the approved application, approved budget, and all approved amendments must be maintained by the grant recipient. These documents and other supporting information must be maintained for a minimum of three years (see Record Retention Requirements in the Section above) and will be used by ISBE staff to determine fiscal and program compliance. Any changes/corrections must be properly documented (via electronic review checklist, email, notes on the budget breakdown or budget summary) and changes noted at the grant recipient level.

All activities and obligations that will be charged to the approved grant must occur within the project begin and end date.

Amendments

Per Grant Administration Policy item 8, all amendments are due at ISBE thirty days prior to the project end date. The obligation of funds included on an amendment cannot begin prior to the date of receipt at ISBE provided the scope or intent of the approved project has not changed. If the scope or intent of a project changes based on an amendment, ISBE programmatic approval should be obtained prior to the obligation of funds based on the amendment.

Amendments are required when:

- there is a significant change in program scope (e.g. adding a new component - summer school); or
- the grant recipient intends to budget for more available funds (i.e. federal carryover); or
- the expected expenditures exceed the ISBE expenditure variance of 20% or \$1,000 per budgeted cell, whichever is greater; or
- the grant recipient adds a new expenditure item.

End Date Changes

A project end date change is necessary if a grant recipient is unable to obligate and/or complete all the activities included in the approved budget on or before the original project end date (normally June 30).

- State grant recipients that are provided an extension beyond June 30 by ISBE may amend their budget and charge expenditures as long as the total budget does not exceed the amount approved as of June 30. In other words, additional State grant funds cannot be awarded after June 30.
- An end date change is not needed to liquidate obligations encumbered prior to the end of the current project. For example, if a project ends June 30 an end date extension is not needed to pay the salary and benefit costs for teachers on a twelve month payment schedule.
- If the extension of the end date is part of the change in the scope of the program or includes a change to the budgeted line items, the end date change may be included on the appropriate amendment form. (See Amendments above.)
- If **only** the end date is changing (scope or budget cells unchanged), a notification to the Division of Funding and Disbursement Services will be acceptable thirty days prior to the original project end date. (For programs included on the eGMS system, end date changes must be done electronically via the IWAS system).
- Any end date changes or extensions must be reflected as month end.

Payment Schedules - State

In accordance with applicable regulations for each program, payments should be requested to meet actual cash needs of the project. All payment requests should be based on the projected date of expenditures.

When completing the Payment Schedule on a state application/amendment, indicate the amount needed in each month of the program, beginning with the first full month of the project and ending with the last full month of the project. Payments cannot be requested before the project begins or after the project ends.

Note: **Salaries and fringe benefits are normally expended in equal intervals and should be projected in this manner.** When teachers are paid on a twelve month salary basis and the project period is for nine months, the three months' salaries and related fringe benefits paid after the project ends (and AFTER the service has been rendered/activity has occurred) should be included in the last project payment. Equipment, supplies, contracted services and inservice activities should have the payment requested in the month for which the expenditure is anticipated.

When a revision of the original payment schedule is necessary, a revision may be included on an amendment (see Amendment above) or a request can be submitted to the program area or the Division of Funding and Disbursement Services. Formal notification with any payment revisions to the remaining payments will be acceptable thirty days prior to the project ending date. Any increase must be reflected in another month as a decrease. Payment schedules should be equal to the project budget. (For programs included on the eGMS system, end date changes must be done electronically via IWAS).

Payment Schedules – Federal

Effective July 1, 2011, grant recipients do not have the ability to enter a payment schedule on a federal application/amendment; rather, funds are distributed via cumulative cash basis expenditures reported by the grant recipient in the Electronic Expenditure Reporting System via IWAS.

Expenditure Reports – State and Federal General

Expenditure reports are utilized by ISBE primarily as a program accountability and cash management tool. Expenditures must always be reported on a cumulative (i.e. year-to-date) basis from the project begin date through a specific period of time.

Public Act 96-0795 effective July 1, 2010 requires that state grant recipients with awards in excess of \$25,000 must submit quarterly expenditure reports to reflect the progress of the grant program. For program consistency all grant recipients, regardless of the amount awarded, will be required to submit quarterly reports. Expenditure reports can be submitted more often than quarterly.

Grant recipients with approved access to IWAS must submit expenditure reports electronically via the Electronic Expenditure Reporting System. Notification of required expenditure reports are sent via a courtesy, reminder email from the Division of Funding and Disbursement Services. Paper expenditure reports will be sent to those entities that have not yet enrolled in IWAS for completion and submission of the reports to ISBE. See "Due Dates" below for all expenditure reporting.

Effective with fiscal year 2013 projects and thereafter, all state or federal grants will be required to submit additional expenditure information if the following conditions are met:

1. The project end date is AFTER June 30; AND
2. The expenditure thru date is AFTER June 30; AND
3. The expenditures are greater than the June 30 reported expenditures

Grant recipients must report the split of expenses for obligations/activities June 30 and prior compared to July 1 and after.

Any amount reported in an expenditure account (cell) **not budgeted or not within the acceptable expenditure variance, will not be accepted.** Failure to submit an acceptable report will result in the delay of current payments. Expenditures and obligations in excess of the total project budget will not be allowed.

Expenditure Reports – Federal Specific

Effective July 1, 2011, all federal expenditure reports must be submitted on a cumulative (i.e. year-to-date), cash basis accounting method (i.e. expenses are recognized when they are paid). Outstanding obligations may be reported on June expenditure reports through the project end date – even if the project ends after June. As grant recipients report cumulative cash basis expenditures via the Electronic Expenditure Reporting system, ISBE will reimburse the expenditures accordingly on a weekly basis. Grant recipients that submit expenditures only under this traditional reimbursement method can submit as frequent as weekly, but at a minimum, quarterly.

Commitment Amount

Grant recipients have the option to enter in addition to their cumulative cash basis expenditures a separate "commitment amount." **The commitment amount represents the amount of money the grant recipient must have in advance and commits to expend to meet immediate cash needs through the end of the next month only.** A commitment amount may only be entered on a month end expenditure report. Month end expenditure reports are available for submission as of the 20th calendar date of the month (e.g. July 31 month end expenditure report is available for submission on July 20). If a commitment amount is requested on the month end report, a cumulative cash basis expenditure report through the end of the following month **must** be submitted.

For example, the grant recipient enters a commitment amount on the July 31, 2011 expenditure report. This amount would represent the expenditures anticipated for the federal grant through the end of August. A cumulative cash basis month end expenditure report through August 31, which is available beginning August 20, must be submitted and is due on September 20, 2011.

Due Dates

Expenditure reports are due **20 calendar days** after the expenditure through date. Reports not received by the due date will result in project funds being frozen until an acceptable report is submitted.

Quarter	Reporting Project Begin Date Through:	Report Due Date
1	September 30	October 20
2	December 31	January 20
3	March 31	April 20
4	June 30	July 20

If the project end date is extended after June 30, the expenditure report is due twenty days following the end of the new end date.

Project Completion Reports - State

All grant funds must be expended and/or obligated and all activities must be completed on or before the project end date. A completion report must be submitted that reflects ALL expenditures and obligations for the project no later than **twenty calendar days** after the project end date. If a completion report is submitted through the project end date and there are no outstanding obligations entered, then the completion report will be considered the grant recipient's final expenditure report. Failure to submit this completion/final expenditure report in a timely manner will result in project funding being withheld for the current and subsequent year until the report is received.

Project Completion Reports – Federal

Effective July 1, 2011, all grant funds must be expended and/or obligated and all activities must be completed prior to the project end date. A completion report must be submitted showing ALL expenditures and obligations for the project no later than **twenty calendar days** after the project ending date. If a completion report is submitted through the project ending date and indicates no outstanding obligations, then the completion report will be the grant recipient's final expenditure report. Failure to submit this completion/final expenditure report in a timely manner will result in project funding being withheld for the current and subsequent year until the report is received. The outstanding obligation amount should be the amount expected to be paid within the next 90 days from the project end date. The commitment amount (for the expended cash needs for the next month ONLY) should be included in the outstanding obligation amount. Completion reports can be submitted until all obligations are liquidated.

