

ILLINOIS STATE BOARD OF EDUCATION

Funding and Disbursement Services Division

State and Federal Grant Administration Policy And Fiscal Requirements and Procedures

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Funding and Disbursement Services Division (E-320)
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Purpose Statement

The general purpose of this handbook is to inform our clients (internal and external) of the policies governing all grants awarded from the Illinois State Board of Education (ISBE), to communicate with our clients the procedures and guidelines, to ensure sound accounting practices and to provide consistency throughout the State Board in the administration of grants. **These procedures and guidelines do not supersede the rules and regulations governing each specific program.**

SECTION A: POLICY

STATE AND FEDERAL GRANT ADMINISTRATION POLICY

Established: 8/94

Revised: 9/2000, 10/2006, 1/2009

1. No **state** project may be initiated/approved after June 30 of the current fiscal year. No **state** project budget amendments which authorize increases in the total project budget will be allowed after June 30 of the current fiscal year. Adjustments to **federal** projects will not be made after the grant funds for that program have expired. (Policy 3 below also applies.)
2. No **state** project ending date will be extended after August 31 without the approval of the Division Administrator of the Funding and Disbursement Services Division and the Division Administrator of the appropriate program area. Requests for project extensions, **state and federal**, must be received by the agency no later than 30 calendar days prior to the ending date of the project.
3. For **state and federal** projects requiring budgets, budget amendments must be received in the agency no later than 30 calendar days prior to the ending date of the project.
4. Statutory deadlines for the submission of expenditure reports and claims for those state programs which are “current funded” will be enforced. If reports/claims are not received in the Funding and Disbursement Services Division by the statutory or regulatory deadline, the fund recipient will receive no final payment.
5. All required expenditure reports for **state and federal** projects must be submitted by the due date. Failure to submit the report by the due date will result in scheduled payments being withheld until the required report is received.
6. A completion report is due 30 days after the project ending date (excluding statutory deadline reporting requirements). If a completion report was filed with outstanding obligations, a final expenditure/liquidation report (total obligations = \$0) must be submitted no later than 90 days after the project ending date. Failure to submit the required report within 90 days will result in current and subsequent years’ project funding being withheld until the report is received.
7. Funds for **state** projects and **federal discretionary** projects must either be spent or obligated prior to the ending date of the project. Most **federal discretionary** programs permit unexpended funds to be carried over to the next fiscal year; however, for state projects requiring budgets and expenditure reports, if final expenditures are less than total disbursements, the overpayment must be returned to ISBE. Fund recipients will have 45 days to return the funds. Failure to return the funds within 45 days will result in current and subsequent years’ funding being withheld until the funds are received.
8. For **state and federal** projects, the beginning date (project start date) cannot precede the receipt of a substantially approvable request for funds at the Illinois State Board of Education for entitlement programs or notification of approval for discretionary programs. Obligation of funds cannot begin prior to the project start date. Obligation of funds for items or services based on amendments cannot be encumbered prior to the date of receipt at ISBE of a substantially approvable budget amendment provided the scope/intent of the approved project has not changed. If the scope/intent of a project changes based on an amendment, programmatic approval should be obtained prior to the obligation of funds based on the amendment. The begin date of the project cannot precede the beginning of the fiscal year for which the funds are appropriated.

9. Approvals for state and federal grants are determined by the type of grant being approved. **Entitlement** programs are programs in which eligible entities are allocated funds each year (when appropriated) and are ongoing. To prevent a break in service, these grants are “substantially approvable” and recipients can begin obligating funds as of July 1 or the date of receipt of substantially approvable documentation at the State Board, whichever is later. **Discretionary/Competitive** programs are approved based on notification of approval from the program area. The project begin date is determined by the date of approval. Beginning dates cannot be prior to July 1.
10. For **all** projects requesting reimbursement for fringe benefits, since all fund recipients are authorized to levy for IMRF and Social Security, any request for reimbursement of these expenditures on a program budget should be transferred back into the proper fund (Fund 5/Account 1150) when funds are received in the district for these expenses. 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 TRS on behalf of employers under the continuing appropriation law. The contribution is adjusted annually. The State of Illinois remits these contributions directly to TRS and are 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 Teacher's Retirement System'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.
11. The equipment deletion requirements must be followed for equipment purchased with
- Federal entitlement program funds;
 - 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: 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.
12. The Funding and Disbursement Services Division will accept facsimile transmissions (fax) of expenditure reports/claims for the purpose of expediting the expenditure report/claim process. An original signature must be received for auditing purposes to be kept in the Funding and Disbursement Services project file. The Funding and Disbursement Services Division will accept the electronic submission of expenditure reports and claims for entities approved to participate in this process.
13. State programs will generally follow federal grant provisions unless separate State policy/law/regulations are stated.

