


The background of the slide features a collage of US currency, including \$100 and \$50 bills, with a warm, reddish-orange color scheme. The text is centered on a white rectangular area.

# Understanding the Adult Education State Director's Fiscal Responsibilities

An orange rectangular box containing the presenter's name and affiliation.

Jay LeMaster  
Office of Career, Technical, and Adult Education  
New State Director Training  
December 14, 2020



- ➡ **Sections of statute, regulations, and guidance that govern adult education program financial management: **AEFLA, Uniform Guidance, EDGAR, OCTAE Program Memos****
- ➡ **Critical Topics**
  - ✓ **Matching Requirements**
  - ✓ **Maintenance of Effort**
  - ✓ **Supplement-Not-Supplant Provision**
  - ✓ **Cost Allowability and Allocation**
  - ✓ **Direct vs. Indirect Costs**
  - ✓ **Standards for Documentation of Personnel Expenses**
- ➡ **Internal Controls and Monitoring Expenditures**

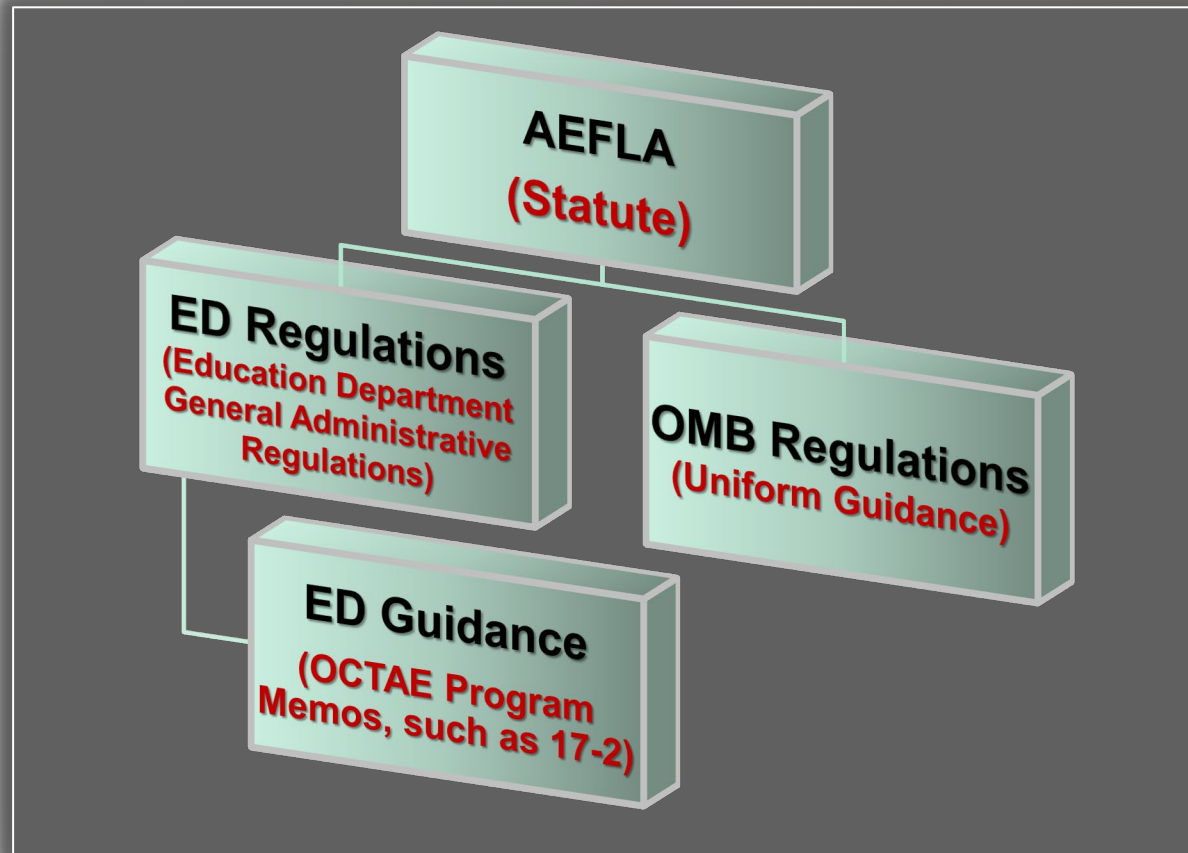
# Polling Question – Fiscal Experience

**Which of these activities do you do in your current position?**

- A. Budgeting and tracking AEFLA grant funds.
- B. Making grant award allocations.
- C. Monitoring local programs for fiscal compliance.
- D. Collecting and reporting fiscal data on the annual federal financial reports.
- E. All of the above.
- F. None of the above.



