

**Functional Series 600 - Budget and Finance
Chapter 601 - Funding Source Policy**

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601.1 Authority

[31 U.S.C. Section 1301\(a\)](#), which establishes the general rule of appropriations law that an appropriation can only be used for the purposes for which appropriated

601.2 Objective

To provide guidance to organizations on which account -- program or Operating Expenses ("OE") -- is to be used to fund the salary and support costs of the Agency's direct hire and non-direct hire personnel. This supersedes all previous guidance on funding sources.

601.3 Responsibility

1. Approving officer. It is the responsibility of the individual approving the commitment of funds to ensure that the funding source used is correct and in accordance with this policy.
2. The cognizant General Counsel (GC) and the Budget Office, Bureau for Management (M/B) have authority to resolve funding source issues.

601.4 Definitions (See [ADS Glossary](#))

Split Funding
Inherently Governmental
Cost of Doing Business

601.5 POLICY

The statements contained in the .5 section of this ADS chapter are the official Agency policies and corresponding essential procedures.

601.5.1 APPROPRIATIONS LAW

A fundamental principle of appropriations law is that, except as otherwise provided by law, appropriations shall be applied solely for the purposes for which they are made, and no others. In 1979, in its report on the FY 1980 Appropriations Act, the Senate provided several comments relating to the purpose of the Operating Expense (OE) appropriation, including the following:

"This account [Operating Expenses] was created in 1976 for the express purpose of consolidating AID's 'cost of doing business.' In keeping with Congressional requirements, all costs not specifically and directly related to identified projects are mandated to be funded from Operating Expenses. In addition, all personnel and related expenses including travel and transportation of nonreimbursable full time employees in permanent positions are required to be justified and funded only from this account."

"[W]here the activity has as its primary objective the provision of services to the Agency (e.g., management support or analysis for development assistance policy planning), the [Appropriations] Committee regards the funding of the activity as part of 'AID's cost of doing business' and a charge which should be made against AID's operating expense budget..."

E601.5.1 Appropriations Law – N/A

601.5.2 NOTWITHSTANDING AUTHORITY

As a matter of law, "notwithstanding" authorities cannot be used to authorize charging an OE cost to a program account. Funds appropriated under a "notwithstanding" authority must still be used for the purposes of that particular account or appropriation, i.e., the "notwithstanding" authority does NOT change the nature of the funds appropriated.

E601.5.2 Notwithstanding Authority – N/A

601.5.3 OTHER ACCOUNTS

In addition to the standard OE and program accounts, there are three other categories of USAID funds used for "operating" or "administrative" costs:

a) Operating Expenses of the Office of the Inspector General (IG) - All costs associated with carrying out activities for which the IG is responsible are to be funded from the appropriation for Operating Expenses for the Office of the Inspector General (IG OE).

b) Credit Administrative Expenses - The definition of credit administrative expenses (for the Urban Environment (UE), Micro and Small Enterprise Development (MSED), and Development Credit Authority (DCA) credit programs) is much broader in scope than OE. For example, costs associated with designing development programs are charged to the appropriate "program" appropriation - Development Assistance (DA), Economic Support

Fund (ESF), Support for Eastern European Democracies (SEED), FREEDOM Support Act (FSA), International Disaster Assistance (IDA), etc. However, costs associated with designing credit programs are considered to be part of credit administrative expenses.

In addition, all agencies are required to charge to credit administrative expense appropriations a proportionate share of costs incurred for policy and other activities. For example, since the Administrator is responsible for credit as well as non-credit programs in USAID, a portion of the total cost of the Office of the Administrator is billed to the various credit administrative expense appropriations for reimbursement to OE. The only cost, which is properly chargeable to the credit "program", is the subsidy cost itself, all other costs being administrative expenses.

c) Program Funds used for OE Purposes - There are certain cases in which the Agency is authorized to charge program funds for OE type costs, such as the authority to charge travel of U.S. direct hire staff relating directly to environmental activities to program funds. For purposes of this policy, these funds are treated the same as OE. Authority to use program funds for OE purposes must be specifically authorized by the Congress and funds must be allowed by M/B specifically for this purpose.