Final Expenditure Reports

A final expenditure report is defined as:

- the project end date equals the cumulative expenditure through date, and;
- there are no outstanding obligations reported.

If a completion report is submitted with outstanding obligations, then a final expenditure report that reflects total project expenditures (with all prior obligations liquidated) must be submitted no later than 90 calendar days after the project end date. Failure to submit this final expenditure report in a timely manner will result in project funding being withheld for the current and subsequent year until the report is received.

A revision of a final expenditure report will not be accepted unless extenuating circumstances warrant a revision. A request to revise a final expenditure report must be submitted in writing or via email to the Division of Funding and Disbursement Services staff for approval.

CARRYOVER

Carryover funds are unbudgeted and/or unexpended funds from the previous fiscal year calculated from the grant recipient's final expenditure report.

State Funds

Carryover is **not allowed** for state funded programs.

Federal Funds

Most federal programs are subject to the Tydings Amendment (see Terms Definition section) and have a carryover provision that allows a grant recipient to obligate funds for one additional year with a total useful life for obligation of 27 months (12 months of current year + 12 months of carryover + 3 months of lapse = 27 months). If the federal funds have not been obligated within that time, the unbudgeted funds will lapse and any unexpended funds must be returned to ISBE. Entitlement programs usually require the funds to be carried over to the grant recipient holding entitlement. Discretionary/competitive programs funds that are unexpended may not carryover to the grant recipient. Please check individual programs guidelines and the applicable ISBE program consultant for further clarification. Depending on the program guidelines, carryover may be included in the total funds available in the subsequent project year. **To utilize carryover funds, the grant recipient must submit a budget amendment that includes the carryover funds along with the current year funds made available.**

Some federal programs have a restriction on the amount of carryover funds that may be transferred into the subsequent project year and may require a waiver if the amount exceeds the maximum threshold. Please check individual federal program guidelines and your ISBE program consultant regarding potential carryover restrictions.

Federal Entitlement Program Carryover Example

Carryover from Previous Year:	15,000
Current Year Allotment:	+ 100,000
Total Funds Available to Budget:	<u>115,000</u>
Total Current Year Budget:	- 105,000
Tentative Carryover from <i>Unbudgeted</i> Funds (Allotment):	<u>10,000</u>
Total Current Year Budget:	105,000
Total Expenditures (Final Report):	-101,000
Total Carryover from <i>Unexpended</i> funds (Prepayment):	<u>4,000</u>
Total Carryover from <i>Unbudgeted</i> Funds (Allotment):	<u>10,000</u>
Total Carryover from <i>Unexpended</i> Funds (Prepayment):	<u>+4,000</u>
Actual Carryover for Next Year's Project:	<u>\$14,000</u>

Federal Discretionary/Competitive Program Prepayment Example

Total Current Year Budget and Total Disbursed	100,000
Total Expenditures (Final Report)	<u>90,000</u>
Total <i>Unexpended</i> Funds (Prepayment)	10,000
Prepayment into next year's project (replaces funds on the payment schedule - NOT additional funds available)	10,000

EXCESS CASH ON HAND

Excess cash is the amount of money disbursed by ISBE, not necessarily received, that is greater than the expenditures reported by a grant recipient through a specified period of time.

Excess Cash – State Programs

Excess cash on hand is determined by comparing the amount disbursed by ISBE to date, not necessarily received, indicated on the grant recipient's expenditure report minus the total amount expended and obligated on a cumulative basis for the reporting period. A positive balance indicates excess cash on hand. This amount will be withheld from the next scheduled payment(s). The amount of excess cash is placed in reserve and will be released when a subsequent cumulative expenditure report is submitted with a zero or negative cash fund balance.

The payment schedule should be submitted based on the actual cash needs of the district. Lump sum, semi-annual or quarterly payments are not appropriate unless a unique expenditure obligation warrants such disbursement. If the payment schedule has been prepared in a reasonable manner, excess cash on hand should not occur.

Excess Cash – Federal Programs

Effective July 1, 2011 excess cash is determined by comparing the amount disbursed by ISBE and received by the grant recipient minus the total amount expended on a cumulative cash basis for the reporting period. A positive balance indicates excess cash on hand. This amount will be withheld from any future payment that may be requested by the grant recipient.

OBLIGATIONS

An outstanding obligation is any liability for which funds are committed prior to the end of the reporting period and is expected to be paid within 90 days. See State and Federal Grant Administration Policy statement #6 for further guidance.

Payroll expenditures must be supported by time and effort or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective must be supported by appropriate time distribution records.

The following table reflects when an obligation exists:

If the obligation is for:	The obligation is made:
a) Acquisition of real or personal property.	-on the date on which a written commitment to acquire the property has been made.
b) personal services by an employee.	-when the service has been performed.
c) personal services by a contractor (not an employee).	-on the date on which a binding written commitment to obtain the services has been made.
d) performance of work other than a personal service.	-on the date on which a binding written commitment to obtain the work has been made.
e) public utility service.	-when the service is received.
f) travel.	-when the travel is taken.
g) rental of real or personal property.	-when the property is used.
h) a preagreement cost that was properly approved by the State.	-when the preagreement costs were approved by the State.

All activities for a project must be completed and all obligations encumbered within the project begin and end date. Liquidation of all obligations, including the current year's audit fee, should be completed no later than 90 days after the project ending date. Salaries cannot be claimed as an outstanding obligation except on the completion report (i.e. cumulative expenditure report submitted for the period equal to the project end date) when salaries are paid on a twelve month schedule.

For programs that, by statute, require a final expenditure report to be submitted in order to receive a final payment in August, the total of the expenditures and outstanding obligations limit the amount for which the entity is eligible. Final liquidation reports received prior to the payment being calculated will be honored.

**UNEMPLOYMENT COMPENSATION/WORKERS' COMPENSATION/
TEACHERS' RETIREMENT SYSTEM (TRS)/ILLINOIS MUNICIPAL RETIREMENT FUND
(IMRF)/
SOCIAL SECURITY/RETIREMENT/TERMINATION/SEVERANCE**

Unemployment Compensation <http://www.ides.illinois.gov/>

Program rules and regulations guide the use of unemployment compensation on program budgets. For more specific information, please contact the Illinois Department of Employment Security. Unemployment Compensation is commonly considered a purchased service because this is an employer's insurance and **not a fringe benefit**.

Workers' Compensation <http://www.ides.illinois.gov/>

Program rules and regulations guide the use of workers' compensation on program budgets. For more specific information, please contact the Illinois Industrial Commission. Workers' Compensation is commonly considered a purchased service because this is an employer's insurance and **not a fringe benefit**.

Teachers' Retirement System (TRS) <http://trs.illinois.gov/>

Program rules and regulations guide the use of TRS on program budgets. For more specific information, please contact the Teachers' Retirement System.

Illinois Municipal Retirement Fund (IMRF) <http://www.imrf.org/>

Program rules and regulations guide the use of IMRF on program budgets. For more specific information, please contact the Illinois Municipal Retirement Fund.

Social Security <http://www.socialsecurity.gov/>

Program rules and regulations guide the use of Social Security on program budgets. For more specific information, please contact the Social Security Administration.

Retirement, Termination and Severance Pay Cost

The United States Department of Education (ED) sent a February 2009 letter to ISBE regarding the proper treatment of retirement incentive payments that may be charged to federal grant programs. In general, if the payment confers a benefit to the affected program then it may be included as a direct cost of the program. When the payment confers no direct benefit to the program, it can only be charged indirectly to the program.

Please be advised that any abnormal, lump sum severance payments, accelerated early retirement expenditures or other costs in addition to normal, annual salaries and related benefits are not allowed to be charged solely as a direct cost on any federal grants and may be charged as an indirect cost or a combination of direct and indirect costs ***only if prior approval has been obtained***. Grant recipients will need to contact ISBE for approval of abnormal or mass severance expenditures. ISBE will work with ED for final approval. Requests for prior approval, at a minimum, must demonstrate the reasonableness and how such costs are allocated to federal programs.