# WHAT GUIDES OUR FISCAL WORK?



**Legislation**

**Regulations**

**Guidance**



# SECTIONS IN THE LAW

## ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)

- State provisions** {
  - **Section 221**—State Administration
  - **Section 222**—State Distribution of Funds; Matching Requirement
  - **Section 223**—State Leadership Activities
  - **Section 224**—State Plan
  - **Section 225**—Programs for Corrections Education and other Institutionalized individuals
- Local provisions** {
  - **Section 231**—Grants and Contracts for Eligible Providers
  - **Section 232**—Local Application
  - **Section 233**—Local Administrative Cost Limits (special rule)
- General provisions** {
  - **Section 241**—Administrative Provisions  
(Supplement not Supplant and Maintenance of Effort)

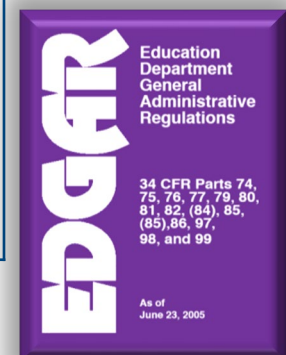
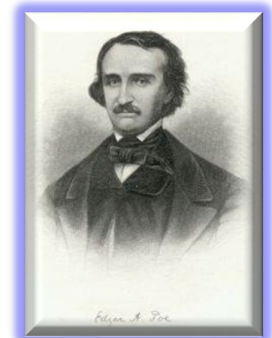


# OFFICE OF MANAGEMENT AND BUDGET (OMB) UNIFORM GUIDANCE

Uniform Guidance	What it covers
2 CFR Part 200 Subpart C	<b>Pre-Award Requirements</b>
2 CFR Part 200 Subpart D	<b>Post-Award Requirements</b> <ul style="list-style-type: none"> <li>• Standards for Financial and Program Management</li> <li>• Performance and Financial Monitoring and Reporting</li> <li>• Subrecipient Monitoring and Management</li> <li>• Record Retention and Access</li> </ul>
2 CFR 200 Subpart E	<b>Cost Principles</b> <ul style="list-style-type: none"> <li>• Cost allocation plans</li> <li>• Direct vs. indirect costs</li> <li>• Allowable vs. unallowable costs (List of 55 costs)</li> <li>• Necessary, reasonable, and allocable costs</li> <li>• Standards for Documentation of Personnel Expenses</li> </ul>
2 CFR Part 200 Subpart F	<b>Audit Requirements</b>
2 CFR Part 200 Appendix XI (OMB web site)	<b>Compliance Supplement</b> Information for auditors to understand the federal program's objectives, including allowable activities, matching requirements, level of effort, earmarking, period of availability of federal funds.

## Education Department General Administrative Regulations (EDGAR)

Regulation from EDGAR 34 CFR*	Topic	What it covers
<b>Part 76</b>	<b>State-Administered Programs</b>	<ul style="list-style-type: none"> <li>• Eligibility for a Grant or Subgrant</li> <li>• State Plans and Applications</li> <li>• How a Grant is Made to a State</li> <li>• How To Apply to the State for a Subgrant</li> <li>• How a Subgrant is Made to an Applicant</li> <li>• Indirect Cost Rates</li> </ul>



\* CFR – CODE OF FEDERAL REGULATIONS

# OCTAE GUIDANCE

## Selected Fiscal Topics under WIOA

OCTAE Program Memo	What it covers...
<b>17-3</b> January 18, 2017	Infrastructure funding of the One-Stop delivery system. <b>Infrastructure costs paid from AEFLA grant funds must be paid with funds made available for local administration.</b>
<b>17-5</b> March 24, 2017	Use of funds reserved for Integrated English Literacy and Civics Education (IELCE) program under Section 243 of AEFLA. <b>May not use IELCE funds for State leadership activities.</b>
<b>19-2</b> August 15, 2019	Allowable use of AEFLA Funds for Integrated Education and Training (IET) Programs. Clarifies <b>circumstances under which AEFLA funds may be used to pay for occupational certificates or credentials in an IET program.</b>

