



## Prior Approval Resource Tool

Recent changes in [2 C.F.R. Part 200](#) OMB Uniform Grants Guidance, effective October 1, 2024, have significantly changed the prior approval requirements. In concert with Dear Colleague Letter ([DCL-24-05 regarding Prior Written Approval Guidance for Formula Grant Programs Administered by the Rehabilitation Services Administration](#)), this prior approval resource tool will help State Vocational Rehabilitation (VR) Agencies understand the prior approval requirements and assist in consideration for policy implementation and internal controls.



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## General Requirements

The requirements for State agencies to seek written prior approval for costs are within the Uniform Administrative Requirements, the Cost Principles, and Audit requirements in [2 C.F.R. part 200](#) (OMB Uniform Grants Guidance). Activities that require written prior approval (prior approval) are listed in [2 C.F.R. § 200.407](#). The requirement for State agencies to obtain prior approval is applicable to all Federal awards administered by the Rehabilitation Services Administration (RSA), including awards for the following programs: State Vocational Rehabilitation Services (VR), Independent Living Services for Older Individuals Who are Blind (IL OIB), State-Supported Employment Services (Supported Employment), and Client Assistance Program (CAP). The prior approval requirements apply to certain activities and expenditures, regardless of the funds used to pay for that activity or expenditure. This means that State agencies must obtain prior approval for activities and/or expenditures requiring a request, regardless of whether the agency plans to use Federal funds, non-Federal funds for match purposes, program income earned under the VR or IL OIB programs, or any combination of these three sources of funds. Prior approval **must be submitted in writing to the RSA Financial Management Specialist (FMS)** no later than 30 days before the proposed expenditure. Approval must be received before the State agency incurs obligations or expends funds on costs subject to prior approval.

It is important to note that only the obligation and purchase of equipment have a monetary threshold in which prior approval is required. **All other items requiring prior approval have no cost threshold.** Prior approval is required regardless of payment method (e.g., credit card/purchase card, purchase order, direct reimbursement).

**Definition of prior approval.** Prior approval means the written approval obtained in advance by an authorized official of a Federal agency or pass-through entity of certain costs or programmatic decisions ([2 C.F.R. § 200.1](#)).

## Categories No Longer Requiring Prior Approval

Changes to [2 C.F.R § 200.407](#), effective October 1, 2024, removed nine categories that previously required prior approval. Those categories are as follows:

- ◆ [§ 200.201](#) Use of grant agreements, cooperative agreements, fixed amount awards, and contracts;
- ◆ [§ 200.311](#) Real Property\*;
- ◆ [§ 200.313](#) Equipment\*;
- ◆ [§ 200.413](#) Direct costs;
- ◆ [§ 200.438](#) Entertainment Costs;
- ◆ [§ 200.454](#) Membership, subscriptions, and professional activity costs;
- ◆ [§ 200.456](#) Participant support costs;
- ◆ [§ 200.467](#) Selling and Marketing costs; and
- ◆ [§ 200.470](#) Taxes (including Value Added Tax)

\*2 C.F.R. § 200.311 Real Property and 2 C.F.R. § 200.313 Equipment - These cost categories are included under Equipment and other capital expenditures (2 C.F.R. §§ 200.439 and 200.407(g)). **Direct expenditures for these costs remain subject to prior approval from RSA.**

While the cost categories identified above may not require prior approval from RSA, VR agencies are responsible for reviewing the provisions of each cost category to ensure the requirements are met.

## Categories Requiring Prior Approval

The following is a complete list of items within 2 C.F.R. § 200.407. However, some items are unallowable or not applicable to VR programs. Those are denoted as such. Also, some categories require the agency to contact the RSA Financial Management Specialist (FMS) before submitting a request to discuss it. Those categories are denoted with an FMS.

Some categories are only applicable for discretionary grants like the DIF (Disability Innovation Fund) grants. This may be helpful to include in an agency's prior approval policy and procedure.