E601.5.3 Other Accounts – N/A

601.5.4 SPLIT FUNDING

Costs of non-personal service contractors may be split funded between appropriations (OE, DA, IDA, ESF, etc.), based on support provided to the activities under individual appropriations. Personnel hired under Personal Service Contracts (PSCs), the Intergovernmental Personnel Act (IPAs), Participating Agency Service Agreements (PASAs), etc. may be split funded between Strategic Objectives (SOs) and/or program appropriations. However, they may NOT be split funded between OE and program accounts or between separate independent organizational units (missions, bureaus, and independent offices). The costs of these personnel are to be charged to whichever single appropriation (OE or program), and whichever single organization, receives the primary benefit from the services of the individual.

The reason for prohibiting split funding the above categories of personnel between OE and program accounts or between independent organizations is that the Agency has various reporting requirements relating to PSCs and other staff, including reporting by funding source and organization of

assignment, which would be very difficult to comply with if costs were split funded.

E601.5.4 Split Funding – N/A

601.5.5 COST CATEGORIES

To determine whether a cost is to be charged to the OE account, (including local currency trust funds and program funds authorized to be used for OE purposes and allocated by M/B for such purposes) or to "program" appropriations, (DA, ESF, IDA, SEED, FSA, etc.) you must first assign the cost to one of four categories:

- a) Salaries and benefits of USAID direct hire employees (whether U.S. or Foreign Service National (FSN));
- * b) Salaries and benefits of other than USAID direct hire personnel (U.S. or FSN) - this includes employees of other U.S. Government agencies detailed to USAID under IPA or other arrangements;
- c) Travel costs, which are generally funded from the same appropriation used to fund salaries and benefits of the employee; or
- d) Support costs, also generally funded from the same appropriation used to fund the salary and benefits of the employee.

E601.5.5 Cost Categories – N/A

601.5.6 SALARIES AND BENEFITS OF DIRECT HIRE EMPLOYEES

ALL SALARIES AND BENEFITS FOR USAID DIRECT HIRE EMPLOYEES, WHETHER U.S. OR FSN, MUST BE OE FUNDED, unless they were hired to carry out responsibilities associated with the Office of the Inspector General or credit activities, in which case they must be funded from these funding sources.

- * Please note that the reference to USAID direct hire employees means employees hired under USAID's appointment authorities under the Civil Service, Foreign Service and other appointment authorities, e.g., Executive Level, General Schedule/Senior Executive Service (GS/SES), Foreign Service/Senior Foreign Service (FS/SFS) and Administratively Determined (AD). It does NOT include direct hire employees of other Federal agencies working for USAID under detail-in, IPA arrangements, PASA, RSSA, or other arrangements. Nor does it include employees of State and local governments or PVOs working for USAID under IPA

arrangements. **Except for employees under PASAs, RSSAs or other 632(b) agreements**, employees of other Federal, state and local agencies, IPA personnel and other arrangements are included with PSCs as non-direct hire personnel. **Source of funding for PASAs, RSSAs and 632(b) agreements is covered in ADS 306.5.6. (See [306.5.6](#))**

E601.5.6 Salaries and Benefits of Direct Hire Employees – N/A

601.5.7 SALARIES AND BENEFITS OF OTHER THAN DIRECT HIRE PERSONNEL

For salaries and benefits of non-direct hire personnel, you must first determine what functions the individual is performing. The "location" of the individual (i.e., whether assigned to a specific office or to an SO team) is not the determining factor; it is the function being performed that must be reviewed. If the MAJORITY of the functions of the position fall into one or more of the following categories it must be OE funded:

a) **Inherently governmental:** Inherently governmental functions are those which are so intimately related to the public interest as to mandate performance by Government employees (including PSCs). In the Executive Branch, this includes such functions as (1) those, which involve the interpretation and execution of laws or policies of the U.S., and (2) those, which determine the policies relating to, and the direction and control of, Federal employees. Some examples of inherently governmental functions are provided in Inherently Governmental Functions (as defined by the Office of Management and Budget (OMB)). **(See Mandatory Reference, [Inherently Governmental Functions](#))**

b) **Cost of doing business:** This term refers to the cost of those general activities which are required or expected to be carried out by any Federal agency irrespective of the mandate/program of the agency. As with inherently governmental, the term is best understood through examples. **(See Mandatory Reference, [Cost of Doing Business](#))**

