



## NRS Guide to Smart Fiscal Management for Adult Education Programs



Division of Adult Education and Literacy  
Office of Vocational and Adult Education  
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**NRS** National Reporting System  
for Adult Education



# ***NRS Guide to Smart Fiscal Management for Adult Education Programs***

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## Chapter 1 Introduction

The receipt of a Federal grant for adult education brings with it the enormous responsibility of fiscal management. Along with complying with the myriad of rules, regulations, and requirements of all Federal grants, state directors of adult education also must follow the specific requirements for adult education prescribed in the Adult and Family Literacy Act (AEFLA). Yet, despite its importance, fiscal management is often the most widely misunderstood and neglected area of grant management among state directors. Three myths surrounding fiscal management are often the reason for this inattention.

### Three Myths That Harm Fiscal Management

#### ***Myth #1: Someone else in my state does this, not me.***

Often, fiscal management is delegated to another state agency or staff person that specializes in grants management. This staff may have little communication with the state director, and interaction may be limited to little more than obtaining needed signatures and approvals for budgets and expenditures. State financial managers are often accountants and contracts specialists who have many years of experience and know the laws and regulations. It is easy to leave it all in their hands—after all, they are the experts. What does a state director really need to know or do?

It is indeed tempting to leave the often boring and tedious details of fiscal management to someone else. Ultimately, however, good stewardship of adult education grant funds is the state director's responsibility. Mismanaged funds can have disastrous consequences, from embarrassment and damage to personal reputations to loss of employment, fiscal ruin, and even prison time. Further, the state director is also responsible for how funds are spent at the subgrantee or *local program* level. This responsibility can become suddenly clear when a headline in the state's major newspaper identifies an impropriety, and the state director is then called in to explain the problem to the superintendant and the angry public. "It isn't my fault, I didn't know" will not be an excuse that anyone accepts. The state director's responsibility *is* to know. Beyond the potential negative fallout from a mistake, bad fiscal management is simply bad management. Being aware of the fiscal rules and ensuring that they are followed is part of good management and will create a more efficient and effective state program. A good fiscal manager is a good manager.



### ***Myth #2: It's all too complicated and hard to understand.***

It is true that the regulations and legislation are not written in plain, simple language. The legal terms, technical language, vague phrasings, and extensive use of acronyms do not make easy reading. Even the most straightforward requirements appear to have many exceptions or caveats, and interpretation often depends on how the rules are applied to specific circumstances.

The rules and regulations are also not well organized and are spread over three sets of documents. There is AEFLA, which prescribes how basic grant funds are to be budgeted and distributed. The Federal Office of Management and Budget (OMB) has published six circulars that affect financial management of the adult education program (see Exhibit 1-1), and financial regulations are included in the Education Department General Administrative Regulations (EDGAR; see Exhibit 1-2). It is not easy to navigate these documents because they have no index, table of contents, or other organizers. Even within documents, information about individual topics is often not in the same place.

Despite these difficulties, the basic facts and requirements are not complicated and can be understood with a little time and effort, especially with guidance from a knowledgeable source. This guide is such a source and will help state directors and staff understand financial requirements by organizing the information and explaining it in plain language.

#### **What are good fiscal management skills?**

Good fiscal management requires skills, procedures, and systems that promote efficiency, effective oversight, and good decisions.

- **Knowledge and understanding** of the laws and regulations governing Federal grants and adult education
- **Good planning and budgeting** in compliance with state and Federal requirements
- **Automated accounting systems** that allow ready access to relevant information
- **Regular monitoring and risk analysis** of expenditures and subgrantees
- **Frequent contact with and oversight** of subgrantees

### ***Myth #3: I just don't have time to read all this.***

This may be your reaction, for example, if you attempt to read OMB Circular A-87, with its single-spaced, three-column text spread over 18 pages in the Federal Register, and the massive OMB Circular A-133. Everything important does take time to learn and some time investment is needed to become a knowledgeable fiscal manager. However, it is not necessary to become an accountant or a lawyer to understand adult education finance. Nor do you have to read and understand every word and section of every document. A good fiscal manager, however, does need to know the basics and where to find the information when needed. This guide and the accompanying training materials have done a lot of that work for you. With a little time and effort, you will master the basics, which you can then apply in your work to hone your sense of fiscal matters.

## About This Guide

This guide is designed to bust these three myths by organizing and explaining in everyday language the basic financial requirements for managing the Federal adult education and literacy program. It is a basic reference for state directors of adult education and other state staff who have the responsibility for financial management of the program. The guide does not attempt to explain and interpret rules and regulations for every situation and application. For example, Chapter 2 explains the basic Federal requirements for tracking staff time and effort and allowable expenses but does not provide a detailed list of allowable staff time charges for all situations. Such a delineation of tasks and expenses would be nearly impossible and not always accurate, given the context-specific nature of the interpretation of many financial rules. Instead, the guide explains the general requirements in all major areas using a question and answer format and provides the citation for the rules and regulations, to direct you to the specific source to consult for further information.

To organize the diffuse information on fiscal management across the major sources (AEFLA, EDGAR, and OMB Circulars) and other documents, we have divided the guide into three parts:

- ***Essential Cost Principles and Internal Controls***, Chapter 2, reviews the basic cost requirements for state grantees and subgrantees. It includes information on administrative cost requirements, cost sharing, and matching requirements of AEFLA. It also reviews AEFLA Maintenance of Effort requirements and Federal requirements for time and effort documentation.
- ***Monitoring Subgrantees and Auditing Requirements***, Chapter 3, summarizes requirements for state monitoring of state and subgrantee funds. It describes auditing responsibilities and ways states can effectively monitor local program expenditures.
- ***Fiscal Reporting of Grant Funds***, Chapter 4, addresses questions about state and Federal reporting of AEFLA funds. It reviews funding floors and ceilings required by law, carryover rules, and reporting of program income.

Each chapter begins with a brief summary of what the section covers and the legislation, EDGAR regulations, or OMB Circular that applies to the section. Content then follows in a question and answer format, denoted by “Q” and “A.” The appropriate regulatory or statutory citation follows the question. If the same citation applies to an entire subsection with more than one question and answer, the citation appears directly below the subheading. The citations enable you to cross-reference a specific question against the original language of the regulations, statute, OMB Circular, or other source.

### Why Three Sources?

After Congress passes legislation, OMB often interprets the law’s main requirements in an OMB Circular, which provides guidance to Federal and state agencies. Then individual Federal agencies can further refine and regulate requirements, as the Department of Education has done in EDGAR.