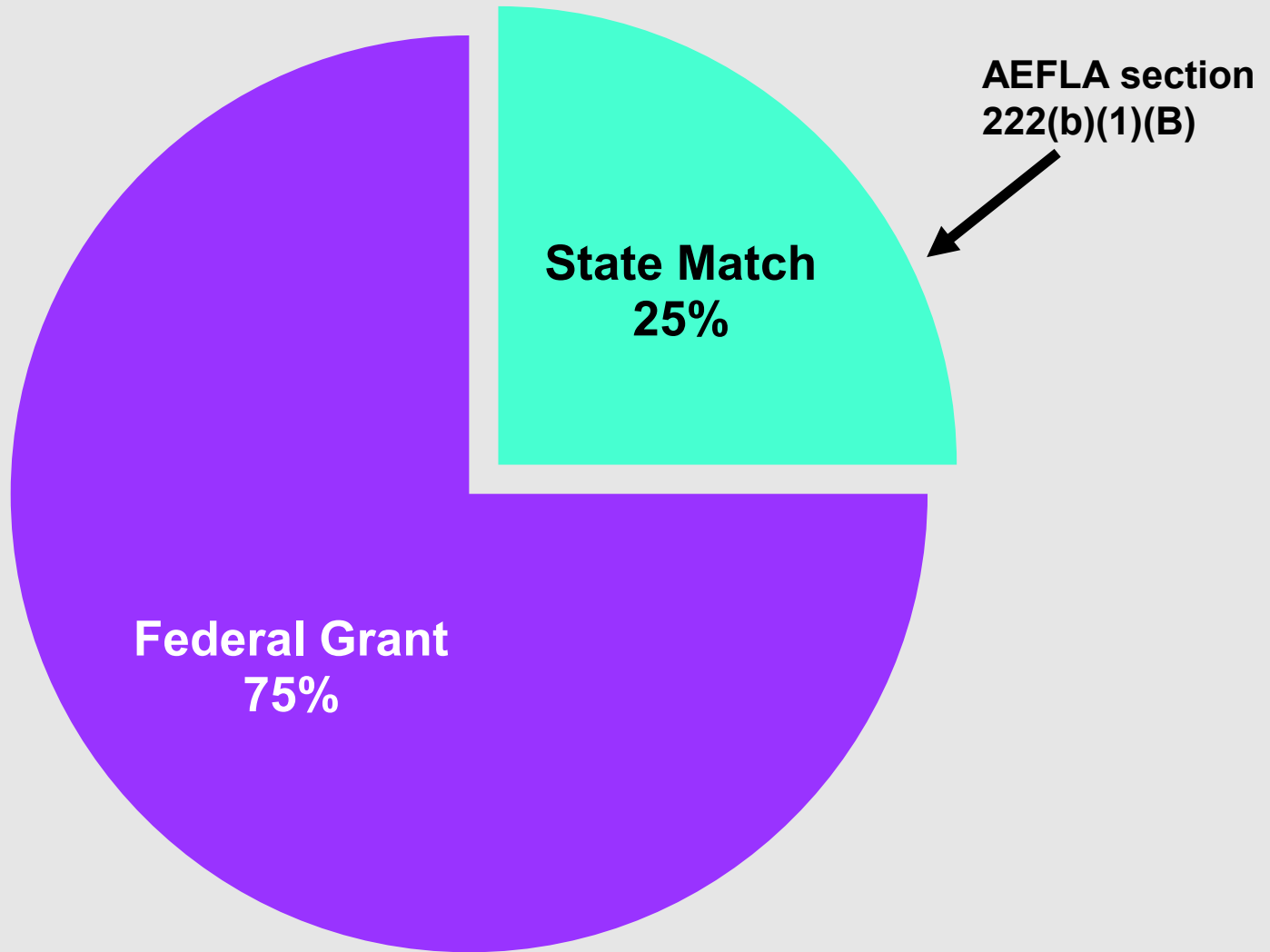
See more OCTAE guidance at <https://www2.ed.gov/policy/adulted/guid/memoranda.html>.