SECTION B: REQUIREMENTS

EQUIPMENT DELETION/TRANSFER REQUIREMENTS

(for transfer of equipment or deletion of equipment that is obsolete, not repairable, damaged, lost or stolen)

The equipment deletion process must be followed for equipment purchased with:

- Federal entitlement program funds;
- 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.

Definitions

1. Equipment is tangible personal property having a useful life of more than one year and an acquisition cost of \$500 or more per unit. The definition for equipment is as follows:
An equipment item is any 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.) It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance;
 - c.) It 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.) It retains its appearance and character through use; and
 - e.) It costs \$500 or more at the time of acquisition. If the original value is not available, estimated market value is used.
2. Acquisition cost of an item of purchased equipment means the net invoice unit price of the 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 grantee's regular accounting practices.
3. Current fair market value is determined by obtaining 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.

Equipment Disposition

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 the State Board 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 #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 approval** from the Illinois State Board of Education. The procedures below are to be followed to delete such equipment:
 - Submit information along with bids or appraisals to the Illinois State Board of Education, Funding and Disbursement Services Division via the *Equipment/Deletion Transfer System* in the Illinois State Board of Education Web Application Security system (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.
 - A check payable to the Illinois State Board of Education is then forwarded to the Funding and Disbursement Services Division.
 - 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 Funding and Disbursement Services Division.

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

Equipment Transfer

The Illinois State Board of Education reserves the right to transfer equipment if the grant activities cease to exist for the entity 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 Funding and Disbursement Services Division 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), grantees and subgrantees shall promptly remit interest earned on advances. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses of the grant.

State Funds

The Illinois Grant Funds Recovery Act, 30 ILCS 705/10 states all interest earned on grant funds may be retained by the grantee and become part of grant principal, unless stated otherwise in the written grant agreement. Interest income must be obligated or disbursed by the end of the grant period.

Disposition of State Interest Funds

Interest may accrue when a fund recipient receives funds from the State Board of Education. Unless a grant agreement provides otherwise, all interest earned on grant funds during the grant period must be spent by the grantee 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 should be returned using the following guidelines:

- Checks for interest earned on **federal funds** should be made payable to the federal agency issuing the grant (e.g. U.S. Dept. of Education, U.S. Dept. of Labor) and sent to the Illinois State Board of Education.
- Checks for interest earned on **state funds** should be made payable to the Illinois State Board of Education.
- Checks should not include the return of unexpended disbursements from the Illinois State Board of Education.
- Checks should 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
Funding and Disbursements Services Division (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) 80.42. In general, records must be retained for three years after completing activities pertaining to grant funds or until all outstanding claims have been resolved.

State Funds

For State funds, a grantee shall retain records for three years from the final date for filing any claim for reimbursement or until all outstanding claims have been resolved. The State may recompute and adjust claims within six years from the final date for filing claims for reimbursement when there has been an adverse court or administrative agency decision on the merits affecting the tax revenue of the school district [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 the Illinois State Board of Education 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 the Illinois State Board of Education 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 are translated into expenses. 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 understand all of the regulations set by the applicant agency and the funding source. 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 the Illinois State Board of Education who understand the rules and regulations and can help define what information 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 will be used by Illinois State Board of Education staff to determine fiscal and program compliance.

All activities for a project must be completed and all obligations encumbered within the project beginning and ending dates.

Amendments

All amendments are due at the Illinois State Board of Education 30 days prior to the project ending date. Per Grant Administration Policy #8, obligation of funds based on amendments cannot begin prior to the date of receipt at ISBE of a substantially approvable budget amendment provided the scope/intent of the approved project has not changed. If the scope/intent of a project changes based on an amendment, programmatic approval should be obtained prior to the obligation of funds based on the amendment.

Amendments are required when:

- the scope of the program is expected to change (example: adding a new component - summer school); or
- entities wish to budget for more available funds (i.e. carryover); or
- the expected expenditures exceed the variance allowed per program guidelines (20% or \$1,000 per budgeted cell, whichever is greater); or
- adding a new expenditure item (function/object per the Program Accounting Manual).