- ◆ § 200.407 Prior written approval (prior approval).
  - (a) Section 200.306 Cost sharing; **FMS**
  - (b) Section 200.307 Program income; **\*Not applicable**
  - (c) Section 200.308 Revision of budget and program plans; **\*DIF Only**
  - (d) Section 200.333 Fixed amount subawards; **\*Unallowable**
  - (e) Section 200.430 Compensation— personal services, paragraph (g);
  - (f) Section 200.431 Compensation— fringe benefits; **FMS (severance)**
  - (g) Section 200.439 Equipment and other capital expenditures;
  - (h) Section 200.440 Exchange rates; **\*Not applicable**
  - (i) Section 200.441 Fines, penalties, damages and other settlements; **FMS**
  - (j) Section 200.442 Fundraising and investment management costs; **FMS**
  - (k) Section 200.445 Goods or services for personal use;
  - (l) Section 200.447 Insurance and indemnification; **FMS**
  - (m) Section 200.455 Organization costs;
  - (n) Section 200.458 Pre-award costs; **FMS**
  - (o) Section 200.462 Rearrangement and reconversion costs;
  - (p) Section 200.475 Travel costs.

### **(a) Section 200.306 Cost sharing; FMS**

“Unrecovered indirect costs, including indirect costs on cost sharing, may be included as part of cost-sharing **with the prior approval of the Federal agency or pass-through entity**. Unrecovered indirect cost means the difference between the amount charged to the Federal award and the amount which could have been charged to the Federal award under the recipient’s or subrecipient’s approved indirect cost rate.”

If the VR agency receives unrecovered indirect costs initially obligated in the FFY of appropriation and determines the costs constitute allowable funds as part of the match requirement ([34 C.F.R. § 361.60\(b\)](#) for the VR program, [34 C.F.R. § 363.23](#) for the Supported Employment program, or [34 C.F.R. §§ 367.31\(b\)](#) and [367.63](#) for the IL OIB program), the agency must have a process to determine the allowability of the costs, and must seek written prior approval from RSA prior to the assignment of those costs toward the non-Federal share.

### **(b) Section 200.307 Program income; \*Not applicable**

“(b) Use of program income. There are three methods of applying program income: deduction, addition, and cost sharing. The Federal agency should specify what program income method(s) will be used in the terms and conditions of the Federal award. The deduction method will be used if the Federal agency does not specify a method for applying program income. When no program income method is specified in the Federal award, prior approval is required to use the addition or cost sharing methods.

VR regulations in [34 C.F.R. § 361.63\(c\)\(4\)](#), the Supported Employment regulations in [34 C.F.R. § 363.24\(b\)\(3\)](#), and the IL OIB regulations in [34 C.F.R. § 367.65\(b\)\(3\)](#) state that **program income cannot be used to meet the non-Federal share requirements**. If requested, the request would be denied. **The Department has clarified that program income earned under its awards must be used under the Addition alternative**. As a result, no further prior approval action is necessary from State agencies. RSA Formula Award Grant Award Notifications include an attachment that details the Program Income requirements.

### **(c) Section 200.308(b) Revision of budget and program plans; \*DIF Only**

“(b) Deviations from approved budget. The recipient or subrecipient must report deviations from the approved budget, project or program scope, or objective(s) in accordance with [§ 200.329](#). **The recipient or subrecipient must request prior approvals from the Federal agency or pass-through entity for budget and program plan revisions in accordance with this section.**”

VR agencies do not submit budgets for the VR, Supported Employment, and IL OIB awards.

Instead, agencies are required to submit a Unified or Combined State Plan that meets the requirements in [section 101\(a\) of the Rehabilitation Act of 1973](#), as amended by WIOA, and the Supported Employment State Plan Supplement ([section 101\(a\)\(22\) and 606 of the Act](#), as amended by WIOA).

**Note:** The IL OIB program is NOT part of the State plan. Any costs or services that do not meet Federal requirements and/or are not included in the agency's Unified or Combined State Plan and/or the Supported Employment supplement are unallowable. However, VR agencies that apply for a discretionary grant, such as the DIF grants, do have to follow this requirement for prior approval.

### **(d) Section 200.333 Fixed amount subawards; \*Unallowable**

**“With prior written approval from the Federal agency,** the recipient may provide subawards based on fixed amounts up to \$500,000. Fixed amount subawards must meet the requirements of [§ 200.201](#).”

