

ESSA Quick Reference Brief: Determining Allowability

What the Law Says

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

Education Department General Administrative Regulations

All the administrative requirements for ED are found in the Education Department General Administrative Regulations (EDGAR), including Part 200 of Title 2 of the Code of Federal Regulations, commonly referred to as the Uniform Grants Guidance (UGG). The administrative rules and cost principles contained in Part 200 are applicable to all federal funding. This means that any use of federal funds must meet the basic cost principles¹ as described in UGG and not be listed as an “unallowable” cost.



What it Means

In making determinations about whether the use of federal funds is allowable for a particular activity, districts must consider both:

- whether the activity is **authorized under a particular grant program**; and
- the **cost principles** described in UGG.

Cost Principles in UGG

There are eight basic cost principles outlined in Part 200 of Title 2 in EDGAR.

1. **Necessary, Reasonable and Allocable.** To be considered **necessary**, the cost must be essential for the operation of the program. A cost is considered **reasonable**² if it not excessive and is based on prudent purchasing practices. A cost is **allocable**³ if it benefits the program in proportion to the percentage charged to the program.
2. **Conforming to limits or exclusions.** The cost must conform to any limitations or exclusions described in EDGAR. This includes whether the cost is allowable under the program statute.
3. **Not prohibited under state or local law.** While state and local laws do not have to explicitly authorize a particular cost, any costs that are prohibited under state or local law are not considered allowable.
4. **Consistent with policies, regulations, and procedures.** Districts must follow their own internal procedures. Costs for federal funds cannot be subject to different rules than nonfederal funds (e.g.; per diem reimbursement rate).

¹ 2CFR 200.403

² 2CFR 200.404

³ 2CFR 200.405

The four remaining cost principles are outlined in more detail in [EDGAR](#):

5. Accorded consistent treatment
6. Determined in accordance with Generally Acknowledged Accounting Principles (GAAP)
7. Not included as match or cost share
8. Adequately documented

Unallowable Costs

While the allowability of costs often depends on the circumstances, there are some costs that are specifically prohibited in UGG, including:

- Alcoholic beverages (200.423)
- Bad debts (200.426)
- Contributions and donations (200.434)
- General costs of government (200.444)
- Goods or services for personal use (200.445)
- Losses on other awards or contracts (200.451)

Entertainment costs (200.438a). Costs of entertainment, including amusement, diversion, and social activities and any associated costs (such as gifts), are unallowable. If you have questions, please contact ODE.

Allowable Cost Determination Chart

The questions in this chart are provided to assist in determining whether a cost is allowable and should be taken into consideration before utilizing federal funds.

Question	Yes	No
1. Is the cost identified in the approved budget narrative or application?	Yes	No
2. Does the cost align with the result of the comprehensive needs assessment and the school/program plan?	Yes	No
3. Is the cost necessary for the performance of the program?	Yes	No
4. Is the cost allocable to the program? Is the cost charged in proportion to the benefit received?	Yes	No
5. Does the cost meet other basic cost principles in the Uniform Guidance (2 CFR Part 200)?	Yes	No
6. Is the cost reasonable ? Is the cost comparable to market prices for the geographic area?	Yes	No

Question	Yes	No
7. Does the cost supplement, and not supplant , costs provided from non-federal funds?	Yes	No
8. Is the cost adequately documented to demonstrate compliance with all applicable funding rules and restrictions?	Yes	No

Recommendations for Practice

- **Develop a system that works for you.** Developing a system of internal controls for requesting and making purchases with federal funds, as well as approving and documenting expenditures, is key.
- **Educate staff.** Make sure everyone understands their roles and responsibilities within the system you create. This ensures that the system is well understood and helps safeguard against confusion and errors. Consider providing regular training and reminders.
- **Build relationships.** Collaboration between fiscal staff and federal program staff is central to ensuring all purchases meet allowability requirements. Consider regularly scheduled meetings to facilitate communication and collaboration.

Questions for Reflection

1. How does the cost/purchase **meet a need** (*necessary*) identified in our needs assessment?
2. How does the cost/purchase help us achieve the goals in our **school/district plan**?
3. What is the **size of this cost** (*reasonable*) in comparison to the overall budget?
4. Would purchase of this item pass the “**headline test**?”
5. Does the cost/purchase meet the **purpose** of the program (*allocable*)?
6. Will the cost/purchase **benefit the program** in proportion to the percentage the program pays for the item?

Resources

- [Education Department General Administrative Regulations](#)
- [Electronic Code of Federal Regulations](#) (Part 200)
- [Oregon Federal Funds Guide](#)