Costs must be Allowable, Allocable, Reasonable, and Necessary...

What does that mean and why is it important?

Grant fraud and prevention is one of AmeriCorps' top management challenges. In order to help reduce fraud, waste, and abuse, grantees must ensure that costs charged to AmeriCorps awards are allowable. Costs are allowable only if they are allocable, reasonable, necessary, and in compliance with the terms and conditions of the grant and Federal regulations, and are adequately documented.

Charging unallowable costs to grants can result in disallowed costs, administrative remedies, and civil enforcement. Intentionally charging unallowable costs in order to defraud the program can also result in criminal prosecution.

The OIG conducts audits, investigations, and proactive reviews which uncover unallowable costs. AmeriCorps engages in other activities to detect and report on improper payments.

ALLOWABLE? ALLOCABLE? REASONABLE? NECESSARY?

- Allowable Cost: Necessary and reasonable for the performance of the award, adequately documented, consistent with Federal award requirements and limitations, and not charged to any other Federally financed program.

- Allocable Cost: Assignable or chargeable to one or more cost objectives (budget lines) on the basis of relative benefits received.

- Reasonable Cost: Does not exceed an amount that a prudent person would incur when the decision was made to incur the cost.

- A cost must be necessary to the overall operation of the grant, regardless of whether it is allowable, allocable, or reasonable.

Where can you start? With policies and procedures.

One way to reduce both error and misuse in grant funds, is to start with effective policies and procedures. We recommend every grantee consider establishing the following policies:

- Unallowable Costs Policy: tailored to your organization, including expressly unallowable costs;
- Policy to Review Costs: periodic review of actual costs charged to award by Program Director and Finance Manager;
- Allocation of Costs Policy: should include how costs that benefit more than one grant or program are calculated and allocated;
- Travel Policy: should include guidelines on types of costs that will not be covered by Federal funds, and required documentation to support reasonableness of costs; and
- Credit Card Policy: includes review and approval of charges, and maintenance of documentation.*

Credit card statements alone are not sufficient documentation to support charges to a Federal award.

BEST PRACTICES

Allowability:
- Provide training to everyone who is connected to your grant so that they understand costs that are not allowable under any circumstance.
- **Ask yourself:** if we bought this, would it reflect poorly or cause additional questions for AmeriCorps and/or us?

Allocability:
- **Ask yourself:** are we sure this cost is chargeable or assignable to this specific grant or cost objective?

Reasonableness:
- Program and financial staff discuss needed purchases regularly to avoid last minute or rush fees.
- **Ask yourself:** does the price tag on the item or service seem like something that would cause "sticker shock?"
- **Ask yourself:** could the same thing be found cheaper somewhere else?

Necessity:
- If you are unable to make the purchase, will your project be less effective?
- **Ask yourself:** is the cost necessary to ensure the success of the grant?

Special Note on Improper Payments:
- You should review all purchases before making them and maintain supporting documentation.

POP QUIZ: IS IT ALLOWABLE?

Look at the examples below and decide if you think they could be allowable in an AmeriCorps grant.

Note: the examples should not be considered complete and comprehensive.

Answers are included at the bottom of this page.

1 Paying a local band to perform at a volunteer picnic.

2 Buying volunteers who attend an all day training lunch.

3 Purchasing shovels and plants for a community garden project.

4 Using an AmeriCorps grant to pay the salary of your Director of Fundraising.

5 Counting donated supplies as match that are used by the organization, but not by the AmeriCorps project.

6 Giving each volunteer a trophy for completing their service year, distributed at a "graduation" event.

Pop Quiz Answers:

1, 4, and 5 are examples of unallowable AmeriCorps grant expenses.

WHAT ABOUT IMPROPER PAYMENTS?

What exactly is an improper payment?
Any payment that should not have been made or that was made in an incorrect amount, which can stem from various causes, including fraud.

Why should you care?
AmeriCorps' Foster Grandparent Program is one of the 18 programs on GAO's list of programs across the Federal government reporting annual estimated improper payment rates greater than 10 percent.

When grantees make over or under payments, or make payments without supporting documentation, the rate of improper payments increases.

Programs on GAO's list are subject to increased scrutiny from elected officials, which may result in negative outcomes for the agency and its programs.

But what can YOU do?
All financial transactions must be supported by documentation. Proper documentation can be achieved by establishing a plan to answer:
- Who spent the money?
- Who authorized the purchase?
- What was purchased?
- And in the future, if asked, can I show what happened with the purchased item?