A State agency may not subgrant awards made under the Act, as amended by WIOA, for the VR and Supported Employment programs. The Education Department General Administrative Regulations (EDGAR) at [34 C.F.R. § 76.50\(b\)](#) state: “(b) Unless prohibited by applicable statutes or regulations or by the terms and conditions of the grant award, a State may use State-administered formula grant funds – (1) Directly; (2) To make subgrants to eligible applicants, as determined by applicable statutes or regulations, or if applicable statutes and regulations do not address eligible subgrantees, as determined by the State; or (3) To authorize a subgrantee to make subgrants.”

This means that subgranting is permissible for State agencies unless the statute, regulations, or the terms and conditions of a Federal award prohibit it. Therefore, through the terms and conditions of a grant award notification attachment, RSA prohibits subgranting for the VR, Supported Employment-A, and Supported Employment-B programs.

As noted by the U.S. Department of Education in the EDGAR Final Rule at [89 FR 70300, 70310 \(Aug. 29, 2024\)](#), “[e]ven if the statute or regulations are silent, the Department may prohibit subgranting through the terms and conditions of a grant award, as appropriate given the nature of the program and its requirements. These provisions give both the Department and the State sufficient authority to ensure subgranting occurs only when appropriate.”

RSA has determined it would not be appropriate for State VR agencies to subgrant any part of the VR program due to the non-delegable functions required by [34 C.F.R. § 361.13\(c\)](#); similarly, given the close nexus between the VR and Supported Employment programs with respect to individuals served and expenditures incurred, RSA has determined it, too, would not be programmatically or fiscally appropriate to subgrant any part of the Supported Employment programs.

These programs are permitted to enter into contracts for goods and services; when a State contracts with entities to provide services, those entities are considered vendors or contractors – not subgrantees.

Subgranting is allowable under the IL OIB, CAP, and Protection and Advocacy of Individual Rights (PAIR) programs for subrecipients to carry out part of the Federal award received. However, State agencies may not subgrant the IL OIB award as a fixed amount (as described in [2 C.F.R. §§ 200.201 and 200.333](#)) or using the Simplified Acquisition Threshold, as agencies are still required to adhere to the administration of the program.

### **(e) Section 200.430(g)(5) Compensation — personal services;**

“States, local governments, and Indian Tribes may use substitute processes or systems for allocating salaries and wages to Federal awards either in place of or in addition to the records described in [paragraph \(g\)\(1\)](#) of this section **if approved by the cognizant agency** for indirect cost.”

If the VR agency is not using a system to account for personnel time in accordance with [2 C.F.R. § 200.430\(g\)\(1\)](#), and/or has a separate system, even if it has been in place for years, prior approval must be obtained, or the agency must be able to demonstrate prior approval was obtained.

It is important for VR agencies to know which Federal agency is the cognizant agency for indirect costs to ensure prior approval is required from the proper entity.

### **(f) Section 200.431 Compensation— fringe benefits; FMS (severance)**

[2 C.F.R. § 200.431\(i\)\(1\)](#) “Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by recipients and subrecipients to workers whose employment is being terminated. Severance pay is allowable only to the extent that, in each case, it is required by (i) law; (ii) employer-employee agreement; (iii) established policy that constitutes, in effect, an implied agreement on the recipient or subrecipient’s part; or (iv) circumstances of the particular employment.”

[2 C.F.R. § 200.431\(i\)\(2\)](#) “Costs of severance payments are divided into two categories as follows: (i) Actual severance payments for normal turnover must be allocated to all activities; or, where the recipient or subrecipient provides for a reserve for normal severances, such method is acceptable if the charge to current operations is reasonable in light of payments made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the recipient or subrecipient. (ii) Measuring the costs of abnormal or mass severance pay by means of an accrual method will not achieve equity for both parties. Therefore, accruals are not allowable. However, the Federal government recognizes its responsibility to contribute its fair share toward a specific payment. **Prior approval by the Federal agency or cognizant agency for indirect cost, as appropriate, is required.**”

Due to the complexities of severance pay and State requirements, **VR agencies should contact their RSA FMS** with specific questions regarding employee buyouts or mass severance as soon as possible.