-Retirement (Allowable Direct Costs) – when an employee has chosen to end their employment, the costs associated in the current fiscal year of this action may be included as a direct cost to the grant. This may include compensation for unused sick and/or vacation days paid as part of the individual's current annual salary.

-Termination and Mass Severance – Any disbursement/expenditure made in addition to regular salaries and wages for workers whose employment was terminated in the current school year, may be charged as an indirect cost or a combination of direct and indirect costs ***only if prior approval has been obtained***. Examples of one-time abnormal or mass severance include expenses associated with events that are offered to employees as an incentive to leave employment such as:

- Buy-outs
- Lump sum payments linked to years of service including prior year benefit accruals (e.g. unused vacation or sick)
- Increased pension benefits such as granting additional years or eliminating penalties for early retirement

To facilitate accountability for these expenditures, ISBE’s [Part 100 Requirements of Accounting, Budgeting, Financial Reporting and Auditing](#), provides that Object Code 800 be used for such costs. Table F, Expenditure Object Accounts, provides “800 Termination Benefits” for all “payments made to terminated or retiring employees as compensation for unused sick or vacation days.” Object Code 800 is not available for use on grant budgets. Therefore, if prior approval has not been obtained to claim these cost directly, termination and severance expenditures can only be requested as an indirect cost. Grant recipients identifying abnormal or mass severance expenses in the Annual Financial Report will not be provided an indirect cost rate by ISBE without prior approval of such costs.

INDIRECT COSTS AND COST ALLOCATION PLANS

Introduction

Indirect costs are costs a grant recipient incurs for common or joint objectives that cannot be readily and specifically identified with a particular grant project or other institutional activity. These are typically widespread costs for support service activities such as purchasing, budgeting, payroll, accounting, data processing, and staff services. Indirect costs are usually charged to the grant as a percentage of some or all of the direct cost items in the grant recipient's budget. This percentage is called the indirect cost rate.

The following expenditure functions are usually considered as indirect costs:

- Function 2510 - Direction of Business Support Services
- Function 2520 - Fiscal Services
- Function 2570 - Internal Services
- Function 2640 - Staff Services
- Function 2660 - Data Processing Services

If expenditures are shown as direct costs in any of the above mentioned functions on the program budget, the indirect cost rate cannot be used.

Restricted and Unrestricted Plans

The "Restricted Indirect Cost Allocation Plan" is to be used with programs which restrict expenditures to those which "supplement but do not supplant" state or local effort. The "Unrestricted Indirect Cost Allocation Plan" applies to grant programs that allow state or federal funds to supplement and/or supplant local funds.

The principle of cost allocation for restricted programs applies to Title I, IDEA, and any other program which requires assurance that grant funds will be used to supplement but not supplant local funds. The principle of cost allocation for unrestricted programs applies to programs such as the Child Nutrition Program.

Use of the restricted and unrestricted rate is made by applying the appropriate rate to the direct costs for the state or federal program. The use of the restricted rate does not increase the amount of the grant, but reallocates funds among expenditure classifications.

Calculation of the Rate

The Division of School Business Services annually computes a new indirect cost rate for each school district and joint agreement. The rate is computed from the *Financial Data to Assist Indirect Cost Determination*, a supplementary schedule in the *Illinois Local Education Agency Annual Financial Report* (Form ISBE 50-35). Each year these computed indirect cost rates are made available electronically to the respective local education agencies. A state-wide average indirect cost rate is also determined at this time.

Indirect Cost Rates for Grant Recipients

Depending on the type of grant recipient approved for grant funds, the following should be used as a guide if the grant recipient decides to apply the appropriate indirect cost rate as determined by ISBE.

- School districts must use their restricted indirect cost rates.
- Newly organized entities and governmental entities formed by a joint agreement must utilize the state-wide average indirect rate.
- School districts which jointly administer a state or federal program must utilize the approved indirect cost rate for the administrative district of the joint program.

- Regional Offices of Education, Intermediate Service Centers, not for profit agencies, community/faith-based organizations and other subgrantees must use the state-wide average if they wish to include indirect costs on state or federal grants.
- Colleges and Universities will be restricted to a maximum indirect cost rate of 8% or other indirect cost rate calculated by their cognizant federal agency, whichever is less, for all state and federal grants administered by the Illinois State Board of Education.

Limitations of Recovery of Indirect Costs

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

Indirect costs may be recovered only to the extent that direct costs are incurred. The indirect cost rate is applied to the amount expended, not to the total grant award, to determine the amount of the indirect costs.

A grant recipient may not recover more costs in any program than they incur. If all costs are allocated directly to a program, NO indirect cost may be applied to the program.

Rate Application and Capital Outlay

Special consideration is necessary when a grant recipient's budget contains facilities acquisition and construction costs (function 2530), capital outlay (equipment) and non-capitalized equipment expenditures. The amount of facilities acquisition and construction costs (function 2530), capital outlay and non-capitalized equipment is **excluded** from the total direct costs when the indirect cost rate is applied to determine the dollar amount of indirect costs to be allowed for the project; i.e. indirect cost rate multiplied by (direct expenditures minus facilities acquisition and construction costs (function 2530), capital outlay and non-capitalized equipment expenditures).

Direct vs. Other "Administrative Overhead Types" of Costs

There are other "administrative overhead types" of indirect costs (e.g. telephone, copying and postage) that are incurred within a central district office which are normally charged in Function 2300 General Administration and/or Function 2400 School Administration. In addition, there may be specific program (e.g. Grants Coordinator) administrative salaries which may be direct costs, e.g. benefits and supplies that are charged in General Administration Sub-Function 2330 Special Area Administrative Services, and/or School Administration Sub-Function 2490 Other Support Services.

Cost Allocation Plan (CAP)

A Cost Allocation Plan (CAP) is a document that states how a grant recipient will identify, accumulate and distribute certain allowable administrative costs in grants and identifies the allocation methods used for distributing the costs. A written plan for allocating joint costs is required to support the distribution of those costs to the grant program. When a grant recipient completes a grant application/amendment, it must determine to either utilize its restricted indirect cost rate as calculated by ISBE or utilize a CAP which must then be documented via personnel time and effort information as well as formal accounting records according to generally accepted governmental accounting principles to substantiate the propriety of the eventual charges. All applicable documentation must be available for review upon request by a local auditor or ISBE compliance monitor.

In most instances, the simultaneous use of direct cost allocation and the indirect cost rate application is prohibited. However, there may be legitimate instances where a general administration cost is requested and approved as a direct cost in addition to other administrative overhead costs that are covered under an indirect cost rate.

Example – Grants Coordinator in Central Office

A federal grants coordinator works in the central district office along with other staff that has oversight over other grant programs. The direct cost (e.g. salary and benefits) for the grants coordinator with respect to certain services (e.g. Special Area Administrative Services Sub-Function 2330) may be charged as a direct cost on a federal grant utilizing a CAP with supporting records and documentation that are maintained by the district in accordance with the applicable OMB Circular. The functions that may be utilized with a CAP may include, but are not necessarily limited to, supervisory responsibilities or other administrative services for the specific grant as the federal grants coordinator along with the recognition of appropriate supplanting rules. Ancillary administration costs within the central office (e.g. telephone, copying, postage etc.) which may not be charged as direct cost would be allowed under the indirect cost rate.

Depending on the type of grant recipient approved for grant funding, all cost allocation plans must be in compliance with the appropriate circular from the Federal Office of Management and Budget.

