

## PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

**Book:** Policy Manual

**Section:** Federal Programs

**Title:** Allowable Use of Funds and Adherence to Uniform Grants Policy

**Adopted:** February 29, 2016

**Revised:**

**PURPOSE:** The purpose of this Policy is to ensure all allowable use of grant funds by PDLCS adhere to Uniform Grant Guidance. This policy is intended to supplement but not replace any applicable State or Federal laws government Federal grants applicable to nonprofit and public cyber charter schools.

**SCOPE:** The Policy applies to the Board of Trustees, school administration, and other school employees with Board delegated powers direct or indirect in grant expenditure decisions related to the school.

**POLICY AUTHORITY:** Policy draft is reviewed by the CEO of PDLCS; then (1) sent to the Board of Trustees, and (2) presented at the next formal, public Board Meeting for review, public comments and approval.

### DEFINITIONS:

**EDGAR:** Education Department General Administrative Regulations which manages compliance and awards of federal grants.

**GAAP:** Generally Accepted Accounting Principles are a common set of accounting principles, standards and procedures used to compile financial statements.

**DETAILED POLICY STATEMENT:** When determining PDLCS will spend its grant funds, Administration and the Business Office will review the proposed cost to determine whether it is an allowable use of Federal grant funds *before* obligating and spending those funds on the proposed good or service. All costs supported by federal education funds must meet the standards outlined in EDGAR, 2 C.F.R. Part 3475 and 2 C.F.R. Part 200, Subpart E, which are provided in the bulleted list below. Administration and the Business Office must consider these factors when making an allowability determination. Additional helpful questions to ask when making allowability determinations are located on subsequent pages of this Policy.

- **Be Necessary and Reasonable for the Performance of the Federal Award.** School staff must consider these elements when determining the reasonableness of a cost. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision to incur the cost was made. For

example, reasonable means that sound business practices were followed, and purchases were comparable to market prices. When determining reasonable of a cost, consideration must be given to:

- Whether the cost is a type generally recognized as ordinary and necessary for the operation of the School or the proper and efficient performance of the Federal award.
- The restraints or requirements imposed by factors, such as: sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and terms and conditions of the federal award.
- Market prices for comparable goods or services for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the School, its employees, its students, the public at large, and the Federal government.
- Whether the school significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost. 2 C.F.R. 200.404

While 2 C.F.R. 200.404 does not provide specific descriptions of what satisfies the "necessary" element beyond its inclusion in the reasonableness analysis above, necessary is determined based on the needs of the program. Specifically, the expenditure must be necessary to achieve an important program objective. A key aspect in determining whether a cost is necessary is whether the School can demonstrate that the cost addresses an existing need and can prove it. For example, the school may deem a language skills software program necessary for a limited English proficiency program.

When determining whether a cost is necessary, consideration may be given to:

- Whether the cost is needed for the proper and efficient performance of the grant program.
  - Whether the cost is identified in the approved budget or application.
  - Whether there is an educational benefit associated with the cost.
  - Whether the cost aligns with identified needs based on results and findings from a needs assessment.
  - Whether the cost addresses program goals and objectives and is based on program data.
- **Allocable to the Federal award:** A cost is allocable to the Federal award if the goods or services involved are chargeable or assignable to the Federal award in accordance with the relative benefit received. This means that the Federal grant program derived a benefit in proportion to the funds charged to the program (2 C.F.R. 200.405). For example, if 50% of a teacher's salary is paid with grant funds, then that teacher must spend at least 50% of his or time on the grant program.
  - **Consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the School.**

- **Conform to any limitations or exclusions set forth as cost principles in Part 200 or in the terms and conditions of the Federal award.**
- **Consistent treatment:** A cost cannot be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been assigned as an indirect cost under another award.
- **Adequately documented:** All expenditures must be properly documented.
- **Be determined in accordance with GAAP, unless provided otherwise in Part 200.**
- **Not included as a match or cost-share, unless the specific federal program authorizes Federal costs to be treated as such.** Some Federal program statutes require the non-federal entity to contribute a certain amount of non-federal resources to be eligible for the Federal program.
- **Be the net of all applicable credits.** The term “applicable credits” refers to those receipts or reduction of expenditures that operate to offset or reduce expense items allocable to the Federal award. Typical examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the State relate to the Federal award, they shall be credited to the federal award, either as a cost-reduction or a cash refund, as appropriate. 2 C.F.R. 200.406

Part 200’s cost guidelines must be considered when federal grant funds are expended. As provided above, Federal rules require state and school level requirements and policies regarding expenditures to be followed as well. For example, State and/or School policies relating to travel or equipment may be narrower than the Federal rules, and the stricter State and/or School policies must be followed. Further, certain types of incentives are allowable under Federal law, but are not allowable under State law.

**Selected Items of Cost:** Part 200 examines the allowability of 55 specific cost items (commonly referred to as Selected Items of Cost) at 2 C.F.R. 200.420-200.475. These cost items are listed in the chart below along with the citation where it is discussed whether the item is allowable. Please do not assume that an item is allowable because it is specifically listed in the regulation as it may be unallowable despite its inclusion in the selected items of cost section. The expenditure may be unallowable for a number of reasons, including: the express language of the regulation states the item is unallowable; the terms and conditions of the grant deem the item unallowable; or State/local restrictions dictate that the item is unallowable. The item may also be unallowable because it does not meet one of the cost principles, such as being reasonable because it is considered too expensive. If an item is unallowable for any of these reasons, Federal funds cannot be used to purchase it.