### **(g) Section 200.439 Equipment and other capital expenditures**

The Dear Colleague Letter [DCL-24-05 regarding Prior Written Approval Guidance for Formula Grant Programs Administered by the Rehabilitation Services Administration](#) focuses on the prior approval requirements for the acquisition of equipment, as required by [2 C.F.R. §§ 200.407\(g\)](#) and [200.439](#).

**PLEASE READ THIS IN ITS ENTIRETY.**

## Key Tips for You

### 1. Understand the definitions ([2 C.F.R. § 200.1](#)).

It is essential that you understand the definitions of the following:

- ◆ Equipment
  - In addition, understand your State capitalization threshold and if there is a difference between that and the new Federal level of \$10,000 per unit.
- ◆ General Purpose Equipment
- ◆ Special Purpose Equipment

Pay close attention to the definitions of **acquisition costs**, **capital assets**, and **capital expenditures**.

Acquisition cost is defined in [2 C.F.R. § 200.1](#) as “the (total) cost of the asset including the cost to ready the asset for its intended use. For example, acquisition cost for equipment means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired.

Acquisition costs for software include those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the recipient's or subrecipient's regular accounting practices.”

State VR agencies **MUST** know what State requirements apply to the acquisition cost (e.g., taxes, freight, etc.) to identify whether the acquisition cost exceeds the capitalization threshold.

**It is important to know the State requirements for acquisition threshold to be able to determine the following:**

- ◆ The State’s acquisition threshold per category of expenditure. For example, some States have higher capitalization thresholds for information technology (IT);
- ◆ Whether State policy includes ancillary charges such as taxes and freight in the acquisition cost and circumstances when such costs may or may not be included; and
- ◆ Whether or not prior approval is required because the acquisition costs meet or exceed the lesser of the State’s threshold or \$10,000.

### 2. Determine if prior approval is needed.

- a. Does the item have a useful life of more than one year?
- b. Does the cost per unit meet or exceed the lesser of the recipient’s capitalization level or \$10,000?
- c. Is the type of equipment either general purpose equipment, special purpose equipment, or capital improvements?
- d. **If the answer is yes to all three, prior approval is required.**



### 3. Know the flexibilities for prior approval.

- ◆ Lower cost threshold for Randolph-Sheppard Vending Facilities Program (RSVFP) equipment: The threshold is lowered to \$1,000 for equipment related to RSVFP.
- ◆ Simplified prior approval for general purpose equipment: Submit a single prior approval request for multiple general purpose equipment (e.g., vehicles, copiers, and office furniture for State Agency's own use) based on your budget estimates, rather than individual requests for each item. Initial purchase, maintenance, repair, and replacement of Business Enterprise Program (BEP) equipment can also be included in the aggregate request (vending facilities operated by blind vendors under RSVFP). RSA has developed a spreadsheet template to assist with this request. Contact your RSA FMS for the form.
- ◆ Prior approval for general purpose equipment purchases for VR recipients: RSA is granting prior approval to VR recipients, with respect to general purpose equipment expenditures incurred for eligible individuals under an approved individualized plan for employment (IPE) (e.g., rehabilitation technology, vehicle modifications, ramps, or other adaptive equipment needed for the home). This does not include capital expenditures identified in an IPE for modifications to their home or other building to start a small business, which does require an individual prior approval request.

### 4. Learn the guidelines for submitting individual prior approval requests.

In addition to the prior approval categories not covered by the aggregate request, State agencies must submit itemized, project-specific prior approval requests for equipment purchases for the following:

- ◆ Establishment, development, or improvement of a facility for a public or nonprofit community rehabilitation program (CRP) at [34 C.F.R. § 361.5\(c\)\(17\)](#);
- ◆ Construction of a facility for a public or nonprofit CRP at [34 C.F.R. § 361.5\(c\)\(10\)](#);
- ◆ Construction or renovation/alteration of a State facility or American Job Center for purposes allocable to the VR program;
- ◆ Renovation or alteration of facilities in connection with the acquisition of a BEP vending facility or the installation of BEP equipment in accordance with [section 103\(b\)\(1\) of the Rehabilitation Act](#); and
- ◆ Capital expenditures identified in an IPE for modifications to a customer's home or other building to start a small business.