The Appendix includes a glossary, and a copy of AEFLA. The sidebar below provides a list of acronyms used in this guide. OMB circulars can be downloaded from [http://www.whitehouse.gov/omb/circulars\\_default](http://www.whitehouse.gov/omb/circulars_default) and EDGAR can be downloaded from the Department of Education’s website: <http://www2.ed.gov/policy/fund/reg/edgarReg/edgar.html>.

## Guide Within the National Reporting System

This guide is the eleventh in a series of guides designed to assist states with implementing National Reporting System (NRS) requirements, improve data quality, and use NRS data to promote program improvement. This guide is unique among others in the series in its focus on fiscal management, but it maintains the goal of improving state data quality—in this case financial data—for NRS reporting. This guide is designed to support national training on fiscal management of the adult education program conducted in June 2011 and accompanying materials.

The NRS support project staff at the American Institutes for Research developed all the NRS guides through OVAE-funded projects that support the NRS. Readers interested in further information about the NRS and more information on data quality and the use of NRS data for program management and improvement should consult *NRSWeb*, the project website, at <http://www.nrsweb.org/pubs/#trainingGuides>, to obtain copies of these resources. The website also has training materials for all previous guides.

### List of Key Acronyms

<b>ABE</b>	Adult Basic Education
<b>AEFLA</b>	Adult Education and Family Literacy Act
<b>ASE</b>	Adult Secondary Education
<b>DAEL</b>	Division of Adult Education and Literacy, U.S. Department of Education
<b>ED</b>	U.S. Department of Education
<b>EDGAR</b>	Education Department General Administrative Regulations
<b>EL/CIVICS</b>	English Literacy and Civic Education
<b>ESL</b>	English as a Second Language
<b>FSR</b>	Financial Status Report
<b>GED</b>	General Educational Development
<b>MOE</b>	Maintenance of Effort
<b>NRS</b>	National Reporting System
<b>OMB</b>	Office of Management and Budget
<b>OVAE</b>	Office of Vocational and Adult Education

### Exhibit 1-1. Summary of OMB Circulars Related to Fiscal Management of the Adult Education Program

Circular	Applies if you are...	What it covers
<b>A-87</b>	<ul style="list-style-type: none"> <li>• A state, local government, or Indian tribe</li> </ul>	<p>The cost principles the Federal government uses for grants to states:</p> <ul style="list-style-type: none"> <li>• Cost Accounting Standards (CAS)</li> <li>• Direct vs. indirect costs</li> <li>• Allowable vs. unallowable costs (Appendix B lists 43 costs and explains why each is or is not allowable), including the definition of necessary, reasonable, and allocable</li> <li>• Time and effort reporting</li> </ul>
<b>A-21</b>	<ul style="list-style-type: none"> <li>• An educational institution</li> </ul>	The cost principles for educational institutions (similar to A-87)
<b>A-122</b>	<ul style="list-style-type: none"> <li>• A non-profit organization</li> </ul>	The cost principles for non-profits (similar to A-87)
<b>A-102</b>	<ul style="list-style-type: none"> <li>• A state, local government, or Indian tribe</li> </ul>	The development and operation of the grant award process
<b>A-110</b>	<ul style="list-style-type: none"> <li>• An educational institution</li> <li>• A non-profit organization</li> </ul>	The standards for consistency in administration of grants to and agreements with institutions of higher education, hospitals, and other non-profits
<b>A-133</b>	<ul style="list-style-type: none"> <li>• A state, local government, or Indian tribe</li> <li>• An educational institution</li> <li>• A non-profit organization</li> </ul>	The standards for consistency in audits and grantee's monitoring duties
<b>A-133 Compliance Supplement</b>	<ul style="list-style-type: none"> <li>• A state, local government, or Indian tribe</li> <li>• An educational institution</li> <li>• A non-profit organization</li> </ul>	The requirements of the Single Audit Act, including activities allowed or unallowed; allowable costs and cost principles; cash management; matching, level of effort, earmarking; period of availability of Federal funds; reporting; and special tests and provisions for new or expanded charter schools

**Exhibit 1-2. Summary of EDGAR Citations Related to Fiscal Management of the Adult Education Program**

Regulation from EDGAR 34 CFR	Related guide topic(s)	What it covers
Part 76.534	Reporting and Federal Monitoring	The use of student tuition and fees in matching, cost sharing or maintenance of effort.
Part 76.709	Reporting and Federal Monitoring	The obligating of funds during a “carryover period”.
Part 76.760	Cost Sharing or Matching Requirements	The use of funds under more than one program to support different parts of the same project.
Part 80.23	Accessing Federal Grant Funds	The period during which funds are available.
Part 80.24	Cost Sharing or Matching Requirements	The options for fulfilling the matching or cost sharing requirement.
Part 80.25	Reporting and Federal Monitoring	The definition, generation, and use of program income.
Part 80.26	Audit Requirements	The auditing of grantees and sub-grantees.
Part 80.35	Noncompliance Issues	Subawards to debarred and suspended parties.
Part 80.40	Monitoring Requirements	The monitoring of and reporting on program performance.
Part 80.41	Reporting and Federal Monitoring	The standards for financial reporting.
Part 80.42	Audit Requirements	The retention and access requirements for program documents.
Part 80.43	Noncompliance Issues	The remedies for noncompliance with the terms of an award.
Part 80.44	Noncompliance Issues	The conditions under which an award may be terminated in whole or in part.
Parts 81.32	Noncompliance Issues	The standards for proportionality.
Part 82	Accessing Federal Grant Funds	The new restrictions on the use of funds for lobbying.
Part 85	Accessing Federal Grant Funds	The government-wide system of debarment and suspension for ED nonprocurement activities.

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## Chapter 2. Essential Cost Principles and Internal Controls

### Overview

Good fiscal management of Federal grant funds requires that grantees and subgrantees understand the essential cost principles and internal controls that are guided by Federal regulations. This chapter answers questions about the requirements and provides details of how to adhere to these laws and regulations. This section covers these topics:

- Following cost requirements such as maintaining reasonable administrative costs, and ensuring all costs are allowable and allocable
- Ensuring appropriate cost matching and Maintenance of Effort practices
- Certifying that all time and effort are recorded and reported correctly
- Understanding how and when to draw down Federal grant funds

The questions and answers provided below were gathered these sources:

- OMB Circular A-87
- AEFLA Sections 222, 233, 241
- EDGAR 34 CFR
- OMB Circular A-133 Compliance Supplement

Grantees and subgrantees are encouraged to consult and become familiar with the original regulations that are cited here, and A-87 in particular, for cost accounting standards, direct versus indirect costs, allowable versus unallowable costs, and time and effort reporting guidance. You may direct additional questions to OVAE Federal monitors for further support.