End Date Changes

- 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 letter to the Funding and Disbursement Services Division will be acceptable 30 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).

Payment Schedules

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

When completing the Payment Schedule, indicate the amounts 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; they 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 amount shown on 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 Funding and Disbursement Services Division. A letter with any payment revisions to the remaining payments will be acceptable 30 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 the IWAS system).

Expenditure Reports

ISBE utilizes expenditure reports primarily as an accountability and cash management tool. As a cash management tool, expenditure reports are used to assess project expenditures for an entity through a specific period of time. Expenditure reports are cumulative. In other words, expenditures are to be reported from the beginning of the project through a specific period of time. Submission requirements differ by program. ISBE must monitor each project to avoid illegal, imprudent, wasteful or extravagant use of funds. As an accountability tool, the expenditure report is ISBE's instrument to comply with this requirement. Expenditure reports can be submitted more often than what is required.

Expenditure reports should be transmitted electronically via the Illinois State Board of Education Web Application Security system (IWAS). Notification of required expenditure reports are sent via 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 the Illinois State Board of Education. See "Due Dates" below for all expenditure reporting.

Regulations state that any amount reported in an expenditure account (cell) **not budgeted or not within the acceptable variance approved by the program, cannot 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 cannot be allowed as charges to the project.

Due Dates: Expenditure reports are due **30 calendar days** after the expenditure through date. **All expenditure reports should be CUMULATIVE or year-to-date (from the project begin date through the expenditure report through date).** Required cumulative expenditure through dates varies based on program guidelines.

Project Completion Reports: All grant funds must be spent and/or obligated and all activities must be completed prior to the project ending date. A completion report must be submitted showing ALL expenditures and obligations for the project no later than **30 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 current and subsequent years' project funding being withheld until the report is received.

Final Expenditure Reports: If (and only if) a completion report was filed with outstanding obligations, then a final expenditure report showing total project expenditures (with all prior obligations liquidated) must be submitted no later than 90 calendar days after the project ending date. Failure to submit this final expenditure report in a timely manner will result in current and subsequent years' project funding being withheld until the report is received.

No revision of the final expenditure report will be accepted unless extenuating circumstances warrant a revision. A final expenditure report is defined as:

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

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.

State Funds

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

Federal Funds

Most federal programs have a carryover provision. Entitlement programs usually require the funds to be carried over to the entity holding entitlement. Discretionary/competitive programs funds typically do not carry over at the project level. Please check individual programs guidelines for further clarification. Depending on the program guidelines, carryover may be included in the total funds available in the subsequent project year. **To use the carryover funds, they must be included in a budget amendment along with the current year funds available.**

Some programs have a restriction on how much carryover funds may be transferred into the subsequent project year.

Federal Entitlement Program Carryover Example

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

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

Please check individual federal program guidelines for any carryover restrictions.

EXCESS CASH ON HAND

Definition: Cash received in excess of expenditures reported to date.

Excess cash on hand is determined by taking the amount vouchered to date indicated on the expenditure report minus the total amount expended and obligated per reporting period. A positive balance indicates excess cash on hand. This amount will be withheld (frozen) from the next scheduled payment(s). The amount of excess cash is placed in reserve and will be released when subsequent expenditure reports show that the reserve amount (frozen amount) has been obligated.

To release payments that have been withheld (frozen), an interim expenditure report may be submitted indicating excess funds have been expended and/or obligated.

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.

OBLIGATIONS

An outstanding obligation is any debt for which funds were requested (encumbered) **prior to the end of the reporting period** and is expected to be paid within 90 days. See State and Federal Grant Administration Policy (Policy 8, page 3) for further guidance.

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 must be supported by appropriate time distribution records.

The following table shows 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 beginning and ending 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 12-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

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

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)

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)

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

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 the 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***. LEAs 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 allocability of such costs 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, the [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 absorbed as an indirect cost. Local education agencies 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 an organization 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 applicant'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, Title VI, IDEA, and any other legislative authority 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 School Business Services Division of the Illinois State Board of Education 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 Local Education Agencies (LEAs)

Depending on the type of organization approved for grant funds, the following should be used as a guide if the local education agency decides to apply the appropriate indirect cost rate as determined by the Illinois State Board of Education.