Additionally, there are four common areas of cost documentation within grants:
- Authorization – if costs are not properly authorized and documented, they could be deemed unallowable.
- Time Tracking – timesheets should be signed on a weekly or bi-weekly basis, and charged to the correct activity.
- Spending – all receipts should provide enough detail as to what was purchased, when, and by who.
- Reporting – the item purchased should have a narrative explaining its purpose and how it relates to the activity.

RELATED REGULATIONS AND RESOURCES:
- Payment Integrity Information Act of 2019 (P.L. 116-117)
- Appendix C of OMB Circular A-123: Requirements for Payment Integrity Improvement
- OMB Circular A-136: Financial Reporting Requirements

CASE STUDIES

INVESTIGATION OF MISAPPROPRIATION UNCOVERS UNALLOWABLE EXPENSES AND OTHER VIOLATIONS OF GRANT PROVISIONS

The OIG received a complaint alleging that the Director of an AmeriCorps program had misappropriated program funds to purchase groceries for personal use.

The Director could not provide a consistent explanation of charges on the program's credit card. The Director first claimed the purchases were for a service trip, then later claimed they accidentally used their program purchase card to acquire goods for their church's food pantry. However, the church confirmed it does not keep perishable items for its food pantry.

As a result of the investigation, the Director was required to reimburse the costs and was terminated.

During this investigation, the OIG also found that the grantee had claimed improper costs as part of its required match. AmeriCorps Management disallowed $10,847.57 of match costs claimed for mileage reimbursement, health care premiums, and supplies.

AMERICORPS AGREES TO DISALLOW UNALLOWABLE COSTS IDENTIFIED IN OIG AUDIT

The audit of an AmeriCorps grant identified over $100,000 in questioned federal and match costs. The questioned costs included amounts claimed, later deemed unallowable costs, by the grantee including:
- Repayment to AmeriCorps for penalties for self-review deficiencies identified by the grantee. This payment to AmeriCorps was improperly recorded as matching since penalties are unallowable costs.
- Custom t-shirts allocated to multiple cost centers. The grantee did not provide documentation supporting how the allocation was calculated or a financial record supporting the transaction.
- The purchase of two prepaid Visa cards to cover per diem for members deployed for hurricane response. The auditors were unable to determine who received these payments.

The auditors questioned these and other costs and recommended AmeriCorps recover the questioned costs, and require the grantee to implement policies and procedures to include:
- Adequate documentation of expenses;
- Proper approval of expenses; and
- Adequate review for unallowable costs

AmeriCorps concurred with the finding and recommendations and disallowed and recovered from the grantee the identified costs.

Each of the scenarios below raises a red flag of allowability, allocability, reasonableness, or necessity. Can match each red flag scenario with the correct category?

Allowable **Allocable** **Reasonable** **Necessary**

A. A grantee decides to use AmeriCorps funding to cover the cost of a festive meal for their volunteers. This includes pizza, ice cream, and beer for each attendee.

B. A grantee includes meeting room space as part of its match requirement. Documentation of the space used is a blank calendar page with no meetings listed.

C. A project coordinator with one year of experience is hired whose salary is covered using federal dollars. They are paid the maximum allowable salary based on the Federal Executive Pay Scale.

D. Receipts for purchases made by grantee staff are handwritten and do not include descriptions of the item(s) purchased or the date(s) the purchases were made.

E. A grantee uses federal dollars to cover the travel costs for staff and volunteers to attend a training conference several states away. The grant budget has a line for training costs but does not include details for staff or member travel.

F. An AmeriCorps member asks to have the costs of a basket weaving training class covered by the grant. Their primary assignment is tutoring elementary school children in reading.

WANT TO LEARN MORE?

For additional resources on this topic including LITMOS training courses, sample statements, and links to guidance documents, and to access the electronic version of this document use the QR code below:

KEEP IN TOUCH

Check out the library of Anti-Fraud Advisories on our website.

Report suspected instances of fraud, waste, and abuse to the Office of Inspector General's hotline by using this QR code:

Did you know whistleblowers are protected under federal law? To find out more about your rights as a whistleblower, click here.

Match Answers:
A: Allowable; B: Allowable, Necessary; C: Reasonable; D: Allowable, Allocable, Reasonable, Necessary; E: Allocable; F: Necessary