### Cost Requirements for State Grantees and Subgrantees

#### **Q.** *WHAT ARE ADMINISTRATIVE COSTS?*

OMB Circular A-87

**A.** Administrative costs are reasonable, necessary, and allowable direct and indirect costs associated with overall project management, such as overall program management (direct cost) or computer hardware (indirect cost). Administrative costs do not include those costs related directly to provision of services to participants or allocable to other cost categories. Examples of non-administrative costs include teachers' salaries (direct service provision) or 100 percent of office space rental for an office shared among several agencies for which each agency is contributing a portion of the cost (non-allocable).

## Q. WHAT ARE DIRECT AND INDIRECT COSTS?

OMB Circular A-87

**Direct costs** can be salaries, fringe benefits, and material costs for project work.

**Indirect costs** can be office functions, facilities costs, and maintenance costs.

**A.** Direct costs are directly identifiable to a specific project or activity that supports the project’s purpose. An indirect cost is a cost incurred for common or joint objectives and cannot be specifically identified with or allocated to a particular project or activity. Beyond these general guidelines, however, there is no universal rule for determining whether a cost is direct or indirect; however, the assignment must be consistent. For example, a cost assigned as a direct cost to the Federal grant cannot be assigned as an indirect cost under a state program.

## Q. WHAT FACTORS DETERMINE WHETHER A COST IS ALLOWABLE?

OMB Circular A-87

**A.** An allowable cost must be

- **reasonable:** incurred by prudent judgment and necessary for the project;
- **allocable:** charged according to the benefit received and not shifted from another project; and
- **allowable** according to law and regulation (AEFLA, EDGAR, OMB Circulars, local and state regulations).

**Is your cost allowable? Apply the “sniff test”:**

- ☞ Does it feel right?
- ☞ Would you care if it was reported in your local newspaper (tied to your name)?
- ☞ Does it reflect the spirit of AEFLA?

**Citation:** common sense!

## Q. WHAT DOES AEFLA SAY ABOUT SUPPLANTING STATE OR LOCAL PUBLIC FUNDS?

AEFLA Sec. 241(a)

**A.** AEFLA states that Federal adult education funds must *supplement* and not supplant other state or local public funds expended for adult education and literacy activities. In other words, states cannot withdraw state or local funds they currently are spending for adult education and

*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.

replace them with Federal dollars—an important point to remember when state budgets are reduced. If states reduce the amount they are spending for adult education, reductions in the Federal allotment of adult education funds may result. Reduction in Federal funds is described in greater detail in the Maintenance of Effort section.

## Administrative Cost Requirements for States and Local Programs

### **Q. WHAT ARE THE REQUIREMENTS FOR STATE ADMINISTRATIVE COSTS?**

AEFLA Sec. 222(a)(3); OMB Circular A-87

**A.** An eligible agency may use no more than 5 percent of the state’s grant or \$65,000, whichever is greater, to pay the cost of management and supervisory activities to direct and control the state-administered program.

### **Q. WHAT KINDS OF EXPENSES MAY BE INCLUDED UNDER STATE ADMINISTRATIVE COSTS?**

AEFLA Sec. 233(a)(2)

**A.** Allowable administrative costs are for planning, administration, personnel development, and interagency coordination. Allowable costs may not be included as a cost of another Federally financed program, and they cannot be used to meet matching requirements. (See OMB Circular A-87 in the Appendix for a sample list of allowable costs.)

### **Q. ARE THERE ANY EXCEPTIONS TO THE 5 PERCENT LIMIT ON ADMINISTRATIVE COSTS?**

AEFLA Sec. 233

**A.** If administrative costs are insufficient for the non-instructional areas mentioned previously, grant recipients may petition an eligible agency and negotiate an increase to provide an adequate level for non-instructional funds.

## Q. WHAT ARE THE REQUIREMENTS FOR LOCAL ADMINISTRATIVE COSTS?

AEFLA Sec. 233

A. A local grantee may use no more than 5 percent of its grant for administrative costs.

## Q. WHAT KINDS OF EXPENSES MAY BE INCLUDED UNDER LOCAL ADMINISTRATIVE COSTS?

AEFLA Sec. 233

### Examples of unallowable costs:

- ☞ Alcoholic beverages
- ☞ Bad debt
- ☞ Entertainment
- ☞ Political donations and contributions
- ☞ Lobbying

A. Allowable costs for administration are those non-instructional costs that are considered “necessary and reasonable” for planning, administration, evaluation, personnel development, and coordination.

### Examples of allowable administrative costs:

- ☞ recruiting
- ☞ Communications
- ☞ Labor relations
- ☞ Normal maintenance and repairs

## Cost Sharing or Matching Requirements

## Q. HOW IS COST SHARING OR MATCHING DEFINED?

EDGAR 34 CFR Part 80.24

A. Matching (also called cost sharing) refers to the value of third-party in-kind or cash contributions and that portion of the costs of a grant-supported project or program not borne by the Federal government. An example of a matching cost would be volunteer time in a program measured at a rate that is comparable to a paid staff person’s salary. Cost sharing must be verified through records that show how the value was derived.

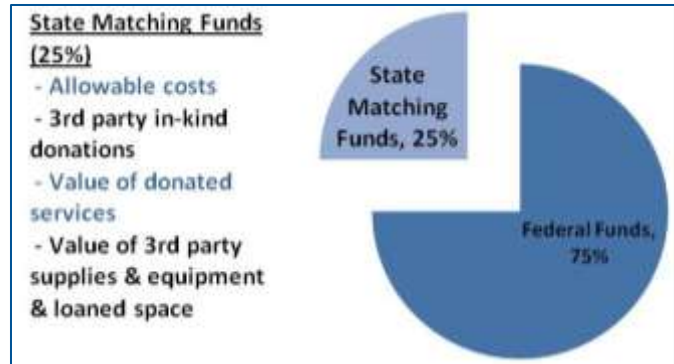


## Q. WHAT ARE THE AEFLA MATCHING REQUIREMENTS?

AEFLA Sec. 222 (b)

**A.** A state is required to provide matching funds at a minimum of 25 percent of the total amount the state spent for adult education and literacy activities. Examples of allowable matching or cost-sharing follow:

- Allowable costs incurred by the state or local programs under the grant agreement
- Value of the third-party in-kind contributions for the period to which the cost-sharing or matching requirements apply
- Value of donated services provided to a local program by individuals at rates consistent with those ordinarily paid for similar work in the organization or by employees of other organizations
- Value of third-party donated supplies and loaned equipment or space



Amounts may count for only one matching requirement. You will not be able to count costs or contributions that have been or will be counted toward the match for other Federal grants or contracts. Also, only allowable expenditures can be used to match. For example, a state cannot match with funds from gardening, cooking, or automotive repair classes it offers to adults through community education programs because Federal adult education funds cannot be spent for these services.