- School districts must use their restricted indirect cost rates.
- Newly organized LEAs and governmental entities formed by a joint agreement must utilize the state-wide average indirect rate.
- LEAs 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 local education agency 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 program 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

A Cost Allocation Plan (CAP) is 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. A written plan for allocating joint costs is required to support the distribution of those costs to the grant program. When a local education agency completes a grant application/amendment, it must determine to either utilize its restricted indirect cost rate as calculated by the Illinois State Board of Education 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 have 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 organization approved for grant funding, all cost allocation plans must be in compliance with the appropriate circular from the Federal Office of Budget and Management.

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 the Illinois State Board of Education may conduct a compliance review of your program to audit records and offer technical assistance. This review will ascertain 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 documentation for the following:

1. funds disbursed to the fund recipient were received and properly recorded;
2. payments reported by the fund recipient were actually made to vendors, contractors and employees and that they conform to applicable laws and regulations, including procurement requirements;
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;
7. all expenditures that were claimed were made for the approved project and are easily identifiable with this project;
8. all books and materials 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
 - acquisition date and cost
 - location, use and condition of property;
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 ninety (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 No. 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 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 LEA and approved by a responsible official(s) of the LEA.
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 LEAs 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.

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	<p>Instruction: The teaching of pupils or the interaction between teacher and pupils. Teaching may be provided for pupils in a school classroom in another location such as a home or hospital, and other learning situations such as those involving cocurricular activities. It may also be provided through some other approved medium such as television, radio, telephone, and correspondence. Included here are the activities of aides or assistants of any type that assist in the instructional process.</p> <ul style="list-style-type: none"> -Regular Programs -Special Education Programs -Remedial and Supplemental Programs -Pre-K Programs -Summer School Programs -Bilingual Programs -Truants' Alternative and Optional Programs -Career & Technical Ed Programs
2110	<p>Attendance & Social Work Services: 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.</p> <ul style="list-style-type: none"> -Service Area Direction* -Attendance Services -Social Work Services -Pupil Accounting Services -Other Attendance and Social Work Services
2120	<p>Guidance Services: The activities of counseling with pupils and parents, providing consultation with other staff members on learning problems, evaluating the 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.</p> <ul style="list-style-type: none"> -Service Area Direction* -Counseling Service -Appraisal Services -Information Services -Record Maintenance Services -Placement Services -Other Guidance Services
2130	<p>Health Services: Physical and mental health services which are not direct instruction. Included are activities that provide pupils with appropriate medical, dental and nurse services.</p> <ul style="list-style-type: none"> -Service Area Direction* -Medical Services -Dental Services -Nurse Services -Other Health Services
2140	<p>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.</p> <ul style="list-style-type: none"> -Service Area Direction* -Psychological Testing Services -Psychological Counseling Services -Psychotherapy Services -Other Psychological Services
2150	<p>Speech Pathology and Audiology Services: Activities which have as their purpose the identification, assessment and treatment of children with impairments in speech, hearing and language.</p> <ul style="list-style-type: none"> -Service Area Direction* -Speech Pathology Services -Audiologist Services -Other Speech Pathology and Audiology Services.
2210	<p>Improvement of Instruction Services: Activities which are designed primarily for assisting instructional staff in planning, developing and evaluating the instructional process.</p> <ul style="list-style-type: none"> -Service Area Direction* -Instruction and Curriculum Development Services -Instructional Staff Training Services
2220	<p>Educational Media Services: Activities related to media resource centers and concerned with the use of all teaching and learning resources including hardware and content materials. Educational media are defined as any devices, content materials, methods or experiences used for teaching and learning purposes. These include printed and nonprinted sensory materials.</p> <ul style="list-style-type: none"> -Service Area Direction* -School Library Services -Audio Visual Services -Educational Television Services -Computer-Assisted Instruction Services
2230	<p>Assessment and Testing: Activities carried out for the purpose of measuring individual student achievement. The information obtained is generally used to monitor individual and group progress in reaching district learning goals to compare individual and group performance with national norms established by test publishers.</p>
2300	<p>General Administration: Activities concerned with establishing and administering policy in connection with operating the local education agency.</p> <ul style="list-style-type: none"> -Board of Education Services -Service Area Direction* -Board Secretary Service -Executive Administration -Board Treasurer Services -Election Services -Staff Relations and Negotiation Services -Special Area Administration