National Reporting System

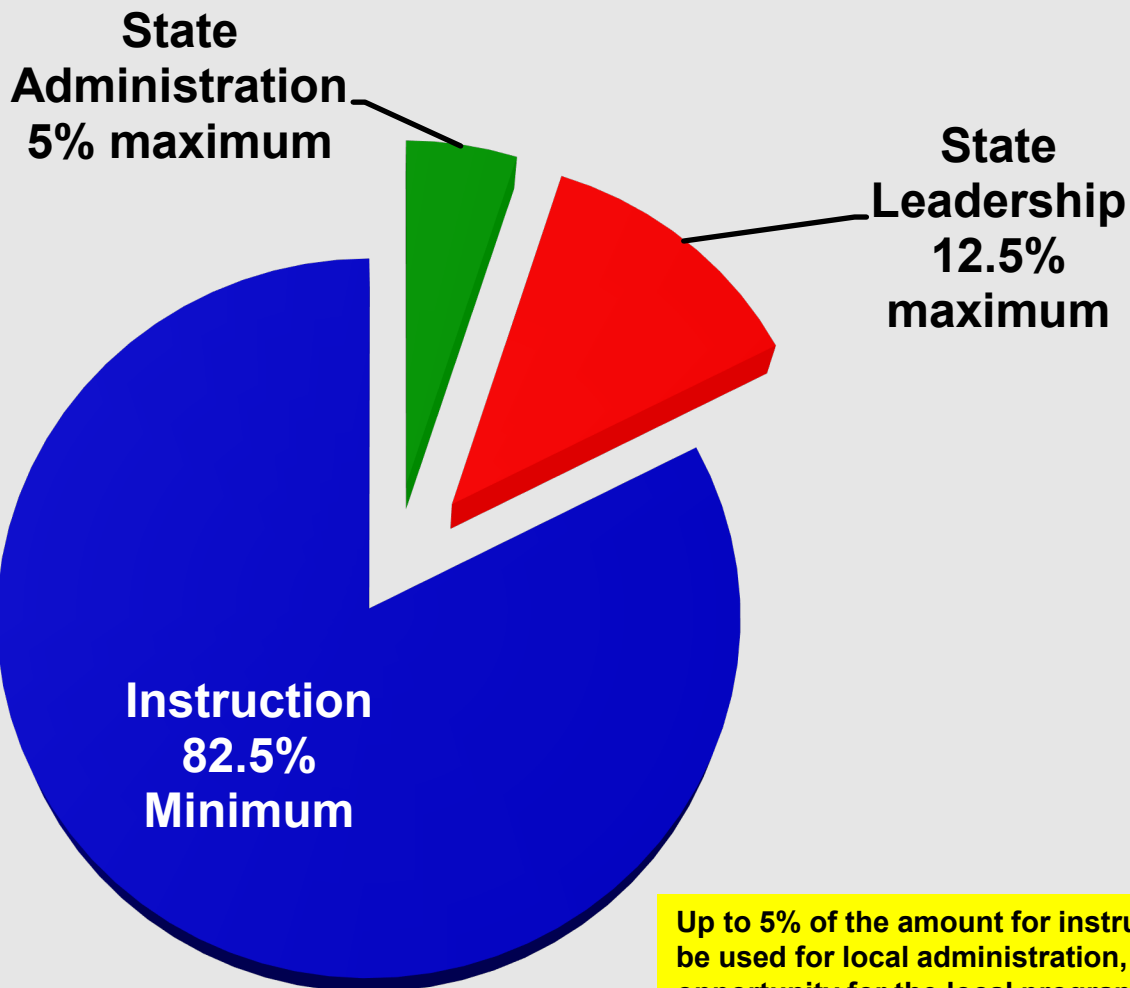
# AEFLA GRANT STATE MATCHING





National Reporting System

# AEFLA EARMARKS FOR THE FEDERAL GRANT



Up to 20% of the amount for instruction may be used for institutionalized individuals.

Up to 5% of the amount for instruction may be used for local administration, with an opportunity for the local program to negotiate a higher amount. (Section 233)

Section 222(a)



National Reporting System

# AEFLA GRANT FUNDS

## “FLOORS” AND “CEILINGS”

Section 222	Requirement	Activity
State may use	Up to <b>5%</b> of award for (or \$85,000 – whichever is greater)	State Administration ( <b>Section 221</b> )
State may use	Up to <b>12.5%</b> for	State Leadership Activities ( <b>Section 223</b> )
State must pass through	At least <b>82.5%</b> to eligible providers for	Grants and Contracts for Eligible Providers ( <b>Section 231</b> )
	Up to <b>20%</b> of the 82.5% for (or 16.50% of total federal grant)	Corrections Education ( <b>Section 225</b> )
	Locals may use up to 5% of their grant for See special rule in <b>Section 223 (b)</b> .	Local Administrative Costs ( <b>Section 233</b> )
State must match	With cash or in-kind (fairly evaluated) <b>25%</b> of the total federal and non-federal funds spent on adult education in the state (or <b>33%</b> of federal grant amount)	Matching Requirement ( <b>Section 222</b> ) [12% for outlying areas]