Examples of acceptable Cost Allocation Plans are provided below:

Example 1 -Expense Amount = \$5,000

Costs that benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program’s personnel costs (salaries & applicable benefits) to the total of such personnel costs, as follows:

Grant	Personnel Costs	%	Amount Allocated
A	\$ 20,000	20%	\$1,000
C	\$ 30,000	30%	\$1,500
E	\$ 50,000	50%	\$2,500
Total	\$100,000	100%	\$5,000

Example 2 - Expense Amount = \$10,000

Costs that benefit **all** programs are allocated based on a ratio of each program’s personnel costs (salaries & applicable benefits) to total personnel costs as follows:

Grant	Personnel Costs	%	Amount Allocated
A	\$ 20,000	13%	\$1,300
B	\$ 10,000	7%	\$ 700
C	\$ 30,000	20%	\$2,000
D	\$ 40,000	27%	\$2,700
E	\$ 50,000	33%	\$3,300
Total	\$150,000	100%	\$10,000

Example 3 - Expense Amount = \$4,000

Costs that benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program’s expenses (direct costs other than salaries & benefits) to the total of such expenses, as follows:

Grant	Program Expenses	%	Amount Allocated
A	\$ 120,000	30%	\$1,200
C	\$ 130,000	33%	\$1,320
E	\$ 150,000	37%	\$1,480
Total	\$ 400,000	100%	\$4,000

Example 4 - Expense Amount = \$8,000

Costs that benefit **all** programs will be allocated based on a ratio of each program’s salaries to total salaries as follows:

Grant	Program Expenses	%	Amount Allocated
A	\$ 120,000	18%	\$1,440
B	\$ 110,000	17%	\$1,360
C	\$ 130,000	20%	\$1,600
D	\$ 140,000	22%	\$1,760
E	\$ 150,000	23%	\$1,840
Total	\$650,000	100%	\$8,000

Example 5 - Facilities Expense Amount = \$10,000

Facilities costs are allocated based on square footage. Square footage for each program and general and administrative activity is considered in the analysis. General and administrative (G&A) facilities costs are further allocated to each program based on the square footage of each grant program to the total square footage of all grant programs.

Grant	Square Footage	%	Amount Allocated	G&A Allocated	Total Amount Allocated
A	300	30%	\$ 3,000	\$ 340	\$ 3,340
B	100	10%	\$ 1,000	\$ 110	\$ 1,110
C	200	20%	\$ 2,000	\$ 220	\$ 2,220
D	200	20%	\$ 2,000	\$ 220	\$ 2,220
E	100	10%	\$ 1,000	\$ 110	\$ 1,110
G&A	100	10%	\$ 1,000	0	0
Total	1,000	100%	\$10,000	\$1,000	\$10,000

REQUIRED AUDITS

Compliance/Monitoring Review

All activities are subject to an audit at the local, state and federal level. Staff from ISBE may conduct a compliance review of your program to audit records and offer technical assistance. This review will ascertain on a sample basis whether or not such records are adequately and properly maintained on a current basis.

The purpose of this review is to determine if the project meets legal requirements and to verify the eligibility of expenditures by examining sample documentation for the following:

1. funds disbursed to the grant recipient were received and properly recorded in separate accounts;
2. payments reported by the grant recipient were actually made to vendors, contractors and employees and that they conform to applicable laws and regulations, including procurement requirements and support the program intent;
3. refunds, discounts, etc., were properly credited to specific expense classifications as reductions of the gross expenditure;
4. payments are supported by adequate evidence of the delivery of goods or performance of services;
5. obligations included in the report of expenditures were actually incurred during the budget period for which the expenditures were claimed and upon liquidation were properly adjusted;
6. the same item is not reported as an expenditure for two or more years, e.g., encumbrance is one year and payment in another; items are properly recorded in the program year
7. all expenditures that were claimed were made for the approved project and are easily identifiable with this project;
8. all books and materials obtained with the grant funds are plainly marked with appropriate identification;
9. all inventory items have been allocated an inventory number and the number has been plainly affixed on each piece of equipment and plainly labeled;
10. an inventory register has been maintained of those items required to be inventoried which shows:
 - description;
 - serial number or other identification number;
 - funding source for purchased property;
 - who holds title;
 - acquisition date and cost;
 - location, use and condition of property;
 - disposition date
11. inventory items moved from one location to another have been duly authorized in writing and that the transfer has been recorded in the inventory register, and each item of equipment purchased was listed in the approved budget breakdown and is being used solely for authorized purposes;
12. prorated expenditures, such as salaries (supported by time and effort documentation), travel, etc., are divided correctly between two or more accounts and that the basis of such division can be substantiated as reasonable and equitable (the auditor will compare actual expenditures with the approved budget and note variations);
13. unexpended state funds advanced or overpaid were promptly returned to the Illinois State Board of Education;
14. payments to an administrator who is employed by the Board of Education under the terms of the contract covering a twelve month period of service were not included in administrative expenses;
15. obligations were liquidated within 90 days after the end of the budget period and adjusted to the amount finally paid; and,
16. expenditures were incurred for activities in addition to those that have been provided previously for public and non-profit private school students and teachers.

Federal Compliance Reporting---Single Audit Act/A-133 Audit

Effective January 2004, the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires entities that expend \$500,000 or more a year in federal awards to have a single or program-specific audit conducted. Information on the A-133 Audit can be obtained from the internet website <http://www.isbe.net/funding/html/a133.htm>.

Audit Costs

Costs associated with required audits may be charged to the grant. (This does not apply to Regional Offices of Education and Intermediate Service Centers). Such audits must be completed annually for the period ending June 30. Audit costs must be prorated according to the grants being audited. The costs associated with the audit must be obligated prior to June 30, and paid from the grant year audited. Obligated costs for audits should be liquidated within 90 days from the ending date of the grants and reported on the final expenditure reports.

SUPPORTING DOCUMENTATION FOR SALARIES AND WAGES

Compensation for personal services from federal OMB Circular A-87:

These standards regarding time distribution are in addition to the standards for payroll documentation.

1. Charges to grants for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the grant recipient and approved by a responsible official(s) of the grant recipient.
2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
3. Where employees are expected to work solely on a single grant or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5). Such documentary support will be required where employees work on:
 - a. More than one grant,
 - b. A grant and a non-grant,
 - c. An indirect cost activity and a direct cost activity,
 - d. Two or more indirect activities which are allocated using different allocation bases, or
 - e. An unallowable activity and a direct or indirect cost activity.
5. Personnel activity reports or equivalent documentation must meet the following standards:
 - a. They must reflect an after the fact distribution of the actual activity of each employee,
 - b. They must account for the total activity for which each employee is compensated,
 - c. They must be prepared at least monthly and must coincide with one or more pay periods, and
 - d. They must be signed by the employee.
 - e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to grants but may be used for interim accounting purposes, provided that:
 - i. The grant recipient's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to grants to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

TIME AND EFFORT REPORTING
<http://www.isbe.net/e-bulletins/pdf/02-10.pdf>
(see link for sample forms)

Federal law requires all employees, including teachers, paraprofessionals, and other staff that are paid with federal funds to document the time and effort they spend within that program. The portion of the federally paid salary should be reflective of the time and effort the individual has put forth for that federal program. For instance, if a Title I teacher spends 100% of his/her time working with Title I students and on Title I responsibilities, then 100% of his/her salary is to be paid with Title I funds. On the other hand, if an individual is working as a principal 50% of the time and 50% as the coordinator for another program, only 50% of his/her salary is paid from Title I. The remaining 50% would be paid from district funding. The purpose of documenting time and effort is to ensure that a district does not use federal funds to compensate an employee for time spent on any other program.

Time and effort reporting guidelines are specified in the U.S. Office of Management and Budget (OMB) Circulars A-87 and A-133. The circulars provide instructions to auditors performing Single Audits of states, local governments, and non-profit organizations. OMB-87 establishes standards for charging employee compensation for federal grants. OMB A-133 lists the compliance requirements for federal education programs. Districts that receive other federal funds, such as Title I, Part A, Migrant, Homeless, Neglected and Delinquent, Title II A, Title II D, Title III, Coordinated School Health, etc., must also ensure their employees are documenting their time and effort.

