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# ADS Chapter 601

## Funding Source Policy

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## ADS 601 – Funding Source Policy

### 601.1 OVERVIEW

This ADS chapter provides 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.

### 601.2 PRIMARY RESPONSIBILITIES

- a. **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 the policy directives in this ADS chapter.
- b. The **cognizant General Counsel (GC) and the Bureau for Policy and Program Coordination, Office of Resource Allocation (PPC/RA)** have authority to resolve funding source issues.

### 601.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

#### 601.3.1 Appropriations Law

A fundamental principle of appropriations law is that, except as otherwise provided by law, appropriations must 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 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...."

#### 601.3.2 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"

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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.

### **601.3.3 Other Accounts**

In addition to the standard OE and program accounts, there are two 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 that is properly chargeable to the credit program is the subsidy cost itself. All other costs are administrative expenses.

### **601.3.4 Use of Program Funds for OE Costs**

There are certain cases in which the Agency is authorized by statute to use program funds for OE costs. For the purposes of this ADS chapter, these funds are treated the same as OE. The program funds must be allowed by PPC/RA specifically for these purposes.

Some examples follow:

- Section 635(l) of the FAA is a permanent authority that provides the Agency with the flexibility to use program funds for the program and management oversight costs of non-presence programs that would otherwise have to be funded with OE

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funds. Although this authority was enacted for FY 2000, funds from any prior year can be used under this authority. See **601.3.4.1** for further guidance.

- Section 532(g) of USAID's FY 93 appropriations act (Pub.L. 102-391) is a permanent authority to use Development Assistance and Development Fund for Africa funds for the "expenses (including related support costs)" of USAID direct hires relating to the energy and environment sectors.
- Section 104(c)(5)(E) of the Foreign Assistance Act of 1961, as amended, permits the use of not more than 7% of the funds for HIV/AIDS activities authorized in section 104(5)(A) (\$300,000,000 for each of FYs 2002 and 2003) to be used for USAID administrative expenses in support of HIV/AIDS activities.
- The FY 2002 appropriations act (Pub.L. 107-115) permits the use of Development Assistance funds not to exceed \$32,500 to monitor and provide oversight of programs for displaced and orphaned children and victims of war, and \$125,000 of Child Survival and Health Program funds to monitor and provide oversight of child survival and health programs.

#### **601.3.4.1 Use of Program Funds for OE Costs for Programs in Non-Presence Countries**

**a. Non-Presence Country.** A non-presence program is a country program in which USAID is implementing assistance but where there is no U.S. direct hire stationed.

**b. Covered Costs.** Program funds can be used for the following costs:

(1) For U.S. direct hires, program funds may be used for travel costs, including per diem and in-country travel, for the purpose of providing program and management oversight of a program in a non-presence country. If oversight involves both presence and non-presence travel, only that portion of the travel costs directly attributable to oversight of the non-presence program may be funded from program funds. This authority cannot be used to fund salaries of U.S. direct-hire employees.

(2) For other employees (direct-hire non-U.S. citizens and both U.S. and non-U.S. Personal Services Contractors (PSCs)), program funds may be used to cover any cost associated with personnel specifically employed to provide program and management oversight only for non-presence countries. This would include, for example, salary and other support costs. If the employee is employed to provide oversight for presence and non-presence programs, only travel costs directly attributable to oversight of the non-presence program may be funded from program funds.

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### 601.3.5 Split Funding

Costs of non-PSCs 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 Development Objectives (DOs) and/or program appropriations. However, they may NOT be split funded between OE and program accounts or between separate independent organizational units (Missions, Bureaus/Independent Offices (B/IOs)). The cost of these personnel must 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.

### 601.3.6 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 PPC/RA for such purposes) or to program appropriations (DA, ESF, IDA, SEED, FSA, etc.), you must first assign the cost to one of the following 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 the salary 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.

### 601.3.7 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

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the Office of 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, Interagency Agreements.** (See [306.3.2](#))

### 601.3.8 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 that 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 that involve the interpretation and execution of laws or policies of the U.S., and (2) those that determine the policies relating to, and the direction and control of, Federal employees. Some examples of inherently governmental functions are provided in the mandatory reference, [OMB Circular A-76](#).

**b. Cost of doing business:** This term refers to the cost of general activities that are required or expected to be carried out by any Federal agency irrespective of the mandate/program of the agency. As with the term inherently governmental, this 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.

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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 that are appropriate for program funding.

In most instances the appropriate funding source will be clear, particularly viewed in conjunction with the examples provided in the mandatory references to this chapter. 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 PPC/RA, as appropriate, must document the funding source decision. Such documentation must be in the form of a statement that the requestor has reviewed the scope of work and determined the appropriate source of funding.

### **601.3.9 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.

#### **601.3.9.1 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 **601.3.3**). As a general rule, travel of non-direct-hire personnel must 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.

#### **601.3.9.2 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.

- a. Direct support costs.** Costs that are incurred directly in support of an individual and can be directly identified back to the individual's position. Direct support costs include, but are not limited to, the following:

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- (1) Costs associated with acquiring and maintaining a residence;
- (2) Allowances, including travel, such as education allowances, post assignment, home leave, R&R, and quarters allowances;
- (3) Office supplies and materials;
- (4) Office furniture and equipment;
- (5) Some telephone costs, such as long distance charges;
- (6) Costs of computer hardware and software used by the employee (end-user items); and
- (7) Costs incurred for International Cooperative Administrative Support Service (ICASS) support.

**b. Allocated support costs.** Costs that are incurred in support of several or all individuals but cannot be directly identified back to a specific position. These costs must be attributed to individual positions based on the appropriate formula. Some examples of allocated support costs, including the method to be used in allocating the costs, are provided below:

- (1) Office leases overseas. Where Missions' office premises are owned by either the USG or the 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,

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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, if office space for OE-funded personnel is 30,000 square feet, Urban and Environmental Credit Program-funded is 2,000 square feet, and Development Assistance-funded is 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 of the annual lease cost, DA 23.8 percent, and UE 4.8 percent. Common use space is assumed to be distributed on the same proportional basis and therefore is not separately costed.

(2) Office utilities overseas. Office utilities are to be charged based on the same square footage basis as office rent (see **601.3.9.2.b.1**).

(3) Janitorial and other general building cleaning/maintenance costs are to be allocated on the same basis as office utilities.

(4) 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.

### **601.3.9.3 Exceptions**

The examples of direct and allocated costs in **601.3.9.2** 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 they are funded via 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

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(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 vehicle 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.

**601.4 MANDATORY REFERENCES**

**601.4.1 External Mandatory References**

- a. [OMB Circular A-76, Performance of Commercial Activities](#), as revised May 29, 2003
- b. [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.

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**601.4.2 Internal Mandatory References**

- a. [ADS 306, Interagency Agreements](#)
- b. [ADS 601maa, Cost of Doing Business](#)
- c. [Implementation Guidance for ADS Chapter 601, Funding](#)

**601.5 ADDITIONAL HELP**

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There are no Additional Help documents for this chapter.

**601.6 DEFINITIONS**

The definitions listed below have been included into the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

**cost of doing business**

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

**inherently governmental**

A function that is so intimately related to the public interest as to mandate performance by government employees as provided by Attachment A of Circular A-76. (Chapters [104](#), 601)

**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)

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