# AEFLA GRANT MATCHING THREE CRITICAL PIECES

## 1. Matching Requirements

(AEFLA Sect 222)

- ☐ Valuation of in-kind contributions and services
- ☐ Matching Exclusions

## 2. Supplement-not-Supplant

(AEFLA Sect 241 a)

## 3. Maintenance of Effort

(AEFLA Sect 241 b)



# MATCHING REQUIREMENTS

## State Match must be:

- ➡ Allowable (AEFLA and 2 CFR §200.403)
- ➡ Documented and verifiable
- ➡ Necessary and reasonable for accomplishing program objectives
- ➡ Supported by documentation of fair market value



## State Match must not be:

2 CFR §200.306

- ➡ Included as contribution for other federal grants
- ➡ Met by another federal grant or contract
- ➡ Financed by program income (34 CFR 76.534)



# MATCHING REQUIREMENTS (CONT.): VALUATION OF IN-KIND



**Fair market value**

**=**

**What would you pay if it  
had not been donated?**





# MATCHING REQUIREMENTS (CONT.): VALUATION EXAMPLES

To demonstrate that an in-kind contribution or service has been “fairly evaluated,” the grantee needs to provide documentation that supports its value.

## Examples:

**Classroom space**—must show actual cost for comparable space in the area, or a real estate appraisal, or cost of renting same space to other organizations

**Volunteer's time**—must show value of a paid teacher's time in the same program



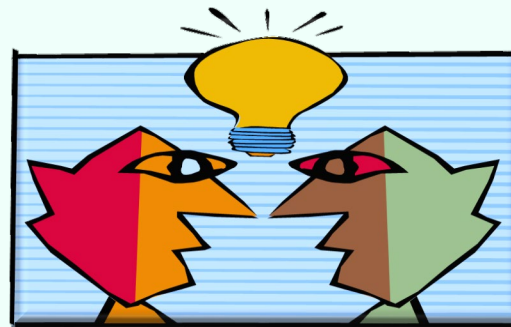
# GRANT MATCHING

## DISCUSSION QUESTION (HANDOUT 1)

**How can you meet the matching requirement in Section 222(b)?**

**With your breakout group, use handout 1 to list as many sources as possible. Take notes and share your ideas with the full group in the main room.**

**(10 minutes)**



# MAINTENANCE OF EFFORT

## AEFLA Section AEFLA 241(b)(1)(A)

An eligible agency may receive funds under this title for any fiscal year if the Secretary finds that the fiscal effort per student or the aggregate expenditures of such eligible agency for activities under this title, in the second preceding fiscal year, were **not less than 90 percent** of the fiscal effort per student or the aggregate expenditures of such eligible agency for adult education and literacy activities in the third preceding fiscal year.

# MAINTENANCE OF EFFORT (CONT.)

## Example

December 2020

**Non-federal  
expenditures\* for 2018  
("second preceding  
year" to the year 2020)**

**Non-federal  
expenditures\* for 2017  
("third preceding year"  
to the year 2020)**

**= 90%** (minimum)



\*per-student or aggregate



# SUPPLEMENT NOT SUPPLANT

**AEFLA Section 241(a):** “Funds made available for adult education and literacy activities under this title **shall supplement and not supplant** other State or local public funds expended for adult education and literacy activities.”

## In other words

Federal funds may not be used to pay for services, staff, programs, or materials that would otherwise be paid with state or local funds.



# SUPPLEMENT NOT SUPPLANT (CONTINUED)

**Supplanting** would be presumed in these situations:

- ➡ Federal funds used to provide services that were supported by state or local funds in the prior year.
- ➡ Federal funds used to provide services the state or local agency is required to make available under other federal, state, or local laws.



## Subpart E—Cost Principles

- 1. Factors Affecting Allowability of Costs**
- 2. List of Selected Items of Cost**
- 3. Direct v. Indirect Costs**
- 4. Standards for Documentation of Personnel Expenses**

- ✓ **55 specific costs detailed**
- ✓ **Listed in alphabetical order**



# FACTORS AFFECTING COST ALLOWABILITY

All costs must be...

