




State of Alaska Department of Labor and Workforce Development

Division: Business Partnerships	Policy: 670.00 Final				
Subject: WIA Allowable Costs	Pages: 12				
References: ETA's <i>One-Stop Comprehensive Financial Management Technical Assistance Guide</i> , July 2002; OMB Circulars A-21, A-87, A-122 and A-133; 48 CFR Part 31; WIA Section 181 (e); 20 CFR 667.200(c)(6); 20 CFR 667.260; 20 CFR 667.262; 20 CFR 667.264(a)(1) and (2); 20 CFR 667.266; TEGL 1-05; DBP Policy No. 498, <i>WIA Sectarian/Religious Activity Policy</i> ; 20 CFR 667.510.	Effective: 7/01/05				
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<table style="width: 100%; border: none;"> <tr> <td style="width: 60%; border: none;">Approved: </td> <td style="width: 40%; border: none; text-align: right;">May 5, 2006</td> </tr> <tr> <td style="border: none; text-align: center;">for Corine Geldhof, Acting Director, DBP</td> <td style="border: none; text-align: center;">Date</td> </tr> </table>		Approved: 	May 5, 2006	for Corine Geldhof, Acting Director, DBP	Date
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REVISION EXPLANATION:

The text of the original policy is included in the following. Revisions to the original policy are denoted in **Bold** text. New text is underlined, New Text, and, deleted text is enclosed by brackets, [~~Deleted Text~~].

1) Parties Affected

Division of Business Partnerships (DBP) staff and any grantees or recipients of Workforce Investment Act (WIA) funds from DBP.

2) Purpose

This policy provides DBP staff and, grantees and recipients with guidance on determining whether costs charged to the WIA funds are allowable or not allowable. This guidance is to ensure that only allowable costs are charged to the WIA funds.

3) Definitions

- a) *Allocable* means a cost that benefits more than one grant or funding source should be charged to those grants or funding sources in amounts that are proportionate to the amount of benefit each receives.
- b) *Allowable* means a cost that meets all of the requirements of a funding source and is not made in violation of any Federal or State law, regulation, policy or other requirement.

- c) *Capital Assets* are items of value that have a long-term life, such as land, buildings and equipment.
- d) *Direct Costs* are charges that can be readily identified as being specifically related to a particular funding source.
- e) *Generally Accepted Accounting Principles* are a series of guidance documents issued by the American Institute of Certified Public Accountants that specify proper procedures and practices for accounting for financial transactions.
- f) *Grant* is all of the documents included in the contractual agreement between DBP and a financial assistance recipient under one of the Division's job training programs and includes Reimbursable Services Agreements (RSA) with other state agencies where funds are provided for services to the public.
- g) *Grantee* is the recipient specified in a grant or RSA.
- h) *Indirect Costs* are charges made to funding sources that are based upon a formally negotiated plan for allocating costs that are not readily identified by funding source.
- i) *OMB circulars* are specific documents issued by the President's Office of Management and Budget (OMB) that provide federal guidance on certain financial and administrative requirements of federal financial assistance awards.
- j) *Unallowable Costs* are charges for goods, services or activities that are in violation of one or more Federal or State laws, regulations, policies or other requirements. Unallowable costs may not be charged to any WIA funds from DBP.

4) Policy

- a) This policy ensures that DBP, grantee and recipient staff have:
 - i) General guidelines on the allowability of different types of costs; and,
 - ii) Guidelines on when to seek approval for costs that are allowable under certain conditions.

5) Requirements

a) Federal Cost Principles

The following general cost principles must be used in determining the allowability of any cost charged to a WIA grant.

- i) **Costs must be necessary and reasonable.** Any cost charged to WIA funds must be "necessary and reasonable for the proper and efficient performance and administration" of the grant. A WIA recipient is required to exercise sound business practices and to comply with its procedures for charging costs. A recipient is expected to exercise the same prudence with WIA funds as an individual would with his or her own funds. In determining reasonableness, consideration should be given to: whether the cost is of a type generally recognized as ordinary and reasonable for the operation of the entity;

restraints or requirements imposed by such factors as sound business practices, arms length bargaining, appropriate laws and regulations, terms and conditions of the federal award; market prices for comparable goods or services; whether the individuals concerned acted with prudence in the circumstances given their responsibilities to the governmental unit, its employees, the public and the Federal government; and, significant deviations from established practices of the governmental unit which may unjustifiably increase costs.