VR agencies must have clear policies and procedures to ensure they do not encumber funds for equipment or capital expenditures before seeking and receiving prior approval from RSA.

## 5. Understand right-to-use assets - Case Management Systems.

Intangible assets and certain lease assets are not considered capital assets and do NOT require prior approval. This includes right-to-use assets and right-to-use operating lease assets. For example, the maintenance costs of a case management system (CMS) would not necessitate prior approval. However, the initial purchase and CMS modifications would require prior approval. **VR agencies should contact their RSA FMS** with specific questions.

### (h) Section 200.440 Exchange rates; \*Not applicable

“Cost increases for fluctuations in exchange rates are allowable costs subject to the availability of funding. Prior approval of exchange rate fluctuations is required only when the change results in the need for additional Federal funding, or the increased costs result in the need to significantly reduce the scope of the project.”

As the VR, Supported Employment, CAP, and IL OIB awards are based upon formula data, the fluctuation in exchange rates may increase the cost of services, but no additional Federal funding is available as a result.

### (i) Section 200.441 Fines, penalties, damages and other settlements; FMS

“Costs resulting from recipient or subrecipient violations of, alleged violations of, or failure to comply with, Federal, State, local, tribal, or foreign laws and regulations **are unallowable, except when incurred as a result of compliance with specific provisions of the Federal award, or with the prior written approval of the Federal agency.** See [§ 200.435](#).”

Due to the unique circumstances regarding a request for prior approval for fines, penalties, damages, or other settlements, **VR agencies should contact their RSA FMS** with specific questions.

### (j) Section 200.442 Fundraising and investment management costs; FMS

“(a) Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions, are unallowable. Fundraising costs for meeting the Federal program objectives are allowable with the prior written approval of the Federal agency.”

“(d) Both allowable and unallowable fundraising and investment activities must be allocated an appropriate share of indirect costs in accordance with [§ 200.413](#).”

If the VR agency considers such costs, it should **contact its RSA FMS** to analyze the specific facts of the individual circumstances surrounding the States’ prior approval request to determine possible allowable costs.

## **(k) Section 200.445 Goods or services for personal use**

“(b) Housing costs (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances, and personal living expenses for the recipient’s or subrecipient’s employees are only allowable as direct costs and must be approved in advance by the Federal agency.”

Costs associated with an employee of the VR agency are applicable. Such costs may be incurred for relocation costs associated with a new hire, moving costs for an employee to move to the central office area, or costs to move or relocate due to a natural disaster, etc.

If the VR agency pays relocation costs associated with a new hire, the requirements in [2 C.F.R. § 200.464](#) (Relocation Costs of Employees) also apply. Relocation cost regulations state, “(a) Relocation costs are costs incident to the permanent change of duty assignment (for an indefinite period or a stated period of not less than 12 months) of an existing employee or upon recruitment of a new employee. Relocation costs are allowable, subject to the limitations described in paragraphs (b), (c), and (d) of this section.”

If prior approval was received from RSA, the VR agency must be aware of circumstances in which repayment of Federal funds may be required. The Uniform Administrative Requirements in [2 C.F.R. § 200.464\(c\)](#) also specifies, “If relocation costs incurred incident to the recruitment of a new employee have been funded in whole or in part by a Federal award, and the newly hired employee resigns for reasons within the employee’s control within 12 months after hire, the recipient or subrecipient must refund or credit the Federal Government for its share of the cost.”

If the employee resigns within 12 months of hire, the Federal funds used to pay for the relocation must be returned to RSA. Additionally, if State funds were used to pay for such expenses and were included toward the agency’s non-Federal share, those funds would be reallocated as State funds not used for match because they were no longer used to support the VR program.

## **(l) Section 200.447 Insurance and indemnification; FMS**

“(b) Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations: (2) Costs of insurance or contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the Federal agency has approved the costs.”

If such costs are considered by the VR agency, the agency should **contact their RSA FMS** to analyze the specific facts of the individual circumstances surrounding the States’ prior approval request to determine possible allowable costs.