- ➡ **Reasonable and Necessary**: incurred by a prudent person, and necessary for the performance of the project.
- ➡ **Allocable**: Charged in accordance with benefits received; proportional.
- ➡ **Authorized**: AEFLA, Uniform Guidance, EDGAR, state or local laws and regulations.
- ➡ **Adequately** documented.



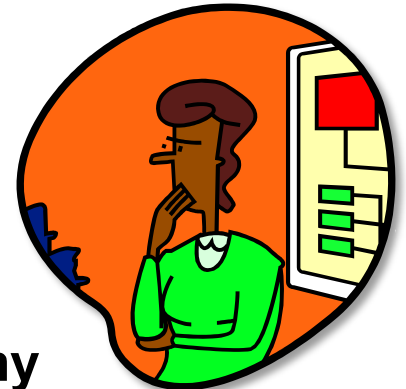
# REASONABLE AND NECESSARY

## ➤ Practical aspects of “**reasonable**”

- ✓ Is the expense targeted to valid programmatic or administrative considerations?
- ✓ Do I have the capacity to use what I am purchasing?
- ✓ Did I pay a fair rate? Can I prove it?
- ✓ If asked to defend this purchase, how would I do it?

## ➤ Practical aspects of “**necessary**”

- ✓ Do I really need this?
  - Surplus property/existing resources
  - Lease vs. purchase
- ✓ Is this the minimum amount required to meet my program needs?





# ALLOCABLE

- ➡ Can charge **only** in proportion to the value or benefits received by the program

Example: State purchases a large copier to use 50% in Adult Ed and 50% in a state program – can charge only half the cost to federal funds.

Note well: If you can't do it under state law, you can't purchase it with federal funds.

- ➡ Two Methods of allocating costs:
  - ✓ Direct cost allocation
  - ✓ Indirect cost allocation



# DIRECT COSTS

## **DIRECT COSTS DEFINITION** 2 CFR §200.413(a)

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be **directly assigned** to such activities relatively easily with a high degree of accuracy.

***Direct costs may not also be recovered as indirect costs.***

### **Examples**

- Salary, wages, fringe benefits
- Consultant fees
- Subcontracts
- Materials and supplies for project work





# INDIRECT COSTS

## OMB UNIFORM GUIDANCE SUBPART A

### INDIRECT COSTS DEFINITION (2 CFR §200.56)

Costs incurred for a **common or joint purpose** benefitting more than one cost objective, and **not readily assignable** to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

### Examples

- Business office functions, including accounting and finance
- Human resource functions
- Computer hardware (general purpose)
- Facilities costs (space rental, utilities, etc.)
- Maintenance



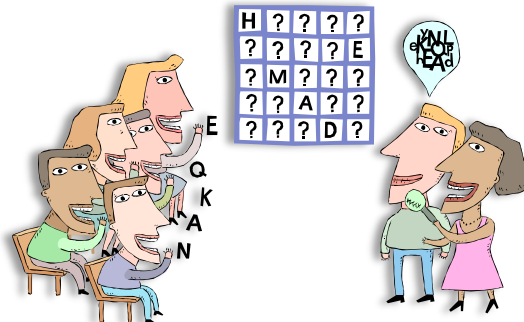
**Note:** Cannot assign cost as direct cost to federal grant if assigned as indirect cost under state programs.

# GROUP ACTIVITY (HANDOUT 2)

## Cost Allowability Challenge

With the group in your breakout room, review the list of selected cost items on handout 2 and determine whether each item is allowable or not allowable under federal grants and contracts, as specified in the Uniform Guidance (2 CFR Part 200 Subpart E). **Keep track of your answers.** We will review the answers together in the main room. (10 minutes)

SELECTED COST ITEM	CIRCLE EITHER ALLOWABLE OR UNALLOWABLE	
Advertising/Public Relations	Allowable	Unallowable
Alcoholic Beverages	Allowable	Unallowable



# WHEN IN DOUBT ABOUT WHETHER A COST IS ALLOWABLE ...

## Ask Yourself...

1. Does it pass the **“sniff” test**?
2. How would you feel if this expenditure were reported on the **front page** of the newspaper?
3. Does this cost reflect the **spirit of the law** (i.e. purpose of adult education under AEFLA)?





# STANDARDS FOR DOCUMENTATION OF PERSONNEL EXPENSES

- ➡ **OMB Uniform Guidance 2 CFR §200.430(i) applies to every employee position paid from federal funds. It also applies to subrecipients.**

## Purpose

- ✓ To document that the **appropriate federal program** is receiving the benefit of the services supported by grant funds; and
- ✓ To verify the **actual time** spent on a federal program receiving the benefit of that effort.