## Q. WHAT KINDS OF COSTS MAY NOT BE USED TO SATISFY COST-SHARING OR MATCHING REQUIREMENTS?

EDGAR 34 CFR Part 80.24

**A.** Cost-sharing or matching requirements may not be met by the following:

- Costs covered by another Federal grant, except as provided by Federal statute (this prohibition does not apply to costs supported by general program income earned from a contract awarded under another Federal grant)
- Costs of third-party in-kind contributions (unless recipients of these contributions pay for them)

- Costs financed by general program income (unless the terms of the grant expressly permit the income to be used for cost sharing or matching)
- Services or property financed by income earned by contractors

**Q. *HOW SHOULD COSTS AND CONTRIBUTIONS BE VERIFIED?***

EDGAR 34 CFR Part 80.24

**A.** Costs and contributions must be verifiable from the records of grant recipients or cost-type contractors. The valuation of in-kind services and items must reflect the fair market value of those services and items, that is, what a reasonable person would pay for that item if it were not donated or for that service according to a typical cost for that work.

**Q. *MAY A STATE USE FUNDS FROM MORE THAN ONE FEDERAL PROGRAM TO SUPPORT DIFFERENT PARTS OF THE SAME PROJECT?***

EDGAR 34 CFR Part 76.760

**A.** Yes, if the state or subgrantee meets both of the following conditions:

- The state or subgrantee complies with the requirements of each program for the project assisted with funds under that program.
- The state or subgrantee has an accounting system that permits identification of the costs paid for under each program.

**Q. *CAN SUBGRANTEES' MATCHING FUNDS APPLY TO THE STATE'S NON-FEDERAL MATCHING REQUIREMENTS?***

EDGAR 34 CFR Part 80.24(a)(1)

**A.** Yes, a state may apply local contributions toward the state's match, as long as these contributions comply with all requirements for the state's non-Federal data match.

**Local Matching?**

There are no Federal matching requirements for subgrantees, but states may require that subgrantees have a non-Federal match.

## Maintenance of Effort Requirements

### Q. WHAT IS MAINTENANCE OF EFFORT AND HOW IS IT REPORTED?

OMB Circular A-133 Compliance Supplement; AEFLA Sec. 241(b)

**A.** Maintenance of Effort (MOE) refers to the requirement that grant recipients and subgrantees must maintain a certain level of state/local fiscal effort to be eligible for full participation in Federal grant funding. Grantees and subgrantees that fail to meet MOE requirements face losing a portion of their Federal funds.

AEFLA offers two ways to calculate MOE: the fiscal effort per student and the total expenditures that a state makes for adult education. A state's expenditures for adult education must not be less than 90 percent of either the highest cost per student or the highest total amount of state expenditure. OVAE excludes capital expenditures and one-time special project costs from the calculation.

Example of MOE for a State Grantee					
	State Effort for Adult Education	Meets MOE?	Cost per Student	Meets MOE?	Discussion
2006	\$1,000,000	✓	\$440	✓	Baseline
2007	\$1,000,000	✓	\$400	✓	State effort remains same, cost per student decreases 10%. <b>No penalty.</b>
2008	\$900,000	✓	\$400	✓	State effort and cost per student drop 10%. <b>No penalty.</b>
2009	\$950,000	✓	\$390	✗	Cost per student drops below 10% range, but state effort is within 10% of baseline. <b>No penalty.</b>
2010	\$900,000	✓	\$420	✓	State effort is reduced, but within 10% range. <b>No penalty.</b>
2011	\$850,000	✗	\$450	✓	State effort is reduced below 10% range, but cost per student is above \$440 baseline. <b>No penalty.</b>
2012	\$890,000	✗	\$360	✗	State effort is reduced below 10% and cost per student is also below 10% range. <b>Penalty is pro-rated reduction of Federal award.</b>

**Q. WHAT IS THE PURPOSE OF THE MOE REQUIREMENT?**

AEFLA Sec. 241

**A.** The purpose of the MOE requirement is to ensure that states do not reduce their financial commitment to the adult education program and to ensure continuity of the delivery of services.

**Q. HOW IS LEVEL OF EFFORT COMPUTED ON A TOTAL-EXPENDITURE BASIS?**

AEFLA Sec. 241(b)(1 and 2)

**A.** Level of effort is determined by comparing the total non-Federal expenditure level with the state's prior highest expenditure amount.

**Per student level of effort** is determined by dividing the total non-Federal dollars by the number of students staying 12 hours or more.

**Q. WHAT HAPPENS IF A STATE CANNOT MEET ITS MOE REQUIREMENT?**

AEFLA Sec. 241(b)(1)(B)

**A.** If a state reduces its level of state and local expenditure for adult education beyond the 10 percent threshold, this change will trigger an automatic pro rata reduction in the Federal allocation to the state. For example, if state and local spending for adult education were 85 percent of the comparison year's level, the state's allotment would be reduced by 5 percent—the difference between 90 and 85 percent.

**Q. UNDER WHAT CONDITIONS MAY ED WAIVE THE MOE REQUIREMENT?**

AEFLA Sec. 241(b)(4)

**A.** ED may waive the requirement for only 1 year if the Secretary determines that a waiver would be fair because of exceptional or uncontrollable circumstances.

**Q. WHAT IS CONSIDERED AN EXCEPTIONAL OR UNCONTROLLABLE CIRCUMSTANCE?**

AEFLA Sec. 241(b)(4)

**A.** ED defines this on a case-by-case basis. One such circumstance, for example, might be a natural disaster (e.g., earthquake, hurricane). The eligible agency must submit a written request to ED that includes an explanation for the request.

**Q. CAN MY STATE REDUCE ITS SPENDING EACH YEAR TO CREATE A LOWER MOE REQUIREMENT?**

AEFLA Sec. 241

**A.** No, a state may not “ratchet down” its level of effort by making each subsequent year’s spending 90 percent of the comparison year. When the lower level of 90 percent is established for a comparison year, that level remains the target level of effort. This may change if a higher level of effort is established for reasons such as additional state appropriations. However, if the state’s level drops further below the first 90 percent level of effort it reached, then the first 90 percent level *still* is the comparison target as state spending falls. If the spending level for adult education in the state rises, the new level becomes the requirement for the comparison year.