FUNCTION	DESCRIPTORS & SUB-CATEGORIES
3000	<p><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, nonpublic school pupil services and home/school services.</p> <ul style="list-style-type: none"> -Direction of Community Services -Community Recreation Services -Civic Services -Public Library Services -Custody and Child Care Services -Welfare Activities Services -Nonpublic School Pupils' Services -Home/School Services -Parent Activities -Other Community Services
4000**	<p><u>Payments to Other Districts and Governmental Units:</u> Payments to LEAs, generally for tuition, transportation and all other services rendered to pupils residing in the paying LEA. Where a nonoperating district pays an operating district for the education of pupils, the nonoperating district records such payments here. Flow-through funds - where payment is received by an LEA and a portion is transferred to one or more other LEAs - use object 600. (Expenditures in this function are not counted in state expenditure totals.)</p> <ul style="list-style-type: none"> -Payments for Regular Programs -Payments for Special Education Programs -Payments to University/College programs -Payments for Career & Technical Ed Programs -Payments for Community College Programs -Other Payments to Governmental Units
5000	<p><u>Debt Services:</u> Servicing of the debts of an LEA.</p> <ul style="list-style-type: none"> -Debt Services - Interest -Debt Services - Bond Principal Retire. -Debt Services - Lease/Purchase Principal Retired -Debt Services- Other

* Service Area Direction - activities associated with directing and managing a specified service area.

** New function descriptor is in effect as of July 1, 2008 (FY09) for the LEAs records. The new function descriptor will be available on the 2010 budget templates for federal and state grant programs.

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 payroll of the local education agency (LEA). This includes gross salary for personal services rendered while on the payroll of the LEA.</p> <ul style="list-style-type: none"> -Regular Salaries -Overtime Salaries -Temporary Salaries
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.</p> <ul style="list-style-type: none"> -Retirement (Teacher Retirement, Municipal Retirement, Federal Insurance Contribution Act [FICA], Medicare Only, Insurance (Life, Medical, Dental). -Tuition Reimbursement. -In rare instances workers/unemployment compensation when purchased to protect individual employees rather than the employer. If applicable, a detailed rationale must be included in any budget detail description.
300	<p>Purchased Services: Amounts paid for personal services rendered by personnel who are not on the payroll of the LEA and other services which the LEA may purchase. While a product 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 (Professional Services-Administrative, Professional Services-Instructional, Data Processing/ Statistical Services, Audit/Financial Services, Legal Services, Other Professional & Technical Services). -Property Services (Sanitation Services, Cleaning Services, Repairs & Maintenance Services, Rentals, Other Property Services). -Transportation Services (Pupil Transportation, Travel, Other Transportation Services). -Employer Insurance (Workers Compensation/Unemployment Compensation/Liability Insurance) to protect employer. -Communication -Advertising -Printing and Binding -Other Purchased Services -Water/Sewer Service -Software License fee -On-line Services
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"> -General Supplies -Library Books -Warehouse Inventory Adjustment -Software Package -Textbooks -Periodicals -Energy (Bottled Gas, Oil, Coal, Gasoline, Natural Gas, Electricity) -Other Supplies and Materials
500	<p>Capital Outlay: Expenditures for the acquisition of fixed assets or additions to fixed assets.</p> <ul style="list-style-type: none"> -Land -Buildings (Construction, Remodeling or Additions) -Improvements Other Than Buildings -Equipment (Initial Purchase, Replacement or Additional). Other than Transportation -Transportation Equipment -Construction in Progress -Other Capital Outlay
600**	<p>Other Objects: Amounts paid for goods and services not otherwise classified above.</p> <ul style="list-style-type: none"> -Redemption of Principal -Housing Authority Obligations -Judgments -Miscellaneous Objects -Interest -Dues and Fees -Transfers -Student Tuition
700**	<p>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.</p>
800**	<p>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).</p>

** New object descriptors are in effect as of July 1, 2008 (FY09) for the LEAs records. The new object descriptors will be available on the 2010 budget templates for federal and state grant programs.

RETURN OF GRANT FUNDS

General

Funding and Disbursement Services Division will request funds to be returned, when the amount to be returned on a grant is more than \$50 unless specific grant provisions require otherwise. Funds should not automatically be returned based on audits or monitoring reports until correspondence is received from Funding and Disbursements. Many times, internal adjustments can be made on payments or carryover funding to satisfy the audit finding or questioned costs.