# STANDARDS FOR DOCUMENTATION OF PERSONNEL EXPENSES (CONTINUED)

**Charges for salaries and wages** must be based on **records that accurately reflect the work performed.**

These records must:

- Be supported by a **system of internal control** which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- Be incorporated into the official records of the non-federal entity.
- Reasonably reflect the total activity for which the employee is compensated.
- Encompass **both federally assisted and all other activities compensated by the non-federal entity** on an integrated basis.
- Comply with the established accounting policies and practices of the non-federal entity.



**2 CFR §200.430 (i)(1)**



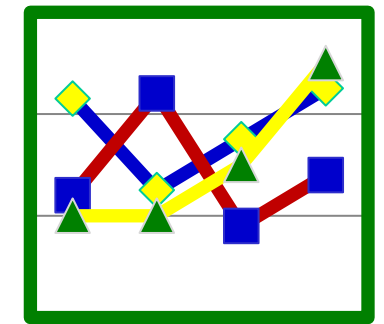
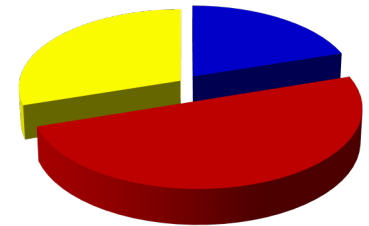
# STANDARDS FOR DOCUMENTATION OF PERSONNEL EXPENSES (CONTINUED)

**Charges for salaries and wages** must be based on records that accurately reflect the work performed.

These records must:

- Support the **distribution of the employee's salary or wages among specific activities or cost objectives** if the employee works on more than one federal award; a federal award and non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.
- **Budget estimates alone do not qualify as support for charges** to federal awards but may be used for interim accounting purposes.

Salaries and wages of employees used in meeting **cost sharing or matching** requirements on federal awards **must be supported in the same manner** as salaries and wages claimed for reimbursement from federal awards.



2 CFR §200.430 (i)(4)

# INTERNAL CONTROLS

## WHAT ARE INTERNAL CONTROLS?

**Tools to help program managers achieve results and safeguard the integrity of their programs**

**Includes processes for**

- ➡ **Planning**
- ➡ **Organizing**
- ➡ **Directing**
- ➡ **Controlling**
- ➡ **Reporting on agency operations**



**See 2 CFR §200.302 Financial Management  
and 2 CFR §200.303 Internal Controls**

# BUDGET MONITORING

**Actual expenditures should be compared at least monthly to the budget to ensure ...**

- **All funds are used appropriately.**
- **Total funds on the grant have not been exceeded.**
- **Maximum expenditures for any cost category have not been exceeded (e.g. 5% for admin).**
- **Minimum expenditures for any cost category have been met (e.g., 82.5% for instruction).**



**Questions:** Who in your agency performs these functions?  
How often do you check on this?

# MONITOR BUDGETED VS. ACTUAL

Check that...

- ➡ **Actual expenses are**
  - ✓ reasonable,
  - ✓ allocable,
  - ✓ allowable, and
  - ✓ consistently charged.
- ➡ **Mischarges are corrected in a timely manner.**  
(e.g. cost transfers, journal entries, etc.)
- ➡ **Prior approvals are obtained when required.**
- ➡ **Subrecipient expenses are monitored.**



**Questions:** Who in your agency performs these functions?  
How often do you check on this?



# CONTROL CONSIDERATIONS

## SUBRECIPIENT MONITORING

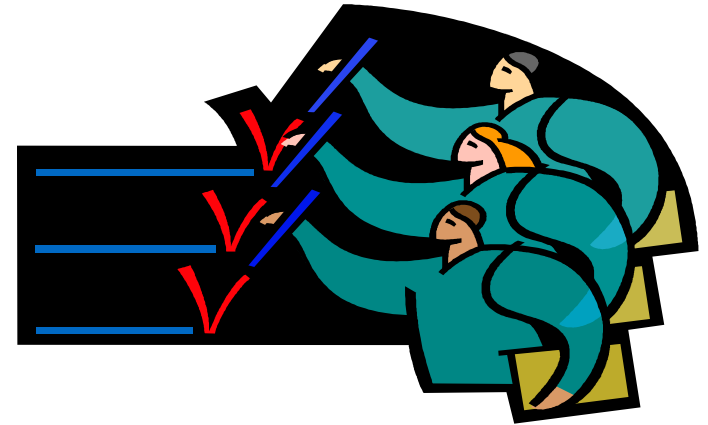
**Note: The state is responsible for all funds that are awarded to subrecipients.**

**State responsibilities** include ensuring that

- ✓ All subrecipients are aware of provisions and requirements.
- ✓ Expenditures are properly documented.
- ✓ Financial reports correlate to source documentation.
- ✓ Any finding or question about costs is resolved properly and in a timely manner.