## **(m) Section 200.455 Organization costs**

“(a) Costs such as incorporation fees, brokers’ fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the recipient or subrecipient in connection with the establishment or reorganization of an organization, are unallowable except with prior approval of the Federal agency.”

When the VR agency, designated state agency (DSA), or Governor's Office is actively determining if a reorganization of the organizational structure, or agency personnel reporting assignment is necessary, prior approval must be sought if an attorney, consultant, or accountant is a part of the discussions, regardless if the individual is an employee of the State or not. The most common examples of when prior approval is necessary for this regulation is related to the restructuring of the designated state unit (DSU) or DSA, including strictly fiscal responsibility restructuring from the DSU to the DSA or between DSUs, and in instances where the DSU may change DSAs. If, at any time during the reorganization process, the VR agency intends to hold such discussions with an attorney, consultant, or accountant (whether hired via a contract or is an internal staff member of the DSA or DSU), the VR agency must receive written prior approval from RSA before any staff time or fees paid in relation to such conversations are obligated or incurred.

### **(n) Section 200.458 Pre-award costs; FMS**

“Pre-award costs are those incurred before the start date of the Federal award or subaward directly pursuant to the negotiation and in anticipation of the Federal award where such costs are necessary for efficient and timely performance of the scope of work. These costs are allowable only to the extent that they would have been allowed if incurred after the start date of the Federal award and only with the written approval of the Federal agency. If approved, these costs must be charged to the initial budget period of the Federal award unless otherwise specified by the Federal agency or passthrough entity.”

The Federal VR award is a formula grant issued every Federal fiscal year (FFY), contingent on the VR agency meeting Federal requirements (including an approved VR Services Portion of the Unified or Combined State Plan). Therefore, pre-award startup costs are not incurred from one FFY to another. However, if the VR agency considers pre-award costs, the agency should **contact their RSA FMS** to discuss the specific facts surrounding the States’ need for pre-award costs and whether such costs could be allowable if the State were to submit the required prior approval request. Additionally, if the VR agency applies for a discretionary grant from the Federal government, this may come into play.

### **(o) Section 200.462 Rearrangement and reconversion costs**

“(a) Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable as indirect costs. Special arrangements and alterations are allowable as a direct cost if the costs are incurred specifically for a Federal award and with the prior approval of the Federal agency or pass-through entity.”

Costs incurred for ordinary and normal rearrangement and alterations of facilities are allowable as indirect costs. Such costs may include, but are not limited to, rearrangement of cubicle walls, desk installation, alterations to office areas, etc. If an agency determines that such expenditures are allowable as direct costs and intends to pay using Federal VR, Supported Employment, IL OIB funds, or State funds used to meet the non-Federal share, the agency must receive prior approval from RSA. This allows the VR agency to ensure all costs benefiting multiple Federal awards are proportional to all

benefiting cost objectives, in accordance with [2 C.F.R. § 200.405](#) (Allocable Costs) and [2 C.F.R. § 200.413](#) (Direct Costs).

These costs do not include capital expenditures that materially increase the value of the facilities or their useful life.

Additionally, these costs do not include costs for minor remodeling, as defined in EDGAR [34 C.F.R. § 77.1](#) (Definitions that apply to all Department programs):

**Minor remodeling** means “minor alterations in a previously completed facilities project. The term also includes the extension of utility lines, such as water and electricity, from points beyond the confines of the space in which the minor remodeling is undertaken but within the confines of the previously completed facility. The term may also include related designs and drawings for these projects. The term does not include construction or renovation, structural alterations to buildings, facilities maintenance, or repairs.”

Minor remodeling costs are not subject to prior approval by RSA due to their inclusion in EDGAR. However, VR agencies may **contact their RSA FMS** to discuss the specific facts about the work to ensure it is properly categorized.

As a reminder, costs incurred in restoring or rehabilitating the recipient’s or subrecipient’s facilities to approximately the same condition existing immediately before the commencement of a Federal award(s), less costs related to normal wear and tear, are allowable ([2 C.F.R. § 200.462\(b\)](#)).