Please wait to be notified of funds to be returned to the Illinois State Board of Education (ISBE) via correspondence from the Funding and Disbursement Services Division staff. **Please include a copy of this correspondence with checks made payable to the Illinois State Board of Education to insure the proper deposit of funds.** The checks must be remitted within 45 days of notification by ISBE according to the Illinois Grant Funds Recovery Act, 30 ILCS 705/10 (See the Grant Funds Recovery Act Section) to avoid having future payments frozen.

Checks should be remitted to:

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

If there are questions regarding the notification of funds to be returned, please contact the Funding and Disbursement Services Division staff at the Illinois State Board of Education.

Return of Interest

Any federal/state interest earned on grant funds not expended or obligated according to guidelines, by the end of the grant period must be returned to ISBE. See the INTEREST INCOME REQUIREMENTS Section for further clarification.

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 **45** days.

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

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.

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.)

The Grant Funds Recovery Act includes provisions that provide for the grantee to request a hearing to show why recovery is not justified or proper.

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 (ISBE) 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. (for example, 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. (for example, 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 State and Federal Grant Administration Policy and Fiscal Requirements and Procedures handbook for guidelines addressing the return of interest income.
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 the Illinois State Board of Education.
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.

Glossary of Terms

Joint application – one grant project application is submitted to the Illinois State Board of Education by a designated administrative district on behalf of two or more school districts or entities.

Cooperative or joint agreement – formation by school districts under a governing board to provide educational or special educational services.

Administrative district – a designated school district or regional office of education serving as the fiscal and legal agent on behalf of the joint application participants, cooperative, or joint agreement.

Fiscal and legal agent – performs duties and responsibilities in accordance with grant agreements and decisions made by the governing board of a cooperative or joint agreement.

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.

ENTITLEMENT VS. DISCRETIONARY FUNDING

Entitlement and reimbursement programs guarantee, based upon the funds appropriated or received in a grant award, eligible fund recipients or other entities will receive a specific amount of funds based upon a formula.

Entitlement and reimbursement programs are administered by ISBE, which processes applications and payments as required by statute and regulations.

Discretionary (competitive) funding means that no fund recipient or other entity is guaranteed to receive any funds or any specific amount of funds.

Discretionary funding, although not a guarantee of receipt of dollars or specific dollar amounts, is discretionary in selection of recipients only. These dollars are required by state or federal statutes to be disbursed to fund recipient and other entities providing educational services. As required by state or federal statute or regulations, ISBE selects the best service provider for service delivery. The reason many of these programs are competitive is because the amount of funding is inadequate to fund recipients. Since the funding is inadequate, the competitive grant process is used to achieve the greatest impact for the funds available.

SUPPLEMENT VS. SUPPLANT MAINTENANCE OF EFFORT

Supplement vs. Supplant

The provision of federal and state funded programs provides that only supplemental costs may be charged. Those funds are intended to supplement and not supplant 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.

Maintenance of Effort

Most 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.

For many federal grant programs, the State education agency may not approve an application for federal funds unless the local educational agency (LEA) has shown that it has met the maintenance of effort requirement. The LEA must show that the combined fiscal effort, as measured either by the current expenditures per pupil or by the aggregate current expenditures of the LEA 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 Title Programs (I, II, III, and IV), the regulations do permit a LEA 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.

EQUIPMENT GUIDELINES

Definitions

Equipment is tangible personal property having a useful life of more than one year and an acquisition cost of \$500 or more per unit. The definition for equipment is any 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.) It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance;
- c.) It 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.) It retains its appearance and character through use; and
- e.) It costs \$500 or more at the time of acquisition. If the original value is not available, estimated market value is used.

Note: Part 130 IL Administrative Code, determining Special Education per capita tuition charge, defines equipment for purposes of depreciation as items costing \$2500 or more.

Acquisition cost of an item of purchased equipment means the net invoice unit price of the equipment including the cost of modifications, 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 grantee's regular accounting practices.

Transfer of equipment must take place if required by the Illinois State Board of Education when the grant activities cease to exist for the project or program for which the equipment was originally acquired.

Current fair market value is determined by obtaining 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/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/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 costing \$500 or more per unit for the useful life of the equipment, except as noted in Part 130 IL Administrative Code.

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.

Equipment Disposition/Transfer

See Equipment Deletion/Transfer procedures on pages 5-6.