School personnel responsible for spending Federal grant funds and for determining allowability must be familiar with the Part 200 selected items of cost section. The School must follow these rules when charging these specific expenditures to a federal grant. When applicable, School staff must check costs against the selected items of cost requirements to ensure the cost is allowable. In addition, State, School and program-specific rules may deem a cost as unallowable and School personnel must follow those non-Federal rules as well.

The selected item of cost addressed in Part 200 includes the following in alphabetical order:

<b>Item of Cost</b>	<b>Citation of Allowability Rate</b>
Advertising and public relations costs	2 C.F.R. 200.421
Advisory councils	2 C.F.R. 200.422
Alcoholic beverages	2 C.F.R. 200.423
Alumni activities	2 C.F.R. 200.424
Audit services	2 C.F.R. 200.425
Bad debts	2 C.F.R. 200.426
Bonding costs	2 C.F.R. 200.427
Collection of improper payments	2 C.F.R. 200.428
Commencement and convocation costs	2 C.F.R. 200.429
Compensation – personal services	2 C.F.R. 200.430
Compensation – fringe benefits	2 C.F.R. 200.431
Conferences	2 C.F.R. 200.432
Contingency provisions	2 C.F.R. 200.433
Contributions and donations	2 C.F.R. 200.434
Defense and prosecution of criminals and civil proceedings, claims, appeals and patent infringements	2 C.F.R. 200.435
Depreciation	2 C.F.R. 200.436
Employee health and welfare costs	2 C.F.R. 200.437
Entertainment costs	2 C.F.R. 200.438
Equipment and other capital expenditures	2 C.F.R. 200.439
Exchange rates	2 C.F.R. 200.440
Fines, penalties, damages and other settlements	2 C.F.R. 200.441
Fund raising and investment management costs	2 C.F.R. 200.442
Gains and losses on disposition of depreciable assets	2 C.F.R. 200.443
General costs of government	2 C.F.R. 200.444
Goods and services for personal use	2 C.F.R. 200.445
Idle facilities and idle capacity	2 C.F.R. 200.446
Insurance and indemnification	2 C.F.R. 200.447
Intellectual property	2 C.F.R. 200.448
Interest	2 C.F.R. 200.449
Lobbying	2 C.F.R. 200.450
Losses on other awards or contracts	2 C.F.R. 200.451
Maintenance and repair costs	2 C.F.R. 200.452
Materials and supplies costs including costs of computing devices	2 C.F.R. 200.453
Memberships, subscriptions and professional activity costs	2 C.F.R. 200.454
Organization costs	2 C.F.R. 200.455
Participant support costs	2 C.F.R. 200.456
Plant and security costs	2 C.F.R. 200.457
Pre-award costs	2 C.F.R. 200.458
Professional services costs	2 C.F.R. 200.459
Proposal costs	2 C.F.R. 200.460

Publication and printing costs	2 C.F.R. 200.461
Rearrangement and reconversion costs	2 C.F.R. 200.462
Recruiting costs	2 C.F.R. 200.463
Relocation costs of employees	2 C.F.R. 200.464
Rental costs of real property and equipment	2 C.F.R. 200.465
Scholarships and student aid costs	2 C.F.R. 200.466
Selling and marketing costs	2 C.F.R. 200.467
Specialized service facilities	2 C.F.R. 200.468
Student activity costs	2 C.F.R. 200.469
Taxes (including Value Added Tax)	2 C.F.R. 200.470
Termination costs	2 C.F.R. 200.471
Training and education costs	2 C.F.R. 200.472
Transportation costs	2 C.F.R. 200.473
Travel costs	2 C.F.R. 200.474
Trustees	2 C.F.R. 200.475

Likewise, it is possible for the State and/or School to put additional requirements on a specific item of cost. Under such circumstances, the stricter requirements must be met for a cost to be allowable. Accordingly, employees must consult Federal, State and School requirements when spending Federal funds. For example, often the State's travel rules are more restrictive than Federal rules, which mean the State's policies must be followed.

In order for a cost to be allowable, the expenditure must also be allowable under the applicable program statute (e.g., Title 1 of the Elementary and Secondary Education Act (ESEA), or the Carl D. Perkins Center and Technical Education Act (Perkins)), along with accompanying program regulations, non-regulatory guidance and grant award notifications.

The State and/or Schools rules related to some specific cost items are outlined in the Employee Handbook. School employees must be aware of these State and School rules and ensure they are complying with these requirements.

**Helpful Questions for Determining Whether a Cost is Allowable:** In addition to the cost principles and standards described above, Administration and Business Offices can refer to this section for a useful framework when performing an allowability analysis. In order to determine whether federal funds may be used to purchase a specific cost, it is helpful to ask the following questions:

- Is the proposed cost allowable under the relevant program?
- Is the proposed cost consistent with an approved program plan and budget?
- Is the proposed cost consistent with program specific fiscal rules?
  - For example, the School may be required to use federal funds only to supplement the amount of funds available from nonfederal (and possibly other Federal) sources.
- Is the proposed cost consistent with EDGAR?
- Is the proposed cost consistent with specific conditions imposed on the grant (if applicable)?

As a practical manner, Administration and Business Offices should also consider whether the proposed cost is consistent with the underlying needs of the program. For example, program funds must benefit the appropriate population of students for which they are allocated. This means that, for instance, funds allocated under Title III of the Elementary and Secondary Education Act (ESEA) governing language instruction programs for Limited English Proficient (LEP) students must only be spent on LEP students and cannot be used to benefit non-LEP students.

Funds should be targeted to address areas of weakness, as necessary. To make this determination, Administration and Business Offices should review data when making purchases to ensure that Federal funds meet these areas of concern.