### **(p) Section 200.475 Travel costs**

“Notwithstanding the provisions of [§ 200.444](#), travel costs of officials covered by that section are allowable with the prior written approval of the Federal agency or pass-through entity when they are specifically related to the Federal award.”

**The requirements in [2 C.F.R. § 200.444](#) - General Costs of Government are defined as—**

“(a) For states, local governments, and Indian Tribes, the general costs of government are unallowable (except as provided in [§ 200.475](#)). Unallowable costs include the following:

1. Salaries and expenses of the Office of the Governor of a State or the chief executive of a local government or the chief executive of an Indian tribe; Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, or school board, etc., whether incurred for purposes of legislation or executive direction;
2. Costs of the judicial branch of a government;
3. Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by statute or regulation (however, this does not preclude the allowability of other legal activities of the Attorney General as described in [§ 200.435](#)); and
4. Costs of other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.”

The costs described in [2 C.F.R. § 200.444](#) are considered general operations and are **unallowable expenditures**. However, the **travel costs associated with such activities may be allowable expenditures** so long as the VR agency submits the costs of travel associated with such activities to RSA and receives prior written approval before the travel occurs. Typically, such costs are covered by the State in the Statewide Cost Allocation Plan (SWCAP).

Additionally, [2 C.F.R. § 200.475\(c\)\(2\)](#) states that “Travel costs for dependents are unallowable, except for travel of six months or more with prior approval of the Federal agency. See [§ 200.432](#).”

VR agencies must also determine if the costs are in accordance with allowable costs in State policy or procedures prior to submitting a request to RSA.

## Simplified Guidance for Policies and Procedures

### Overview

It's important to regularly update your policies and procedures. Agencies need written policies, procedures, and internal controls for obtaining written prior approval ([2 C.F.R. § 200.302\(b\)\(7\)](#) and [34 C.F.R. § 361.12](#)). Remember, **RSA approves the cost, not the activity**.

When creating your prior approval policies and procedures, consider these questions:

#### 1. Getting Prior Approval for Costs

- ◆ How does the agency get prior approval for certain costs?

#### 2. Deciding if Prior Approval is Needed

- ◆ Who decides if prior approval is needed?
- ◆ How does the agency determine the correct regulation for the request?

#### 3. Gathering and Sending Requests

- ◆ Who collects the information needed for prior approval?
- ◆ Does it include the following—
  - Recipient Information: Recipient name, contact name, position, email address, and phone number;
  - Fiscal Information:
    - FFY;
    - Funding source (i.e., Federal, State, other [include explanation]);
    - Federal Award Identification Number (FAIN) to which cost will be assigned; (include item name and full description, including intended use);
    - List of all programs (Federal, State or private) that will benefit from the purchase;
    - If cost is allocated, list of programs and percentage per program;
    - Description of how the cost is reasonable and does not exceed what a prudent person would incur under the same circumstances; and
    - Estimated date of purchase.

- ◆ Who sends the request to RSA?
  - ◆ How does the agency track these requests?
- 4. Contract Costs and Prior Approval**
- ◆ How does the agency decide if contract costs need prior approval?
  - ◆ What is the process to get prior approval for these costs?
- 5. State Regulations and Purchasing Limits**
- ◆ What State regulations affect this policy?
  - ◆ What is the State threshold for equipment purchases compared to the \$10,000 federal threshold?
- 6. Non-Purchase Costs**
- ◆ How does the agency decide if non-purchase costs need prior approval (e.g., [2 C.F.R. § 200.306\(c\)](#))?
  - ◆ What is the process to get prior approval for these costs?
- 7. Federal Award or FFY**
- ◆ How does the agency decide which Federal award or fiscal year the prior approval cost applies to?
- 8. Different Federal Awards**
- ◆ How are these processes similar or different from other Federal awards (e.g., DIF grants, IL OIB programs)?
  - ◆ Are there items that need prior approval in other Federal awards but not in the VR program?
- 9. Allowable, Allocable, Necessary, and Reasonable Costs**
- ◆ How does the agency ensure costs are allowable, allocable, necessary, and reasonable for prior approval ([2 C.F.R. §§ 200.403 – 200.405](#))?
- 10. Direct Costs**
- ◆ How does the agency determine appropriate allocability and benefit across each cost objective for direct costs ([2 C.F.R. § 200.405](#))?
- 11. Indirect Costs and Prior Approval**
- ◆ How does the agency ensure prior approval for indirect costs in the Statewide Cost Allocation Plan or at the designated state agency level?
  - ◆ Who ensures prior approval is sought when needed?
- 12. Written Approval**
- ◆ How does the agency ensure written approval is on file for required costs?