## Time and Effort Requirements

**Q. WHAT IS TIME AND EFFORT DOCUMENTATION?**

OMB Circular A-87, Attachment B, paragraphs 8.h. (4), (5), and (6)

**A.** Time and effort documentation demonstrates that charges for salaries and wages reflect the actual work effort expended, not proposed or budgeted efforts. Time and effort documentation is required by the Federal grant and ensures that the appropriate program is receiving the benefits supported by grant funds. Documentation of time and effort also provides a reasonable basis for distributing salary charges among direct and indirect activities. This documentation will also show adjustments between budgeted and actual effort if there are significant changes.

## Q. WHAT ARE THE REQUIREMENTS FOR PROPER DOCUMENTATION OF TIME AND EFFORT?

OMB Circular A-87, Attachment B, paragraphs 8.h. (4), (5), and (6)

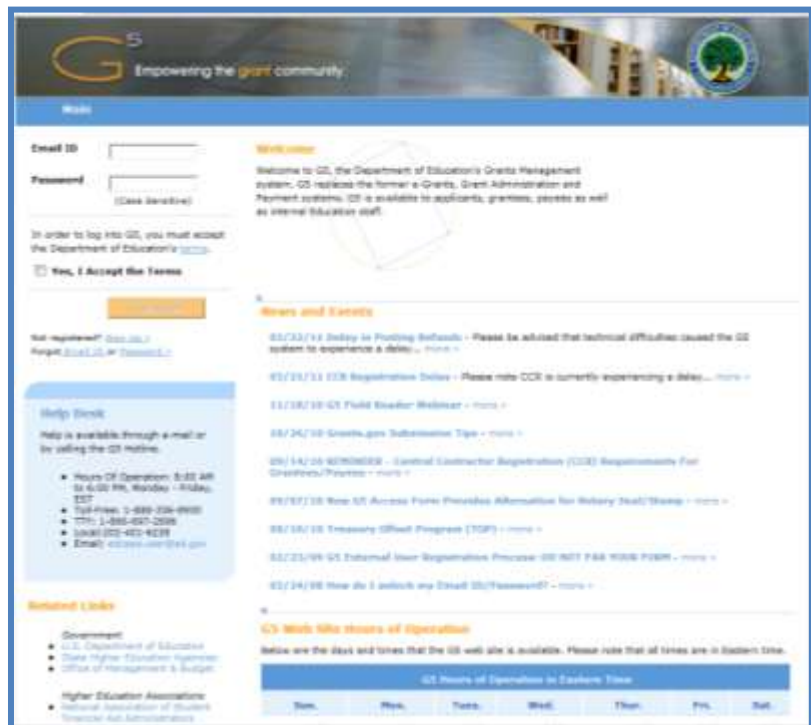
A. To document time and effort, states and subgrantees must have payroll and effort reports to show that charges are based on actual effort expended, are charged to the proper direct and indirect costs, and account for the total activity of each person compensated. The payroll and effort documentation must be prepared at least monthly and requires the signature of both the employee and the supervisor. Employees working on multiple Federal grants must document actual time charged to each grant.

## Accessing Federal Grant Funds

## Q. HOW DO STATES MANAGE THE TRANSFER OF FUNDS FROM THE FEDERAL GOVERNMENT AND THE AMOUNT OF CASH ON HAND FOR DISBURSEMENT TO SUBGRANTEES?

EDGAR 34 CFR Part 80.23; OMB Circular A-133 Compliance Supplement

A. States draw funds through the G5 System, which replaced the Grant Administration and Payment System (GAPS). Grantees request funds by (1) creating a payment request using the G5 System through the Internet; (2) calling the Payee Hotline; or (3) if the grantee is placed on the reimbursement or cash monitoring payment method, submitting a PMS-270, *Request for Title IV Reimbursement* to an ED



program or regional office. When creating a payment request in G5, grantees enter the drawdown amounts, by award, directly into G5. Grantees can redistribute drawn amounts

between grant awards by making adjustments in G5 to reflect actual disbursements for each award, as long as the net amount of the adjustments is zero. When requesting funds using the other two methods, grantees provide drawdown information to the hotline operator or on the PMS-270.

You should use a similar financial payment system with your local providers to ensure that these funds are obligated within the time limits. Funds must be drawn down only to meet the grantee's immediate cash needs for each individual grant. Also, you must include expenditure patterns in your program monitoring activities to ensure that subgrantees do not have excessive amounts of cash on hand. A grantee must spend down all obligations incurred under the award not later than 90 days after the end of the program.

**Q. WHAT ANNUAL CERTIFICATIONS ARE REQUIRED?**

EDGAR 34 CFR Part 82, and 34 CFR Part 85

**A.** To obtain grant funding, states must submit annually the combined certification form Certifications Regarding Lobbying; Debarment, Suspension, and Other Responsibility Matters; and Drug-Free Workplace Requirements. This certification must be signed by the State Agency Head before a Program Year allocation can be released. Likewise, the State Agency Head must also sign a Three-Tiered Program Certifications and Assurances for AEFLA.



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## Chapter 3. Monitoring Subgrantees and Auditing Requirements

### Overview

Grantees are also required to monitor subgrantee expenditures and to conduct audits on a regular basis to ensure that the funds allocated are in adherence to all the Federal laws and regulations of the original grant. The state is responsible for ensuring that subgrantees also follow the fiscal guidelines of the Federal government. Monitoring procedures are left up to the state and can include site visits, desk monitoring, and review of reports. No single method is required as long as the method can result in reasonable assurance that the subgrantee is maintaining compliance and meeting performance requirements. As a grantee, a state is responsible for preventing mismanagement of funds by doing the following:

- Understanding and assessing financial management systems and capabilities
- Ensuring compliance with laws and regulations
- Safeguarding Federal funds against fraud and waste
- Identifying potential audit issues
- Following up on issues and taking corrective action, if needed

This chapter provides guidance through questions and answers on these topics:

- Monitoring subgrantees' performance, records, operations, and documentation of the monitoring itself
- Auditing subgrantees to ensure that they have met the fiscal requirements of the funds
- Denying or terminating all or partial funds for subgrantees when they are not in compliance with Federal regulations and the terms of the grant

The questions and answers provided below were gathered from the following sources:

- OMB Circular A-133 and Compliance Supplement
- OMB Circular A-102
- EDGAR 34 CFR

Grantees and subgrantees are encouraged to consult and become familiar with the original regulations that are cited here, and A-133 Compliance Supplement in particular, for guidance on auditing and compliance. You may direct additional questions to OVAE Federal monitors for further support.

