



## **Using Federal Funds for Incentives**

The NDDPI has seen a number of requests to use federal funds for purchasing items to use as incentives with students.

Due to the increased focus on improved student outcomes and the focus on attendance and student engagement, schools are looking for ways to motivate students. Schools are requesting to use incentives to increase attendance, increase assessment scores, and encourage positive behavior. The federal regulations are vague regarding using federal funds for incentives. The federal guidance issued on this topic indicates that it is allowable **if** the expenditures can pass the following three tests:

- **Reasonability Test**

All expenditures using federal funds must be reasonable. It helps to determine if the expenditure is reasonable by picturing yourself having to justify an expenditure to an auditor.

- **Nominal Test**

Federal funds are meant to be used for staff and programs aimed at helping students achieve. Expenditures for incentives should be nominal rewards that reflect a small portion of the total funds available.

- **Educationally-Related Test**

Incentives purchased with federal funds should be educationally related, such as books or educational games. Incentives should be for meeting educational goals such as regularly attending school or finishing a project. *Please note that gift cards are not allowable as there is no guarantee they are educationally related. The only exception would be a gift card to a bookstore that is also reasonable and nominal.*

The U.S. Department of Education has urged state agency personnel to carefully monitor and approve expenditures for incentives. School personnel must ensure all requests for incentives pass the tests indicated to refrain from having an audit concern and being required to repay funds for inappropriate expenditures.