- ii) **Costs must be allocable.** A grantee or recipient may charge costs to WIA funds if those costs are clearly identifiable as benefiting the WIA grant or funds. Cost charged to a WIA funds should benefit only the WIA grant or activities, not other programs or activities. In order to be allocable, a cost must be treated consistently with like costs and incurred specifically for the program being charged. Shared costs must benefit both the WIA funds and other fund sources, and be distributed in reasonable proportion to the benefits received. They must also be necessary to the overall operation of the organization although the direct relationship to a final cost objective (WIA funds) cannot be shown. If a recipient conducts other programs in addition to the authorized WIA activities, allocation methods should be used to determine what share of costs should be charged to the WIA grant or funds. A common cost issue often arises regarding salary and time charged to WIA funds for personnel compensation. A grantee can allocate to the WIA funds only the portion of time that a person spends supporting the implementation of allowable WIA activities. If a recipient operates more than one WIA funded grant or activities, costs must be allocated to each grant or activity based on proper methods. Allocation methodologies and procedures are described in Employment and Training Administration's *One-Stop Comprehensive Financial Management Technical Assistance Guide*, July 2002.
- iii) **Costs must be authorized or not prohibited under Federal, state, or local laws or regulations.** Costs incurred should not be prohibited by any Federal, State or local laws. For example, entertainment and alcoholic beverages are prohibited from being charged to any Federal grant program. With respect to WIA funds, the specific program regulations contain several notable prohibitions, which are described later in this policy.
- iv) **Costs must receive consistent treatment by a grantee.** A grantee must treat a cost uniformly across program elements and from year to year. Costs that are indirect for some programs cannot be considered direct costs to WIA funds. A cost may not be charged to the WIA funds as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been charged to another grant or funding source as an indirect cost.
- v) **Costs must not be used to meet matching or cost-sharing requirements.** A WIA recipient may not use federally funded costs, whether direct or indirect, as match or to meet matching fund requirements unless specifically authorized by law.

- vi) **Costs must be adequately documented.** A WIA recipient must document all costs in a manner consistent with Generally Accepted Accounting Principles. Examples include retaining evidence of competitive bidding for services or supplies and adequate time records for employees who charge time to WIA funds.
 - vii) **Costs must conform to WIA exclusions and limitations.** A WIA recipient may not charge a cost to WIA funds that is unallowable per the WIA requirements or cost limitations imposed in the statutes or regulations.
- b) **Cost Principles: Allowable and Unallowable**
- i) It is important that DBP staff, grantees and recipients be aware that the President's Office of Management and Budget (OMB) has published various Circulars that are designed to offer guidance on determining the allowability of costs and should be used as the first source of reference. Although a circular may not make mention of a specific item, this does not automatically dictate that the costs should be allowed or prohibited. The cost should be treated consistently with the standards for similar or related costs. If there is any question regarding whether a particular cost is allowable or unallowable under a WIA, the WIA recipient should contact the Division of Business Partnerships.
 - ii) The OMB circulars provide guidance for several different types of organizations, including: state, local and tribal governments; non-profit organizations; and institutions of higher education. Commercial organizations are governed by the cost principles included in the Federal Acquisition Regulations (FAR). These guidance documents are:
 - (1) OMB Circular A-21, Cost Principles for Educational Institutions;
 - (2) OMB Circular A-87, Cost Principles for State, Local and Tribal Governments;
 - (3) OMB Circular A-122, Cost Principles for Non-Profit Organizations;
 - (4) OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which contains some information on allowable audit costs; and,
 - (5) 48 CFR Part 31, Federal Acquisition Regulations, Contract Cost Principles and Procedures.
 - iii) It is important for all DBP staff, grantees and recipients to be familiar with the OMB circulars and the appropriate regulations governing the WIA programs as promulgated by the Employment and Training Administration (ETA) of the U. S. Department of Labor (USDOL). Costs may be allowable per the OMB circulars, allowable per the circulars with conditions, or allowable per the circulars but unallowable per the ETA regulations. Similarly, some costs are allowable but only with the prior approval of the Division of Business Partnerships.
- c) **Selected Costs**

The following are selected types of costs and their general treatment.