Accounting functions (recording obligations, making payments, conducting reviews of the validity of unliquidated balances, etc.) are clear examples of costs of doing business. All agencies are expected to carry out these functions simply by virtue of receiving appropriations - whether the transaction relates to paying a direct hire employee or paying vouchers received for activities carried out in implementing programs.

Other areas of work are often less clear-cut, such as some general

administrative support activities, and carrying out general Agency management responsibilities. The Mandatory Reference, Cost of Doing Business, contains many examples of activities that are considered to be a part of the cost of doing business, and therefore OE funded, as well as some examples of activities, which are appropriate for program funding. **(See Mandatory Reference, [Cost of Doing Business](#))**

E601.5.7 Salaries and Benefits Of Other Than Direct Hire Personnel

In most instances the appropriate funding source will be clear, particularly viewed in conjunction with the examples provided in the Mandatory References to this policy. In cases where it is not clear which funding source is to be used, the cognizant technical office or other requesting office, after consultation with the cognizant GC or M/B, as appropriate, must document the funding source decision. Such documentation will be in the form of a statement that the requestor has reviewed the scope of work and determined that the appropriate source of funding is (identify funding source).

601.5.8 TRAVEL AND SUPPORT COSTS

After determining the appropriate funding source of the individual, the decision must be made as to the appropriate funding source for direct support of the individual, such as travel, residential and office rent and utilities, supplies, furniture and equipment, building maintenance, security costs, etc.

E601.5.8 Travel and Support Costs – N/A

E601.5.8a Travel

Travel of all direct hire personnel must be funded from the OE account, unless the purpose of the trip is to work on credit or IG activities, in which case the travel is charged to the appropriate credit administrative expenses appropriation or the IG OE appropriation. **(See 601.5.3)** As a general rule, travel of non-direct hire personnel shall be funded from the account used to fund the salaries and benefits of the individual traveling. However, if the traveler is doing work outside his/her normal area of responsibility that is funded from a different account, the account covering the activity for which the travel is being performed must be used to fund the travel. For example, if an OE funded PSC is sent to provide assistance on a credit administrative expense funded activity, the travel must be funded from the credit administrative expense account.

E601.5.8b Support Costs

In general, all support costs must be charged to the appropriation used to fund the salaries and benefits of the employee. Support costs fall into one of two categories, direct costs or allocated costs.

- 1) Direct support costs. Those costs, which are, incurred directly in support of an individual and which can be directly identified to the individual's position. Direct support costs include, but are not limited to, the following:
 - a. Costs associated with acquiring and maintaining a residence;
 - b. Allowances, including travel, such as education allowances, post assignment, home leave, R&R, and quarters allowances;
 - c. Office supplies and materials;
 - d. Office furniture and equipment;
 - e. Some telephone costs, such as long distance charges;
 - f. Costs of computer hardware and software used by the employee (end-user items); and
 - g. Costs incurred for ICASS support.

- 2) Allocated support costs. Those costs, which are incurred in support of several or all individuals but that, cannot be directly identified back to a specific position. These costs must be attributed to individual positions based on an appropriate formula. Some examples of allocated support costs, including the method to be used in allocating the costs, are provided below.
 - a. Office leases overseas - Where Missions' office premises are owned either by the USG or host country, no cost allocations for imputed rent may be made to program personnel funding sources. Cost allocations in these cases are limited to other support costs as noted below.

Where Missions' office premises are leased, it is appropriate to allocate rent expenses to program personnel funding sources, including leases where space cannot be incrementally reduced. Given the significant investment required to meet minimal

security standards, it is most often preferable to manage excess leased space either through the ICASS Council for other official use or by making space available to meet the needs of program funded contractors/recipients.