## Monitoring and Auditing Requirements

### **Q.** *WHAT IS GRANTEE MONITORING OF SUBGRANTEES?*

EDGAR 34 CFR 80.40

**A.** Monitoring is action taken by the grantee to ensure that subgrantees are using Federal awards for authorized purposes in compliance with the laws, regulations, and provisions of contracts or grant agreements and that performance goals are achieved. Subgrantees are subject to all applicable Federal laws and regulations that the grantee must follow.

#### **Tips for Budget Monitoring**

- ⇒ Periodically compare actual expenses with budget.
- ⇒ Ensure that actual expenses are reasonable, allocable, allowable, and consistently charged.
- ⇒ Correct mischarges in a timely manner (cost transfers).
- ⇒ Ensure that prior approvals are obtained when required.
- ⇒ Monitor subgrantee expenses.

### **Q.** *WHAT ARE THE AUDIT REQUIREMENTS FOR STATE OR LOCAL SUBGRANTEES?*

OMB Circular A-133 Compliance Supplement; EDGAR 34 CFR Part 80.26

**A.** Grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996. Those audit requirements apply to a state and its subgrantees that expend \$500,000 or more in Federal awards in a fiscal year. The audit has several purposes:

- Determining whether state or local subgrantees have met the audit requirements of the Single Audit Act and the Office of Management and Budget
- Determining whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations
- Ensuring that appropriate corrective action is taken within 6 months after receipt of the audit report in instance of noncompliance with Federal laws and regulations
- Considering whether subgrantee audits necessitate adjusting the grantee's own records
- Ensuring that states, as required, permit independent auditors to have access to the records and financial statements for each subgrantee

States should monitor subgrantees throughout the year, rather than rely solely on a once-a-year audit, by reviewing subgrantees' financial and performance reports and performing site visits to review programmatic records and observe operations.

**Q. HOW ARE AUDITS CONDUCTED?**

OMB Circular A-133

**A.** Audits are to be made by an independent auditor in accordance with generally accepted government auditing standards covering financial and compliance audits.

**Key Auditing Review Areas**

- ⇒ Financial Accounting System—adequate, generally accepted principles
- ⇒ Policies and Procedures—written, adequate, followed
- ⇒ Internal Controls—adequate, followed
- ⇒ Expenditures—appropriately documented, recorded, allocated, allowable
- ⇒ Personnel Time and Activities—appropriately documented and allocated
- ⇒ Match (cash and in-kind) —appropriately documented, recorded, allocable
- ⇒ Financial Reports—internal and external; supported by accounting records
- ⇒ Source Documentation—clear, retained, sufficient audit trail

**Q. HOW LONG MUST GRANTEES KEEP PROGRAMMATIC AND FISCAL RECORDS?**

EDGAR 34 CFR Part 80.42

**A.** Programmatic and fiscal records must be retained for 3 years from the date of submission of the final Financial Status Report (FSR). When grant support is continued or renewed, the retention period for each funding period starts on the date the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if any litigation, claim, negotiation, audit, or other action involving the records has been started before the expiration of the 3-year period, the records must be retained until completion of the action and resolution of all issues that arise from it, or until the end of the regular 3-year period, whichever is later.



**Audit Exceptions**

**Q. WHAT ARE THE CONSEQUENCES IF A LOCAL GRANTEE FAILS TO COMPLY WITH THE TERMS OF AN AWARD?**

EDGAR 34 CFR 80.43

**A.** If a grantee or subgrantee materially fails to comply with any term of an award—whether stated in a Federal statute, regulation, assurance, State Plan or application, notice of award, or elsewhere—the state or awarding agency may do one or all of the following, as it deems appropriate:

- Temporarily withhold cash payments pending correction of the deficiency by the grantee or subgrantee or more severe enforcement action by the awarding agency
- Deny use of funds and matching credit for all or part of the cost of the activity or action not in compliance
- Wholly or partially suspend or terminate the current award for the grantee’s or subgrantee’s program
- Withhold further awards for the program
- Take other actions that may be legally available

**Risk Management**

States should assess the level of risk associated with subgrantees to determine the frequency and type of monitoring and auditing. Below are several risk indicators:

- Size of subgrantee award
- Prior findings of noncompliance
- Program performance problems
- Financial stability of subgrantee
- Change in scope of subgrantee’s activities
- Distance from grantee
- A new subgrantee or a subgrantee with a new management system

**Q.** *MAY AN AWARD TO A LOCAL GRANTEE BE TERMINATED FOR OTHER REASONS?*

EDGAR 34 CFR 80.44

**A.** Awards may be terminated for convenience in whole or in part in the following manner:

- By the state or awarding agency with the consent of the grantee or subgrantee, in which case the two parties must agree on the termination conditions, which include the termination date or portion to be terminated.
- By the local grantee or subgrantee on written notification to the awarding agency, setting forth the reasons for termination, the effective date, or portion to be terminated. If in the case of partial termination, the awarding agency determines that the remaining portion of the award will not accomplish the purposes of the award, the awarding agency may terminate the entire award.

**Q. ARE A LOCAL GRANTEE'S COSTS ALLOWABLE DURING SUSPENSION OR AFTER TERMINATION OF AN AWARD?**

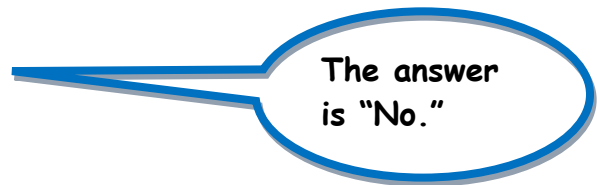
EDGAR 34 CFR 80.43(c)

**A.** Such costs are not allowable unless the awarding agency expressly authorizes them in the notice of suspension or termination or subsequently, or if these conditions apply:

- The costs result from obligations that the grantee or subgrantee properly made before the effective date of suspension or termination, do not anticipate it, and are noncancellable.
- The costs would be allowable if the award were not suspended or expired.

**Q. MAY DEBARRED OR SUSPENDED PARTIES RECEIVE SUBAWARDS?**

EDGAR 34 CFR 80.35



**A.** No. Grantees and subgrantees must not make or permit any award at any level to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs.