- i) **Travel.** Reasonable travel costs necessary to effectively manage the WIA activities, provide oversight, and measure program effectiveness are allowable. Travel costs related to participant training are also allowable. Air travel, when necessary, should be obtained at the lowest possible customary standard (coach or equivalent fare). All OMB circulars treat these costs as allowable. The Division of Business Partnerships requires prior written approval of any travel outside of Alaska charged to a WIA grant.
- ii) **Training.** Professional development and training costs are allowable and, under WIA, are called “capacity building” costs. Consistent with the “necessary and reasonable” provision of the OMB circulars, grantees and recipients should ensure that training is relevant to the specific WIA funded program or results in increasing the effectiveness of staff working on an WIA funded program. Training for participants, if made in accordance with WIA requirements, is also allowable.
- iii) **General Government Expenses.** WIA recipients should take great care to avoid charging general government expenses to WIA funds. The costs of chief executives, legislatures (including city and borough councils), judiciary and prosecutors, and public safety (fire and police) are not allowable unless provided otherwise in the Federal WIA grant. These costs are specifically addressed in OMB Circular A-87.
- iv) **Public Outreach and Advertising.** WIA recipients should be very familiar with how their applicable OMB circular treats these costs. Costs associated with public outreach, community relations, or efforts to publicize the WIA activities in order to generate participation are viewed by all circulars as allowable within certain limitations. However, any public relations costs that solely promote the organization, or are not directly related to the WIA program providing the funding are not considered allowable. The circulars also contain specific requirements and prohibitions related to the use of advertising and advertising media.
- v) **Interest.** Grantees should be familiar with how their respective circular addresses interest expenses, as differences exist across the circulars. Generally, interest on payments for equipment bought on time payments is allowable as a direct cost under certain conditions. Grantees should review the guidance in their relevant circular.
- vi) **Pre-award Costs.** Unless authorized by the Division of Business Partnerships, pre-award costs cannot be charged to a WIA funds.
- vii) **Capital Assets Costs.** Capital assets are non-current assets (assets that are not available or cannot be made available to finance current operations). Capital assets are the result of capital expenditures and include, but are not limited to, land, buildings, and equipment. Expenditures for land or building improvements as well as building and equipment repairs or maintenance that increase the value of a capital asset or increase its estimated useful life are identified as capital expenditures in Federal regulations. The costs of capital

leases are treated in the same manner. Capital asset costs may be allowable under certain circumstances and require prior approval of the Division of Business Partnerships. **The purchase of any item with a per unit value of \$5,000 or more requires the prior approval of the Division of Business Partnerships.**

- viii) **Leasing.** Interest costs associated with capital leases and other lease-purchase arrangements are allowable so long as they are reasonable and allocable to the grant pursuant to specific criteria identified in applicable OMB cost principles. Lease-purchase arrangements for real property, however, are unallowable under the WIA programs. Permissible lease costs of real property are limited to operating leases, not capital leases.
- ix) **Start-up Costs.** Costs associated with the start-up of a business are not considered allowable under the provisions of Section 181 (e) of the WIA. Start-up costs associated with entrepreneur training would also fall under this prohibition. This prohibition also applies to the start-up costs of an agency that provides services to WIA clients. However, the purchase of equipment, with appropriate prior approval, is an allowable cost.

These examples are only a few of the specific items of cost that are addressed in the OMB circulars or the program regulations. DBP staff and WIA recipients should become very familiar with the relevant OMB circulars.

d) Specific WIA Conditions

- i) In addition to the allowable cost provisions of the OMB circulars, WIA regulations contain a number of provisions related to allowable and unallowable costs and activities. These are listed in the following.
- ii) Any legal expenses incurred in the prosecution of claims against the government are unallowable. This includes appeals to the Administrative Law Judge of disallowed costs or other claims and civil actions where the Federal government is a defendant. See 20 CFR 667.200(c)(6) for additional information.
- iii) Per 20 CFR 667.260, there are four instances in which the costs of construction or purchase of facilities are allowable under the WIA programs. These are:
 - (1) To meet obligations for access and accommodation under the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act of 1990, as amended;
 - (2) Repairs, renovations, and capital improvements of real property, including State Employment Service Agency (SESA) real property, which is identified in the Act at Section 193, or Job Training Partnership Act (JTPA) owned property transferred to WIA Title I programs;
 - (3) Job Corps facilities; and
 - (4) To fund construction-related disaster relief projects.