School districts are required to maintain auditable "time and effort" documentation that show how each employee spent his or her compensated time. Such documentation are written, after the fact (not estimated or budgeted) documentation of how the time was spent. Time and effort reports should be prepared by any staff with salary charged (1) directly to a federal award, (2) directly to multiple federal awards, or (3) directly to any combination of a federal award and other federal, state or local fund sources.

Semi-annual certifications are required for federal personnel whose compensation is funded solely from a federal grant. These certifications document that he/she has been working solely in activities supported by the federal grant (although some district policies require monthly reports for such personnel). The certification must

- (1) cover a semiannual period (e.g., September-January and February-June, or September-February and March-August),
- (2) identify Title I as the program, and
- (3) be signed and dated by an employee and supervisor having first-hand knowledge of the work performed by the employee.

Monthly reports are required for the federal personnel whose time is charged in part to one federal grant and in part to other revenue sources (split-funded staff). These reports document the portions of time and effort dedicated to the federal grant and to other revenue sources. Such records must

- (1) be completed after-the-fact,
- (2) account for the total time for which the employee is compensated,
- (3) be prepared at least monthly,
- (4) coincide with one or more pay periods, and
- (5) be signed by the employee and countersigned by an administrator or supervisor.

Stipends (and other supplemental contracts) must also be reported. Record stipends on semi-annual certifications or monthly reports, whichever is utilized for the particular employee. Alternatively, permitted documentation includes

- (1) a signed supplemental contract that stipulates the federal grant's work activity,
- (2) sign-in attendance logs approved by the supervisor (e.g., pay for professional development activities), and
- (3) employee time/pay slips that specify the federal grant and are approved by the supervisor.

When is time and effort documentation required?

All individuals being paid with federal funds must document their time and effort, no matter the percentage of time they are paid or if they are working in a federal program. An employee dedicating 5% of his/her time to a federal program must document time and effort just as an individual employed 100% to a federal program would have to document time and effort. The difference is the type of documentation that each employee is responsible to complete.

What type of documentation is required?

Permanent Schedule – A permanent schedule is most often used for teachers or individuals who are being paid with federal funds and hold a fixed schedule every day of the week. For instance, a Title I teacher’s schedule could document that he/she is being paid 100% with federal funds and 100% of his/her day is dedicated to Title I programming. A teacher who was 50% Title I and 50% reading coach could also use this method if his/her schedule was consistent, day after day. Permanent schedules should be on file and updated throughout the school year.

Periodic Certification – Districts who have full-funded federal personnel or those that are partially funded with federal funds must have individuals submit an assurance every six months (at a minimum) documenting that the amount of time they worked for each particular federal program. This certification should also include documentation of time spent on the federal program (such as a copy of daily planner, schedules, time sheets, daily logs). A sample assurance could state, “From January 1, 2011 to June 30, 2011, Jane Doe spent 100% of her time on Title I Part A instructional activities as evidenced by the enclosed schedule.” – Signed by employee and supervisor.

Daily Log – Individuals who work less than 100% for a particular federal program and whose schedule changes from day to day have the option of logging their time spent in the federal program each day. For instance, a principal who is paid 75% from the district for principal duties and 25% from Title I to coordinate the district’s Title I program could keep a daily log of the time spent on principal duties versus Title I coordinator duties. An individual in this situation does not hold a fixed schedule as principal duties are irregular and cannot be scheduled. Daily logs must be signed by the employee and their supervisor.

Monthly Certification – Individuals who are funded from multiple funding sources can document their time and effort through monthly documentation. For this method, an assurance including time documentation would be submitted monthly. This sample assurance could state, “For the month of October 2011, Jane Doe spent 50% of her time on Title I Part A instructional activities and 50% on general fund instructional activities as evidenced by the enclosed schedule.” – Signed by employee and supervisor.

What if there are differences?

If there are differences in the amount of time that an individual is reporting and what is actually being paid, adjustments must be made in the payroll to accurately reflect the time and effort spent on a particular federal program.

What are the repercussions if employees do not document their time and effort?

When districts are monitored, federally paid employees will be asked to submit documentation of their time and effort. If no documentation or inadequate information is provided, the district will be cited as being out of compliance. During recent U.S. Department of Education (ED) monitoring of states and school districts, more extreme action has been taken. The ED and state auditors have required districts across the nation to reimburse the federal government for paying salaries without adequate time and effort justification. Time and effort problems can also result in an increased risk of audit findings and questioned costs.

What are some things to watch out for?

- (1) failing to recognize that a change in position, duties or funding may result in a change in time and effort reporting;
- (2) failing to provide training to staff who are responsible for completing and/or approving time and effort documentation;
- (3) reporting time according to how the ratios were budgeted without regard to how the individual actually worked;
- (4) time and effort reports not reviewed and signed by appropriate staff;
- (5) entire days' schedule not accounted for (for federal program time reported); or
- (6) lack of appropriate time and effort records for employees compensated through supplemental contracts, stipends, extra hours, etc.

DETAILED **FUNCTION** DESCRIPTORS AND SUB-CATEGORIES

From [Title 23 Illinois Administrative Code-Part 100](#)

Function: The action or purpose for which a person or thing is used or exists. This includes activities or actions which are performed to accomplish the objectives of the project.

FUNCTION	DESCRIPTORS & SUB-CATEGORIES
1000	Instruction: The teaching of pupils or the interaction between teacher and pupils. Included are activities of aides or assistants who assist in the instructional process. Teaching may occur in classrooms or other learning situations such as those involving co-curricular activities, and may be conducted through a medium such as television, radio, telephone or correspondence.
2110	Attendance & Social Work Services: The activities for the improvement of pupils' attendance at school and the performance of school social work activities dealing with the problems of pupils which involve the home, school and community.
2120	Guidance Services: Counseling with pupils or parents, consultation with staff members on learning problems, evaluating abilities of pupils, assisting pupils in making educational and career plans and choices, assisting pupils in personal and social development, providing referral assistance and working with other staff members in planning and conducting guidance programs for pupils.
2130	Health Services: Physical and mental health services that do not constitute direct instruction. Included are activities that provide pupils with appropriate medical, dental and nursing services.
2140	Psychological Services: Activities concerned with administering psychological tests and interpreting the results, gathering and interpreting information about pupil behavior, working with other staff members in planning school programs to meet the special needs of pupils as indicated by psychological tests and behavioral evaluation and planning and managing a program of psychological services, including psychological counseling for pupils, staff and parents.
2150	Speech Pathology and Audiology Services: Activities involving the identification, assessment and treatment of children with impairments in speech, hearing and language.
2210	Improvement of Instruction Services: Activities for assisting instructional staff in planning, developing and evaluating the instructional process.
2220	Educational Media Services: Activities concerned with the use of all teaching and learning resources, including hardware and content material. (example: services/items housed in a central location: library/lab/media center).
2230	Assessment and Testing: Activities for the purpose of measuring individual student achievement.
2300	General Administration: Activities concerned with establishing and administering policy in connection with operating the LEA (local education agency).
2400	School Administration: Activities concerned with overall administrative responsibility for a single school or a group of schools.
2510	Direction of Business Support Services: Activities concerned with directing and managing the business services area, such as those usually performed by the office of the chief school business official or business manager.
2520	Fiscal Services: Activities concerned with the fiscal operations of the LEA. This function includes budgeting, receiving and disbursing, bookkeeping, financial accounting, payroll, inventory control and internal auditing.
2530	Facilities Acquisition and Construction Services: Activities concerned with acquisition of land and buildings, remodeling buildings, construction of buildings and additions to buildings, initial installation or extension of services systems and other build-in equipment and improvements to sites.
2540	Operation and Maintenance of Plant Services: Activities concerned with keeping the physical plant (i.e., grounds, buildings and equipment) in an effective and safe working condition. This includes activities of maintaining safety in building, on the grounds and in the vicinity of the schools.