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## Chapter 4. Fiscal Reporting of Grant Funds

### Overview

At the end of the grant period, state grantees must report to OVAE how funds were spent and that spending was in compliance with AEFLA requirements, which has floors and ceilings within specific spending categories. Reporting using the Financial Status Report (FSR), requirements for its submission and the funding process are described below. OVAE monitors the drawdown of funds to grants and ensures that this money is spent according to requirements of the grant.

The questions and answers provided below were gathered from these sources:

- OMB Circular A-102
- AEFLA Section 222
- EDGAR 34 CFR
- OMB Circular A-133 Compliance Supplement

Grantees and subgrantees are encouraged to consult and become familiar with the original regulations that are cited here, and A-102 in particular, for guidance on Federal policies for awards and adjustments. You may direct additional questions to OVAE Federal monitors for further support.

### **Q. *WHAT ARE THE STATE FINANCIAL REPORTING REQUIREMENTS FOR AEFLA?***

OMB Circular A-102

**A.** States must submit an annual Financial Status Report (FSR) to OVAE that reports state expenditures for state administration, state leadership, and programs of instruction. Elements of the FSR include state financial spending, program income, unliquidated obligations, unobligated funds, and indirect costs and percentages. States must submit both an Initial FSR for the first 15 months of the grant and a Final FSR for all expenditures, including those in the final 12 month-period of the grant.

### **Q. *WHEN ARE FINANCIAL STATUS REPORTS (FSRS) REQUIRED TO BE SUBMITTED?***

EDGAR 34 CFR Part 80.41

**A.** The initial FSR is due 90 days after the 15-month Federal funding period ends (December 31). The final FSR is due 90 days after the additional 12-month obligation period ends (December 31 of the following year). The final FSR covers the entire 27 months allowed for

obligation of Federal adult education funds (for example, July 1, 2009, through September 30, 2011).

**Q. WHAT DOES OVAE CHECK IN ITS REVIEW OF THE INITIAL AND FINAL FSRs?**

AEFLA Sec. 222

**A.** OVAE examines the FSR to ensure the following:

- Expenditures for local grants are not less than 82.5 percent of the state’s total AEFLA allotment.
- Costs for corrections and other institutionalized populations do not exceed 10 percent of that 82.5 percent.
- State administrative expenses are not more than 5 percent of the state’s allotment or \$65,000, whichever is greater;
- State leadership activities do not exceed 12.5 percent of the state’s allotment.
- Maintenance of Effort and matching requirements are met.

“Floors” and Ceilings” for AEFLA Funds		
<b>State may retain</b>	up to <b>5%</b> of award for (or \$65,000, whichever is greater)	administrative costs (Sect. 222).
<b>State may use</b>	up to <b>12.5%</b> for	state leadership activities (Sect. 222).
<b>State must pass through</b>	<b>82.5%</b> to eligible providers for	adult education instructional services (Sect. 222), of which
	- locals may use up to <b>10%</b> for	institutionalized persons
	- locals may use up to <b>5%</b> for (Sect. 225, Sect. 232)	planning, administration, personnel development, and interagency coordination.
<b>State must match</b>	with <b>25%</b> (12% for territories) cash (only non-Federal monies) or in-kind contribution, fairly evaluated (AEFLA Sec. 222, EDGAR 80.24).	

**Q. WHAT MUST A STATE DO IF IT DOES NOT OBLIGATE ALL OF ITS GRANT FUNDS BY THE END OF THE 15-MONTH FUNDING PERIOD?**

OMB Circular A-133 Compliance Supplement

**A.** If a state or subgrantee does not obligate its entire grant or subgrant funds by the end of the 15-month Federal funding period, it may obligate the remaining funds during a 1-year carry-over period.

Obligation authority covers a 15-month period of initial availability plus an additional 12-month period for carryover.

**Q. WHAT MUST A STATE DO IF IT DOES NOT SPEND ALL OF ITS GRANT FUNDS BY THE END OF THE CARRY-OVER PERIOD?**

EDGAR 34 CFR Part 76.709 (b)

**A.** The state must return to the Federal government any carry-over funds that the state and its subgrantees have not spent by the end of the carry-over period.

**Q. WHAT IS THE PROCEDURE REGARDING MONITORING FUND DRAW DOWN?**

OMB Circular A-133 Compliance Supplement

**A.** To assist in reconciling their internal accounting records and to ensure that grant activities are occurring on a continuing basis and in compliance with EDGAR, states can obtain a G-5 External Award Activity Report (<https://www.g5.gov/>) showing cumulative and detailed information for each award. The External Award Activity Report can be created with date parameters (Start and End Dates) and viewed online. To view each draw per award, the G5 user may click on the award number to view a display of individual draws for that award.

**Q. WHEN MUST A GRANTEE PAY OFF ITS OBLIGATIONS?**

EDGAR 34 CFR 80.23(b), 81

**A.** A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with submission of the annual FSR. At the grantee's request, ED may extend this deadline.

**Q.** **WHAT ARE THE CONSEQUENCES TO A STATE IF IT DOES NOT SPEND ITS BASIC GRANT IN ACCORDANCE WITH THE SET-ASIDE PROVISIONS OF THE ACT?**

EDGAR 34 CFR 81.32

**A.** Any funds not spent in accordance with the set-aside provisions must be returned. If spending falls short of a required set-aside, grant money spent elsewhere must also be returned. For example, if a state spends 14.5 percent of its basic grant to carry out state leadership activities, but AEFLA restricts those activities to no more than 12.5 percent of the state's grant, the state must return 2 percent of its grant.

**Q.** **WHAT IS PROGRAM INCOME AND HOW IS IT REPORTED?**

EDGAR 34 CFR 80.25 (b), 34 CFR 80.25 (g)(2), and 34 CFR 76.534

**A.** Program income is defined as gross income received by the grantee or subgrantee directly generated by a grant-supported activity or earned only as a result of the grant agreement during the grant period. Using special language in the annual grant award, OVAE has allowed states to use the "addition" option. This option allows subgrantees to charge fees, but they must use that income only for allowable costs that are specified in the grant.

For example, a local provider may charge fees for a program and use those funds to expand available resources for adult education, workplace literacy, English language acquisition, and adult secondary education. OVAE's language in the grant award requires that fees established by states or local programs must be *necessary and reasonable* and not impose a barrier to the participation of disadvantaged persons that the program is designed to serve. But note: States may not use program fees toward meeting the matching, cost-sharing, or Maintenance of Effort requirements of a program.