### 13. Documenting and Storing Prior Approval Items

- ◆ How does the agency document, maintain, and store all items for which prior approval was obtained?
- ◆ Who maintains this information and who has access to it?
- ◆ How does the agency monitor the documentation and approval process for internal controls ([2 C.F.R. § 200.303](#))?
- ◆ How are updates made when deficiencies are found?

### 14. Handling Lack of Prior Approval

- ◆ How does the agency address situations where prior approval was not obtained from RSA?
- ◆ Is there a tracking system and training for staff involved?

By answering these questions, agencies can ensure they comply with RSA requirements and maintain effective internal controls.

## Internal Control Considerations

Agencies must ensure that their processes are comprehensive when developing or revising policies, procedures, and internal controls for prior approval. Effective internal controls should include methods for evaluating and monitoring compliance and taking corrective actions when noncompliance is identified.

### Internal Evaluation

To ensure agencies follow State policies and processes for prior approval, the following methods should be implemented:

#### 1. Evaluation of Cost Items:

- ◆ Establish a method to evaluate items of cost that require prior approval to ensure the proper process is followed;
- ◆ Include a review of the obligation date to ensure prior approval occurred before funds were obligated;
- ◆ Periodically review all items of cost (Federal, non-Federal share, or program income) that fall under prior approval;
- ◆ Document whether prior approval was sought and the requirements used to determine the type of prior approval; and
- ◆ Review cost allocation, if direct, to ensure the cost was allocated appropriately based on the relative benefit received ([2 C.F.R. § 200.405](#)).

#### 2. Considerations for Prior Approval Requests:

- ◆ **Item Description:** Include the description, cost, quantity, purpose, cost justification, and/or cost allocation methodology if the cost benefits more than one program or cost objective;



- ◆ **Equipment/Capital Expenditures:** For requests not permissible via the streamlined process, include the reason for obligation, benefiting programs, type of equipment, timeframe, the scope of the agreement if applicable, proposed date of obligation, and anticipated duration of usable life;
- ◆ **Funding Source:** Specify the applicable funding source, such as the Federal award number(s), non-Federal funds used for match, or program income; and
- ◆ **Relevant Regulations:** Include the relevant section(s) of [2 C.F.R. part 200](#) for the cost.

**Example: Rearrangement and Reconversion Costs ([2 C.F.R. § 200.462\(a\)](#))**

A prior approval request to RSA may include the following:

- ◆ **Description/Justification:** Explanation for the required purchase;
- ◆ **Cost Allocation Methodology:** Details on whether costs are indirect or direct, as well as other cost categories not borne by VR;
- ◆ **Responsibility Determination:** Confirmation that the VR agency is responsible for the costs if the area to be rearranged is rented or leased;
- ◆ **Federal Award Number:** The Federal award number to which the cost will be assigned (e.g., H126A250xxx); and
- ◆ **Associated Costs:** Relevant citations such as [2 C.F.R. § 200.462\(a\)](#), State procurement policy, lease agreement, etc.

**3. Remediation for Non-Compliance:** If an agency determines that costs were incurred without obtaining prior approval, the following corrective actions should be taken:

- ◆ **Tracking and Review:** Track all instances of noncompliance and review for trends.
- ◆ **Staff Retraining:** Retrain staff who failed to follow the procedure.
- ◆ **Corrective Actions:** Implement corrective actions for repeated noncompliance.
- ◆ **Addressing Improper Expenditures:** If Federal funds were spent improperly, such as improper direct allocation, the agency must have written processes for returning them to RSA.

By incorporating these steps, agencies can ensure compliance with RSA requirements and maintain effective internal controls.

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