FUNCTION	DESCRIPTORS & SUB-CATEGORIES
2550	<u>Pupil Transportation Services</u> : Activities concerned with conveying pupils to and from school as provided by Article 29 of The School Code [105 ILCS 5/Art. 29]. It includes trips between home and school and trips to school activities.
2560	<u>Food Services</u> : Activities concerned with providing food to pupils and staff in a school or LEA. This services area includes the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities and the delivery of food.
2570	<u>Internal Services</u> : Activities concerned with buying, storing and distributing supplies, furniture and equipment; those activities concerned with internal duplicating and printing for the school system; and the pickup and transporting of cash from schools facilities to the central administrative office or bank for control and/or deposit.
2610	<u>Direction of Central Support Services</u> : Activities concerned with directing and managing the central support services as a group.
2620	<u>Planning, Research, Development & Evaluation Services</u> : Activities associated with conducting and managing programs of planning, research, development and evaluation for a school system or a system-wide basis.
2630	<u>Information Services</u> : Those activities concerned with writing, editing and other preparation necessary to disseminate education and administrative information to pupils, staff, managers or the general public through direct mailing, the various news media or personal contact.
2640	<u>Staff Services</u> : Activities generally performed by the LEA's personnel office, such as recruiting and placement, staff transfers, in-service training (example: non-instructional training), health services, and staff accounting.
2660	<u>Data Processing Services</u> : Activities concerned with preparing data for storage, sorting data and retrieving them for reproduction as information for management and reporting.
2900	<u>Other Support Services</u> : Activities of any support service or classification of services, general in nature that cannot be classified elsewhere in the 2000 series of accounts. (Describe and itemize).
3000	<u>Community Services</u> : Services provided by the LEA for the community as a whole or some segment of the community, such as community recreation programs, civic organization activities, public libraries, programs of custody and child care, welfare services, services to nonpublic schools, and home/school services.
3700*	<u>Nonpublic School Pupils' Services</u> : Services to pupils attending a school established by an agency other than the State, a subdivision of the State, or the federal government, which usually is supported primarily by non-public funds. The services include providing instructional services, attendance and social work services, health services, and transportation services for nonpublic school pupils
4000	<u>Payments to Other Districts and Governmental Units</u> : Payments to other public LEAs. In-state and out-of-state public entities. (examples: payments to public university/college, payments to public community colleges, payments to Regional Offices of Education/Intermediate Service Centers, payments to Special Education Cooperatives/Education for Employment Centers)
5000	<u>Debt Services</u> : Servicing of the LEA's debts.

*Beginning in project year 2014.

DETAILED OBJECT DESCRIPTORS AND SUB-CATEGORIES

From [Title 23 Illinois Administrative Code-Part 100](#)

Object: Service or commodity obtained as a result of a specific purpose.

OBJECT	DESCRIPTORS & SUB-CATEGORIES
100	<p>Salaries: Amounts paid to permanent, temporary or substitute employees on the LEA's payroll. This includes gross salary for personal services rendered while on the payroll of the LEA.</p>
200	<p>Employee Benefits: Amounts paid by the LEA on behalf of employees; these amounts are not included in the gross salary, but are over and above it. Payments such as fringe benefits, while not paid directly to the employees, nevertheless are a part of the cost (to the applicable functional areas). These types of costs are not considered a cost to the board of education function and should not all be charged to one area. These costs apply to the same function number as the cost of the applicable salary.</p> <ul style="list-style-type: none"> -Retirement -Teachers' Retirement (TRS) -Municipal Retirement (IMRF) - FICA (Federal Insurance Contributions Act for Social Security) -Insurance (examples: Health, Life, Medical, Dental) -Medicare only -Tuition reimbursement -“On-behalf” payments
300	<p>Purchased Services: Amounts paid for personal services rendered by personnel who are not on the LEA's payroll, and others services the LEA may purchase. While a produce may or may not result from the transaction, the primary reason for the purchase is the service provided in order to obtain the desired results.</p> <ul style="list-style-type: none"> -Professional & Technical Services -Audit/Financial Services -Legal Services -Professional Services-Administrative -Professional Services-Instructional -Professional Employee Training & Development Services -Property Services (examples: services to operate, repair, maintain and rent property owned or used by the LEA). -Transportation Service -Travel (examples: transportation meals, hotel, and other expenses associated with traveling or business for the LEA) Employer Insurance (examples: Workers Compensation/Unemployment Compensation/Liability Insurance) to protect the employer -Communication Services -Printing/Binding Services -On-Line Services -Water/Sewer Services -Software (example: license fee)
400	<p>Supplies & Materials: amounts paid for material items of an expendable nature that are consumed, worn out, or deteriorated in use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances.</p> <ul style="list-style-type: none"> -Consumable Supplies -Library Books -Software Package -Energy (examples: Bottled Gas, Oil, Coal, Gasoline, Natural Gas, Electricity) -Textbooks -Periodicals (printed or electronic) -Equipment costing < \$500/unit

500	Capital Outlay: Expenditures for the acquisition of fixed assets or additions to fixed assets. These are expenditures for land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings, initial equipment, additional equipment and replacement of equipment. (example: any instrument, machine, apparatus, or set of articles that equals or exceeds the LEA's capitalization threshold).
600	Other Objects: Amounts paid for goods and services not otherwise classified in the 300, 400, or 500 series of accounts. Describe and itemize. -Dues and Fees (example: membership in professional or other organizations or associations) -Transfers (example: disbursements of flow-through funds) -Student Tuition
700	Non-Capitalized Equipment: Items that would be classified as capital assets except that they cost less than the capitalization threshold adopted by the school board but more than the \$500 minimum value established for purposes of calculating per capita costs pursuant to Section 18-3 of the School Code [105 ILCS 5/18-3].
800	Termination Benefits: Payments made to terminated or retiring employees as compensation for unused sick or vacation days. NOT AN ALLOWABLE COST ON GRANT BUDGETS - can be included in the indirect cost amount only.

RETURN OF GRANT FUNDS

General

Funding and Disbursement Services is responsible for the collection of all state and federal elementary and secondary education grant funds identified as being unexpended, improperly held or requires recovery due to audit. Unexpended grant funds should not be automatically returned based on audits or monitoring reports until formal correspondence is received from Funding and Disbursement Services.

- The division will follow procedures as prescribed in the following statutes:
 - Illinois Grant Funds Recovery Act [30 ILCS 705]
 - Uncollected State Claims Act [30 ILCS 205]
 - Illinois State Collection Act of 1986 [30 ILCS 210]
 - Comptroller State Accounting Management System
- Per internal policy all debts greater than or equal to \$50 will be collected unless state or federal regulations prescribe otherwise.
- The division will follow federal granting agency directions for recovery or write-off of applicable federal funds.

Notification and Collection Process (Beginning with fiscal year 2012 grants)

1. A "First Notice" refund due letter will be mailed to grant recipients identified as having unexpended or improperly held funds. The letter will be sent on or close to the first working day of the month following receipt of the final expenditure report or application of an audit. Grant recipients will have a total of 50 calendar days (i.e. 45 days per the Grant Funds Recovery Act + 5 days for receipt of notice) to return the funds due.
2. A "Second Notice" refund due letter will be mailed at the beginning of the following month if a check has not been received from the grant recipient within the first 30 days.
3. The grant recipient may request an informal hearing in accordance with the First or Second Notice refund due letters.
4. An "Intent to Collect" letter will be mailed 50 calendar days from the First Notice refund due letter or on the next business day if day 50 falls on a weekend or holiday. The grant recipient has 40 days from the receipt of the Intent to Collect notice (i.e. 35 days plus 5 days for receipt of notice) to either pay the debt in full, request an installment payment agreement or request a formal hearing to show why recovery is not justified or proper.
5. In the event that a grant recipient has failed to remit payment and the debt is 90 days past due, the division may offset the unexpended funds involuntarily against the recipient's grant project the following fiscal year. In the case of a district or regional office of education, involuntary offset may be applied against General State Aid. The division will provide notification via email or written correspondence to the grant recipient once the offset is applied. Grant recipients that do not have a grant project to apply the debt will be referred to the Office of the Comptroller for offset.
6. Grant recipients that have no further grants with state for which the debt can be applied will be referred to the Department of Revenue's Debt Collection Bureau or the Attorney General as appropriate.