# CONTROL CONSIDERATIONS (CONTINUED)

- ➡ Segregating federal and non-federal expenditures in the accounting system.
- ➡ Differentiating between federal grant expenditures.
- ➡ Identifying equipment or property purchased with federal funds.
- ➡ Preparation of financial reports:
  - Accuracy
  - Timeliness



**Questions:** Who in your agency performs these functions?  
How is it done?  
How often do you check on this?

# Self-Reflection Tool (Handout 3)

## SELF-REFLECTION: INTERNAL CONTROLS IN YOUR STATE

**Instructions:** Identify the staff responsible for each of the fiscal management activities in the table. Also indicate the frequency with which the information is reviewed by state the director or staff. In the last column, suggest ways in which this process might be improved (e.g., different staff, more frequent checks and reviews), where necessary.

ACTIVITY	STAFF RESPONSIBLE	HOW OFTEN DO YOU CHECK ON THIS?	SUGGESTIONS FOR IMPROVEMENT
<b>Documentation of Personnel Expenses</b> certified, time and activity records, with oversight and approval of supervisors			
<b>Accounting for all program income</b> and its proper use			
<b>Monitoring expenditures</b> to ensure they are allowable, accurate, reasonable, and allocable			
<b>Ensuring that total funds</b> for a cost category are not exceeded			
<b>Checking that your program</b> has not been overcharged or double-billed for a product or service			
<b>Ensuring that minimum funds</b> for a cost category are met (e.g., 82.5% for instruction)			
<b>Comparing actual expenditures</b> to budget			

# ADULT EDUCATION FISCAL BINGO

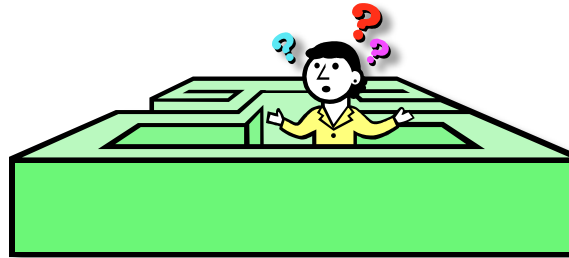


Has a state budget for adult education of less than \$1 million.	Has a state budget for adult education of more than \$1 million.	Uses \$85,000 of the state's AEFLA award for administrative costs.	Has an employee in the adult education office whose job is to monitor the office's budget and expenditures.	Uses the finance office in its agency to handle all adult education financial issues, including reporting.
Provides compliance training for subrecipients soon after making grant awards.	Monitors its subrecipients through a <u>combination</u> of desk monitoring and on-site visits.	Monitors its subrecipients <u>only</u> through on-site visits	Monitors its subrecipients <u>only</u> through desk monitoring.	Has found unallowable expenses when monitoring a subrecipient's finances.
Has set a corrective action plan for one of its subrecipients because of financial issues or non-compliance.	Has spent <u>less</u> than its state administrative cap.	FREE SQUARE	Has state matching funds that exceed the minimum matching requirements of AEFLA.	Spends <u>state</u> funds on adult education administrative activities.
Has always submitted its Federal Financial Reports on time, that is, by December 31.	Has <u>never</u> submitted its final Federal Financial Report with errors.	Spends <u>state</u> funds on adult education leadership activities.	Has <u>never</u> had a financial audit finding for its adult education program.	Has received 100% of subrecipient final financial reports for PY 2017. (Reported in December 2019)
Has obligated 100% of its PY 2017 federal funds. (Reported in December 2019)	Has had to terminate funding to a subrecipient because of non-compliance.	Is a new state director who has <u>never</u> had an OCTAE monitoring visit.	Has been through at least one monitoring visit from OCTAE.	Ensures that federal and state funds are accounted for in separate streams.



National Reporting System

# QUESTIONS?



**The DAEL Monitoring and Administration Team and Accountability Team are available to assist you.**