

Supplanting Guidance

This document is an informational resource to assist state agencies with understanding supplanting. Agencies must understand the differences between supplanting and supplementing. This distinction is important because supplanting is not allowed, while supplementing is allowed.

Supplanting vs. Supplementing

Supplanting - Supplanting occurs when an entity replaces funds for an activity because federal funds are available (or are expected to be available) to fund that same activity. Most federal funding specifically prohibits supplanting, and in general, it is considered a best practice. Existing funds for a project and the project's activities may not be replaced by federal funds and reallocated for other organizational expenses.

Federal grant funds must be used to benefit the intended purpose of the funds as defined in the authorizing statute, such as starting a new project or building upon an existing project. Funds cannot be used to cover expenses that would otherwise be paid out using other funds. This ensures that the level of state and local support for a program remains in place and is not replaced by federal funds.

Supplementing - An entity is supplementing funding when federal grant funds are used in combination with other funds to enhance a planned expenditure in an existing budget. Supplementing funds is allowable to the extent that funds are used to meet the programmatic purpose and that no other provision prohibits its use this way. Entities may blend and braid their federal funding with other funding through supplementing.

Distinguishing Supplanting vs. Supplementing

Due to the nature of supplanting and how situation specific it is, state agencies should ensure that they understand supplanting and provide their subrecipients with training and guidance. Similarly, due to the wide range of state agencies, SLFRF projects and activities, there is not a "one size fits all" approach to supplanting prevention. Instead, in order to prevent supplanting, state agencies must monitor, review, and ask questions of their subrecipients. Please direct any questions you might have to your OSC Compliance Liaison.



Examples

Example 1:

A program director, who has oversight of the parent involvement component of a local school district, is paid from state general funds. The school district receives SLFRF funds to provide wraparound literacy services to parents within the district and provides funding to hire 2 FTE positions. The program director decides to transfer her salary to the new SLFRF fund until the new staff are hired for the new literacy services program. Once the staff are hired, the program director's salary returns back to the general fund.

In this example, the fact that the annual budget was decreased and replaced with the new federal grant indicates that supplanting has taken place. If the local budget would not have been reduced due to the new federal funds, then adding or increasing the funding with the new federal funds would have been considered supplementing.

Example 2:

The tutoring center has an annual budget of \$30,000 to hire tutors. The center receives a federal education grant in the amount of \$10,000. The center decides to increase the annual tutoring budget by \$10,000 with the federal education grant.

The new federal funds were added to the existing budget to increase the funding and enhance the services the tutoring center can provide. This would be considered supplementing.

Best Practices to Prevent Supplanting

If supplanting is discovered via monitoring or auditing it indicates that the recipient did not identify supplementing upfront and must improve its financial practices and internal controls. Subrecipients or state agencies that have supplanted must return that money to the state agency or directly to the federal agency. This often will result in suspension of future funds for the particular program and potentially civil or criminal penalties. Below are some best practices that can help agencies and their subrecipients avoid supplanting.



- Ensure that all internal staff and subrecipients understand the difference between supplementing and supplanting
- Ensure funds are tracked separately and not co-mingled.
 - Funds should not be lumped into one category labeled “grants”
 - Financial system must be able to track funds by funding source
 - All expenses and reimbursements must be consistently tracked for accuracy
- Never use funds to pay for existing employees, unless the existing position is “back filled” with a new hire
- Never use federal funds to pay for items or costs that the subrecipient is already obligated to pay with state, local, or tribal funds
- Maintain supporting documentation: budget sheets, meeting minutes, or other official documents that may address the reduction of non-federal funds
- Review internal processes and/or create processes to address supplanting
- State agencies should monitor subrecipients to ensure sound financial practices are in place
 - Items to consider:
 - Upon review of the subrecipient’s financial practices there should be a clear delineation of separation of duties and adequate oversight within the subrecipient's organization.
 - If a charge or budget line item looks suspicious, ask for documentation.
 - If subrecipient performance is low and their spending is high, ask for documentation and utilize additional monitoring methods.
 - If the subrecipient is resistant or unable to provide time and effort documentation, a desk review should be utilized.
- If a state agency has questions, reach out to the assigned OSC Compliance Liaison and Recovery Office.

Determination Tool

The following flowchart is a recommended tool for federal fund recipients to use when making decisions about how to use federal funding. As mentioned below, please be sure to document the decision-making process to ensure that the topic of supplanting is considered appropriately.

Supplementing? Supplanting?

Why does this matter?

Federal regulation for stimulus and supplemental funding, generally, state that funds must be used to supplement, not supplant. As such, it is vital to consider this topic when making decisions about funding uses.

What is the purpose of the flowchart?

This resource is intended to help users work through this topic when making decisions about funding uses. Users are also encouraged to document the decision-making process and work with federal partners to ensure this topic is being considered appropriately.