A copy of the correspondence must be included with checks made payable to the Illinois State Board of Education to insure the proper deposit of funds.

Checks must be remitted to:

Illinois State Board of Education
Division of Funding and Disbursement Services (E-320)
100 North First Street
Springfield, IL 62777-0001

Return of Interest

See the INTEREST INCOME REQUIREMENTS Section.

GRANT FUNDS RECOVERY ACT

[30 ILCS 705](#)

Definition/Description

The Grant Funds Recovery Act is an Act relating to the use and disbursement of grant funds dispensed by agencies of State government, which provides for the recovery of misspent or improperly held grant funds.

All funds remaining at the end of the grant agreement or at the expiration of the period of time grant funds are available for expenditure or obligation by the grantee shall be returned to the state within **50 calendar days** (See Return of Grant Funds above).

Such returned funds shall be deposited into the fund from which the original grant disbursement to the grant recipient was made.

(30 ILCS 705/6) Recovery of Grant Funds

Any grant funds which have been misspent or are being improperly held are subject to recovery by the grantor agency which made the grant or alternatively by the Attorney General. The grantor agency making the grant shall take affirmative and timely action to recover all misspent or improperly held grant funds. In order to facilitate the recovery of such grant funds, the grantor agency making the grant is authorized to use any one or a combination of the following:

- a. offset against existing grants of, or future grants to be made by, the grantor agency making the recovery;
- b. authorize the offset from existing grants or grants to be made by other grantor agencies;
- c. authorize the Comptroller to offset any payment from any funds administered by the Comptroller for payment to the grantee, including, but not limited to, distribution of appropriated funds and payment of refunds;
- d. initiate any debt collection method authorized by law to any private person; or
- e. remove the grantee from any of the grantor agency's programs and forbid the grantee's participation in any such future grant programs for a period not to exceed 2 years.

(30 ILCS 705/7) Informal Hearing

Whenever a grantor agency believes that grant funds are subject to recovery, the grantor agency shall provide the grantee the opportunity for at least one informal hearing to determine the facts and issues and to resolve any conflicts as amicably as possible before taking any formal recovery actions.

The grantor agency shall provide the grantee of the funds a written notice of the intended recovery. This notice shall identify the funds and the amount to be recovered and the specific facts which permit recovery. (This notice shall be generated from the Illinois State Board of Education, Funding and Disbursement Services Division.)

(30 ILCS 705/8) Formal Procedures for Recovery

- a. If a grantor agency determines that certain grant funds are to be recovered, then, prior to taking any action to recover the grant funds, the grantor agency shall provide the grantee of the funds a written notice of the intended recovery. This notice shall identify the funds and the amount to be recovered and the specific facts which permit recovery.
- b. A grantee shall have 35 days from the receipt of the notice required in paragraph (a) of this Section to request a hearing to show why recovery is not justified or proper.
- c. If a grantee requests a hearing pursuant to paragraph (b) of this Section, then:
 - (1) the grantor agency shall hold a hearing at which the grantee (or his representative) may present evidence and witnesses to show why recovery should not be permitted; and
 - (2) after the conclusion of the hearing, the grantor agency shall issue a written final recovery order and send a copy of the order to the grantee.

- d. A grantee may seek judicial review of any final recovery order, pursuant to the provisions of the Administrative Review Law.
- e. If a grantee requests a hearing pursuant to paragraph (b) of this Section then the grantor agency may not take any action of recovery until at least 35 days after the grantor agency has issued a final recovery order pursuant to the requirements of paragraph (c) of this Section.

If a grantee does not request a hearing as permitted in paragraph (b) of this Section, then the grantor agency may proceed with recovery of the grant funds identified in the notice issued pursuant to the requirements of paragraph (a) of this Section, at any time after the expiration of the 35-day request period established in paragraph (b) of this Section.

- f. Any notice or mailing required or permitted by this Section shall be deemed received 5 days after the notice or mailing is deposited in the United States mail, properly addressed with the grantee's current business address and with sufficient U.S. postage affixed.
(Source: P.A. 83-640.)

(30 ILCS 705/9) Recovery of Grant Funds by Attorney General

Except as otherwise provided by Section 14, the Attorney General, on his own volition, may act to recover any grant funds which have been misapplied or are being improperly held and, when doing so, has all the powers of collection established in this Act in addition to any other powers authorized by law or the Constitution.

(Source: P.A. 87-1262.)

Core Functions of Administrative Districts Acting as Fiscal Agents for Joint Applications or Cooperatives/Joint Agreements

In some federal and state programs, two or more school districts or entities submit one application and select an administrative district to serve as the fiscal agent, on behalf of the joint application participants. These may be referred to as joint applications, partnerships, consortiums, or multi-district applications. In other federal or state programs, applications are submitted by a cooperative or joint agreement that requires a legal entity to serve as the fiscal and legal agent on behalf of the cooperative or joint agreement.

Administrative districts are normally school districts that are chosen and approved by the joint applicants or the governing board of the cooperative/joint agreement. In some cases, regional offices of education have been designated as the administrative and fiscal agent. The Illinois State Board of Education recognizes the administrative district as the fiscal and legal agent for the joint application or cooperative/joint agreement.

This section defines the core functions and duties for administrative districts appointed as the fiscal agent on behalf of joint applicants, cooperatives, and joint agreements. There may be additional requirements for the designated fiscal agent based on individual program rules or regulations.

The key statutes prescribed in the Illinois School Code which allow for the formation of cooperatives and joint agreements and the related duties of administrative districts are located in Special Education [105 ILCS 5/10-22.31]; Joint Educational Programs [105 ILCS 5/10-22.31a]; Cooperative Educational Programs [105 ILCS 5/3-15.14]; and Intergovernmental Cooperation Act [5 ILCS 220/1].

The administrative district is recognized as the entity primarily responsible for receiving and administering all funds that flow from the Illinois State Board of Education (ISBE) to the joint application participants or all funds for the cooperative/joint agreement. As such, the administrative district must perform the following primary functions and responsibilities as the fiscal and legal agent:

1. Obtain signed Certifications and Assurances, and Terms of the Grant forms from each entity or individual participating in the grant and return the forms to ISBE prior to award of the grant.
2. Communicate grant requirements and fiscal information to the joint application participants.
3. Have a recognized bonded treasurer, whose bond is on file with the Regional Office of Education [105 ILCS 5/8-2]. In the case of a Regional Office of Education operating as the fiscal agent, a bond must be on file with the office of the County Clerk [105 ILCS 5/3-2].
4. Prepare, display, provide notice and conduct hearings on the budget of the cooperative/joint agreement [105 ILCS 5/17-1].
5. Maintain separate accounts and ledgers for the cooperative/joint agreement in accordance with Title 23 Illinois Administrative Code-Part 100. The accounting of all revenue and expenditures for the cooperative/joint agreement must clearly be posted in the cooperative/joint agreement accounts by the fiscal agent. Revenue for the cooperative/joint agreement should be posted to state or federal sources according to the Title 23 Illinois Administrative Code-Part 100. (for example: IDEA Discretionary 4630) Revenue should not be recorded as flow through funds from the fiscal agent to the cooperative/joint agreement since it is posted directly to the cooperative/joint agreement accounts and ledgers. All expenditures made on behalf of the cooperative/joint agreement with the cooperative/joint agreement board's approval should be properly posted in the appropriate expenditure account of the cooperative/joint agreement. [105 ILCS 5/2-3.27], [105 ILCS 3-15.1], [105 ILCS 3-15.14].