The methodology for allocation of rental expenses must be based on actual square footage occupied as follows:

Determine the total square footage of office space occupied by personnel funded from each different funding source. This includes "dedicated" space, such as private offices and conference rooms dedicated to individuals but excludes "common use" areas such as general conference rooms, hallways, restrooms, galleys, etc. available for general staff use. Determine what percentage of the total office space computed is associated with each funding source and apply that percentage to the annual lease cost to determine the amount of the lease to be funded from each funding source. For example, assume office space for OE funded personnel is 30,000 square feet, UE funded 2,000 square feet, and DA funded 10,000 square feet for a total of 42,000 square feet, excluding common use space. OE is thus 71.4 percent of the total office space, DA is 23.8 percent, and UE is 4.8 percent. OE is charged for 71.4 percent, DA 23.8 percent, and UE 4.8 percent of the annual lease cost. Common use space is assumed to be distributed on the same proportional basis and, thus, is not separately costed.

- b. Office utilities overseas - Office utilities are to be charged based on the same square footage basis as office rent (see point a.)
- c. Janitorial and other general building cleaning/maintenance costs are to be allocated on the same basis as office utilities.
- d. Warehouse costs (lease, maintenance, and utilities) are to be allocated based on the percentage of warehouse space anticipated to be used for storing items acquired by each funding source.

601.5.9 EXCEPTIONS

The examples of direct and allocated costs in E601.5.8b cover the majority of support costs. There are, however, some costs that follow different rules, as follows:

- a) The following types of costs will always be OE funded, unless funded via International Cooperative Administrative Support Service (ICASS):

- 1. Costs associated with connecting "end-user"

automation equipment to Local Area Network (LAN) servers;

2. Office security guards. However, if guards are posted by floor, missions may, if they so desire, allocate a portion of the cost of the guards on floors occupied by program funded staff; and

3. Costs of purchasing, installing, and/or maintaining fixed equipment in offices and/or warehouse, such as generators, air conditioning units, basic wiring, elevators, etc.

b) MOTOR POOL VEHICLES

Motor pool vehicles must be OE funded unless it can be shown that, after covering all vehicles requirements associated with travel of OE funded personnel, additional vehicles are required to meet demands imposed by program funded personnel. Only these additional vehicles required over and above the needs of OE funded personnel may be program funded. Gas, oil, and maintenance of vehicles must be funded from the account used to purchase or lease the vehicle.

c) CLAIMS

Medical and property claims must be funded from the account used to fund the salary of the individual to whom the claim is owed. Tort claims must always be funded from the OE account (or the IG OE or credit administrative expenses for claims associated with personnel funded from these accounts).

d) OE-FUNDED TRAINING

In the case of training, non-OE funded personnel may attend OE funded training on a space-available basis, although any travel costs associated with attending the training must be funded from the account used to fund the individual. In the case of the IG and credit administrative expense accounts, the OE must be reimbursed for the cost of the training. Where attendance levels (OE versus program funded) are known at the time a training contract is being obligated, an operating unit may allocate the training contract costs between OE and program based on the ratio of OE and program funded personnel attending the training. Where there is a specific charge per attendee (as is the case with many external training programs) the cost of the training must be from the same source as the salaries and benefits of the trainee.

E601.5.9 Exceptions – N/A

601.6 Supplementary Reference - N/A

601.7 Mandatory Reference

[Cost of Doing Business](#)

[Inherently Governmental Functions](#) (as defined by the Office of Management and Budget (OMB))

Split Funding

The term "Split Funding" refers to the practice of using more than one funding source in a single contract or other financing instrument. (Chapter 601)

Inherently Governmental

Functions, which are so intimately related to the public interest as to mandate performance by Government employees. (Chapter 601)

Cost of Doing Business

Those general activities which are required or expected to be carried out by any Federal agency, irrespective of the mandate/program of the agency. (Chapter 601)

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