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## Appendices

- A. Allowability of Selected Cost Item Under OMB Circular A-87
- B. Glossary
- C. AEFLA



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# **Appendix A. Allowability of Selected Cost Items Under OMB Circular A-87**



## Allowability of Selected Cost Items Under OMB Circular A-87

*SELECTED COST ITEM	UNDER OMB CIRCULAR A-87
Advertising/Public Relations	Allowable with restrictions
<b>Alcoholic Beverages</b>	<b>Unallowable</b>
<b>Bad Debt</b>	<b>Unallowable</b>
Communications	Allowable
<b>Donations and Contributions</b>	<b>Unallowable</b>
Depreciation and Use	Allowable with restrictions
<b>Entertainment</b>	<b>Unallowable with qualifier</b>
<b>Drug Testing</b>	<b>Unallowable</b>
<b>Fines and Penalties</b>	<b>Unallowable with exception</b>
Employee-Employer Relations	Allowable
<b>Lobbying</b>	<b>Unallowable</b>
Maintenance/Repair of Existing Structures	Allowable with restrictions
Selected Cost Item	Under OMB Circular A-87
Meals for Meetings/Conferences	Allowable with restrictions
<b>Meals for Entertainment</b>	<b>Unallowable</b>
Meetings/Conferences	Allowable with restrictions
Pension Plans	Allowable with restrictions
Rent of Building/Equipment	Allowable with restrictions
<b>Remodeling/Renovation/Building Additions</b>	<b>Unallowable</b>
<b>Selling and Marketing</b>	<b>Unallowable with exceptions</b>
Student Recruitment	Allowable
Taxes	Allowable with restrictions

<b>*SELECTED COST ITEM</b>	<b>UNDER OMB CIRCULAR A-87</b>
<b>Training and Education</b>	<b>Allowable with restrictions</b>
<b>Travel Costs</b>	<b>Allowable with restrictions</b>

\*Note: This is a selected list. Review OMB Circular A-87 for additional costs and a complete explanation of allowable, unallowable, and allowable with restrictions.

# **Appendix B.**

# **Glossary of Terms**



## Glossary of Terms

<b>Agency or operating agency</b>	An organizational unit or subdivision within a governmental unit that is responsible for the performance or administration of awards or activities of the governmental unit.
<b>Allocable cost</b>	An allowable cost that actually benefits grant or contract activities to which it is assigned.
<b>Allowable cost</b>	A costs that is legal, reasonable, and allocable.
<b>Approval or authorization of the awarding or cognizant Federal agency</b>	Documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a state/local-wide cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval.
<b>Audit exception</b>	A potential problem that is noted during a financial audit. It must be addressed by the auditor, which usually involves asking questions and reviewing additional documentation.
<b>Audit objective</b>	A determination of whether a lender offered, paid, or provided any points, premiums, payments, or other inducements to any school, school employee, or other entity or individual to secure applicants for loans.
<b>Award</b>	A grant, cost reimbursement contract, and other agreements between a state, local, or Indian tribal government and the Federal government.
<b>Awarding agency</b>	With respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, and with respect to a subaward, the party that awarded the subaward.
<b>Base period</b>	For the allocation of indirect costs, the period in which such costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year but in any event shall be so selected as to avoid inequities in the allocation of costs.
<b>Base</b>	The accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.
<b>Cognizant agency</b>	The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2 CFR part 225 on behalf of all Federal agencies. OMB publishes a list of cognizant agencies.

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<b>Contract</b>	A mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 et seq.
<b>Cost objective</b>	A function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.
<b>Cost</b>	An amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.
<b>Delinquency</b>	Begins on the first day after the due date of the first missed payment on a loan. The due date of the first payment is established by the lender but must follow the deadlines specified in 34 CFR section 682.209(a). If a payment is made late, the first day of delinquency is the day after the due date of the next missed payment. A payment that is within \$5.00 of the amount normally required to advance the due date may advance the due date if the lender's procedures allow for that advancement (34 CFR section 682.411(b)).
<b>Direct cost</b>	A cost that is directly identifiable and assignable to a specific activity that supports the purposes of adult education.
<b>Federally recognized Indian tribal government</b>	The governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat. 688) certified by the Secretary of the Interior as eligible for the special programs and services provided through the Bureau of Indian Affairs.
<b>Final rate</b>	An indirect cost rate applicable to a specified past period, which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.
<b>Fixed rate</b>	An indirect cost rate that has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
<b>Governmental unit</b>	The entire state, local, or Federally recognized Indian tribal government, including any component thereof.
<b>Grantee department or agency</b>	The component of a state, local, or Federally recognized Indian tribal government that is responsible for the performance or administration of all or some part of a Federal award.

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<b>In-kind contribution or service</b>	A contribution other than cash.
<b>Indirect cost pool</b>	The accumulated costs that jointly benefit two or more programs or other cost objectives.
<b>Indirect cost rate</b>	The expenses of doing business that are not readily identified with a particular grant or contract but are necessary for the general operation of the organization and the conduct of activities it performs. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.
<b>Local government</b>	A county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under state law), any other regional or interstate government entity, or any agency or instrumentality of a local government.
<b>Maintenance of Effort</b>	The fiscal effort per student or the aggregate expenditures that each eligible agency makes for adult education in the second preceding fiscal year to those of the third preceding fiscal year.
<b>Monitoring</b>	An ongoing process of contact between the state and subgrantees to ensure legal compliance and ongoing performance of a grant.
<b>Predetermined rate</b>	An indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a period of 2 to 4 years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.
<b>Provisional rate</b>	A temporary indirect cost rate applicable to a specified period, which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.
<b>Risk indicator</b>	A quality that determines how frequently a subgrantee should be monitored as well as the type of monitoring and auditing.
<b>Single State Audit Act</b>	The governmental Act that offers a method for auditing local programs. Its requirements are outlined in OMB Circular A-133 Compliance Supplement.

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<b>State match</b>	The amount of funding that a state must provide. It is equal to a minimum of 25 percent of the Federal grant amount or 33 percent of the total funds used.
<b>State</b>	Any of the several states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a state exclusive of local governments.
<b>Supplement-not-Supplant</b>	The term used in statute that mandates that Federal funds may not be used to pay for services, staff, programs, or materials that would otherwise be paid with state or local funds.
<b>Suspension</b>	A consequence that occurs when a grantee or subgrantee does not comply with the terms of an award after a corrective action plan has been put in place but has not been successful.
<b>Termination</b>	The worst-case scenario consequence that occurs when a grantee or subgrantee does not comply with the terms of an award after a corrective action plan has been put in place but has not been successful.
<b>Time and effort documentation</b>	A written record of actual, after-the-fact activity of each employee that accounts for total activity for which an employee is compensated.

# **Appendix C.**

## **AEFLA**



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