Fiscal agents for joint applications should record grant project revenue to be disbursed to the joint application participants as 2100 (Flow-Through Revenue from State Sources) or 2200 (Flow-Through Revenue from Federal Sources). Fiscal agents should report grant project expenditures of the flow through funds as 4100 – Payments to Other Governmental Units and those expenditures should be based on actual expenditure/obligation data from the participating joint applicants. Any revenue that is to remain with the fiscal agent and be expended for the purposes of the grant project would be recorded as revenue and expenditures from state or federal sources according to the Title 23 Illinois Administrative Code-Part 100 (e.g., 4971 – 1000 – Education Thru Technology - Salaries). Joint application participants receiving funds from their fiscal agent should record revenue and expenditures from state or federal sources according to the Title 23 Illinois Administrative Code-Part 100 (e.g., 4971 -1000 – Education Thru Technology – Instruction - Salaries).

6. Be responsible for the accountability, documentation and cash management of the grant, the approval and payment of all expenses, obligations, contracts, and hiring of personnel in accordance with the grant agreement or with decisions and payment orders made by the governing board of the cooperative/joint agreement. This would include, but not be limited to:
 - Disbursement of all funds to joint application participants based on information (payment schedules) from joint application participants showing anticipated cash needs in each month of operation. (The composite payment schedule submitted to ISBE should reflect monthly cash needs for the fiscal agent and the joint application participants.)
 - Requirement of all joint application participants to report expenditures to the fiscal agent based on actual expenditures/obligation data and documentation. Reports submitted to ISBE should reflect project expenditure/obligations for the fiscal agent and the data obtained from the joint application participants.
7. Be accountable for interest income earned on excess cash on hand by all joint application participants of the grant project and return applicable interest earned on advances to the Illinois State Board of Education as required. (See the Interest Income section within this handbook).
8. Make financial records available to outside auditors and Illinois State Board of Education personnel, as requested by the Illinois State Board of Education. The financial accounting records maintained by the fiscal agent should be audited annually and reported on the Illinois School District/Joint Agreement Annual Financial Report in accordance with the requirements applicable to such audit reports. [105 ILCS 5/3-7], [105 ILCS 3-15.1], [105 ILCS 3-15.14].
9. Be responsible for the payment of any funds that are to be returned to ISBE.
10. Have a recovery process in place with all joint application participants for collection of any funds to be returned to Illinois State Board of Education. Any recovery process from joint application participants by the fiscal agent for overpayment of funds must be provided for in accordance with the grant agreement and/or the fiscal policies and procedures of the articles of the cooperative/joint agreement.
11. Adopt policies of the cooperative/joint agreement and take all other actions that are legally necessary to carry out the directions of the governing board of the cooperative/joint agreement.

Payment of grant project funds for a joint application or cooperative/joint agreement must be made to the designated administrative district when distributed by an intermediary, (i.e. the Regional Office of Education or a Township Treasurer). Joint application or cooperative/joint agreement project payments should never be sent directly to a joint application participant or cooperative/joint agreement office.

SUPPLEMENT VS. SUPPLANT MAINTENANCE OF EFFORT

Supplement vs. Supplant

The provision of most federal and state funded programs provides that only supplemental costs may be charged. Those funds are intended to supplement (i.e. in addition to) and not supplant (i.e. replace) local funds. Local districts are required to maintain, in each eligible attendance area, a level of expenditure which is at least equal to the level of expenditure that would be maintained if federal/state funds were not being expended in that area.

No project or activity can be approved which proposes to provide a service required by state law. For example, any project to singly provide special education for children with disabilities cannot be approved because special education is required by state law with special funds appropriated to pay for it. In like manner, basic kindergarten programs cannot be approved for the same reason.

In most cases, compensation for supervisory personnel (including superintendents of schools, directors of education, supervisors of instruction in regular curriculum areas, and principals) falls within the category of expenses that would be incurred if a school were not participating in a federal/state funded program. This would not be eligible for reimbursement unless additional administrative personnel are necessary and hired specifically for that purpose. Extreme care should be taken in determining the applicability of the charges to the federal/state program.

Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records.

Supplement, Not Supplant Tests

To determine whether an expenditure supplements and not supplants, grant recipients must run these three tests.

Test I: Required – Is the program or activity that the district wants to fund required under state, local, or another federal law? If it is, then it is supplanting.

Test II: Equivalency – Were state or local funds used in the past to pay for this program or activity? If they were, it is supplanting.

Test III: Non-Title I Programs – Are the same programs or activities being implemented in other schools that do not receive Federal funds (e.g. Title I) AND are these programs and activities being paid for with state or local funds? If yes, then this is supplanting.

If an expenditure does not pass any of the above tests, then it is presumed that federal funds are supplanting state or local funds. **Expenditures must pass all three tests to truly be supplemental.**

Auditors may presume supplanting of federal funds for a grant recipient that provided services with non-federal funds in the prior year. This includes the costs of salaries and benefits for teachers, paraprofessional, and other staff members. In order to provide proper documentation to rebut this presumption there are four kinds of records that may be presented:

1. State and local funding were significantly reduced

- Documentation must be provided that indicates a reduced amount or lack of state and local funds that used to be available for the staff positions.
 - Example – a grant recipient might have used a state grant to pay a salary. The state may have decided not to allocate any of these funds to the grant recipient in the following year. If the grant recipient wishes to pay these staff with federal funds, it should keep clear records showing it no longer has the state grant it otherwise would have used to fund these positions.

2. The staff position(s) would have been eliminated

- Records to indicate that this staff position(s) would have been cut in the absence of federal funds.
 - Example records of strategic plans, needs assessments, district and school preparation documents, administrative records, school board minutes, or other budget planning documents. The records should clearly outline which personnel positions your district would have retained and eliminated if you didn't receive Federal funds.
 - Records should show the rationale for the decisions “the reason for choosing to eliminate support for the staff position with state and local funds”. Supporting written documentation should explain the decision to cut this particular position(s) and not others.

3. Does the Federal grant allow these expenses?

- Ensure that records confirm that the Federal program funds for the program position(s) are allowable and necessary
 - It is never appropriate to use Federal funds to pay for costs the grant does not permit. It is important that the grant recipient records show the personnel expenses were allowable and necessary under the grant.

4. Funding decisions every year

- A grant recipient should not assume that if documentation that supports the exception to supplement, not supplant requirement in one year that it applies to the grant recipient every year after. The grant recipient must make certain that records are maintained and reflect the decisions as you budget funds for staff position(s).
 - The district must be able to document, based on “unique factual circumstances” each year, that no supplanting of Federal grant were used to pay staff positions – district must make decision “before the beginning of each school year” whether the district’s “fiscal situation compels the continued availability” of Federal funds for these personnel
 - The district should review the financial and program information carefully every year, even if the district allocated the same Federal grant in following years to the previously non-federal positions

Maintenance of Effort

Many federal programs contain maintenance of effort provisions in order to ensure that expenditures of state and local funds for certain educational services are not reduced because of the availability of federal funds for that purpose.

An application for federal funds may not be approved unless the grant recipient has shown that it has met the maintenance of effort requirement. The grant recipient must show that the combined fiscal effort, as measured either by the current expenditures per pupil or by the aggregate current expenditures of the grant recipient and of the state, for free public education in the preceding year is not less than the combined fiscal effort in the second preceding year.

For federal Title I, II and III programs, the regulations do permit a grant recipient to qualify for a grant if either measure of fiscal effort for the first preceding fiscal year is at least 90% of the same measure for the second preceding year. For additional information on how Maintenance of Effort affects various programs and grants, consult the specific program area.

The SEA and grant recipient cannot use these federal funds to supplant funds that would, in the absence of Title I funds, have been spent on Title I students (Title I, Part A, Section 1120A(b)). Specifically, Title I funds may be used only to supplement and, to the extent practicable, increase the level of funds that would, in the absence of Title I funds, be made available from non-federal sources.

Because of the importance of the supplement/supplant requirement, it is very important that school districts maintain good fiscal records and other documentation that will permit an auditor or program monitor to conclude that they have overcome a presumption that supplanting has occurred. The supplement, not supplant regulation is included in the monitoring of school districts. If it is determined that districts are supplanting state and local funds with Title I funds – or any federal funds - those funds may be recovered and/or returned to the U.S. Department of Education.

Please carefully review the fiscal records within your district and cease any activities that may be construed as supplanting.