- iv) The Workforce Investment Act prohibits certain activities. All costs associated with these activities would be unallowable regardless of their treatment in the OMB circulars. The prohibited activities are:
- (1) Employment-generating activities, including economic development activities are prohibited. An exception is made only for those employer outreach and job development activities directly related to participants. Employment generating activities are addressed in 20 CFR 667.262.
 - (2) Public service employment, except to provide disaster relief, is prohibited by 20 CFR 667.264(a)(2).
 - (3) The wages of incumbent employees participating in Statewide economic development activities are prohibited by 20 CFR 667.264(a)(1).
 - (4) Employment or training programs for sectarian activities are prohibited by 20 CFR 667.266. This regulation does not prohibit the provision of services by faith-based organizations, unless those services are sectarian in nature. Grantees should also be cognizant of the direction found in Training and Employment Guidance Letter No. 1-05, *New Rules Allowing Use of WIA Title I Financial Assistance for Religious Training and Employment, and Making Other Changes to Religion-Related Regulations Governing Recipients of DOL Support Including the One-Stop Career Center Service Delivery System and the Job Corps*. Grantees should also be familiar with DBP Policy No. 498, *WIA Sectarian/Religious Activity Policy*.
 - (5) WIA regulations at 20 CFR 667.~~268~~ **[510]** prohibit the use of WIA funds for business relocation, if the relocation results in the loss of an employee's job at the original location in the United States. The use of WIA funds for customized or skill training, on-the-job training, or company-specific job applicant assessments, is prohibited for the first 120 days a relocated business operates in the new location.
- v) Attachment I of this policy provides a quick reference guide to the treatment of certain types of costs. The chart in Attachment I is for reference only.

6) Responsibilities

- a) As delegated by the Governor and the Commissioner of the Alaska Department of Labor and Workforce Development, the Director of the Division of Business Partnerships is responsible for approving any expenditure of WIA funds that requires prior approval under the OMB circulars or the Federal Acquisition Regulations.
- b) Staff of the DBP are responsible for ensuring that any purchases of goods or services made with WIA funds and all grant expenditures are allowable and are made in accordance with the requirements set forth in this policy.
- c) WIA grantees and recipients are responsible for:

- i) Ensuring that all costs charged to WIA funds are only for allowable expenditures made in accordance with the requirements of this policy.
 - ii) Obtaining the prior written approval of DBP for any costs which the OMB circulars or the WIA regulations require such prior approval.
- d) WIA grantees and recipients are also responsible for repaying to DBP the amount of any costs determined by the Division to be unallowable under the requirements of WIA, a grant agreement or this policy.

Attachment 1 - Summary of Cost Items

This attachment provides a quick reference summary of selected costs and their treatment in the various circulars issued by the Office of Management and Budget and in the Federal Acquisition Regulations (48 CFR 31). Some of the costs on the chart are allowable under the circulars but may be prohibited under the WIA or other program specific regulations. DBP staff and grantees should refer to the program specific regulations if there are any questions regarding the allowability of a particular cost.

When reviewing the provisions related to selected items of cost in the OMB circulars, the cost principles applied in establishing the allowability of certain costs apply whether the cost is treated as a direct or indirect cost. If a certain cost is not covered in the circulars, this does not imply that the cost is not allowable. Rather, the determination of allowability in each case should be based on treatment or principles provided for similar or related costs. Note also that, in some instances, different cost items may be similarly named, and there may be some overlap in the cost items treated by different circulars.

This chart is for reference only.

Legend:

NT	=	Not treated in the circular or regulations
A	=	Allowable
AC	=	Allowable with conditions
AP	=	Allowable with prior approval of the Governor or the Division of Business Partnerships
U	=	Unallowable
A/U	=	Some categories within a particular activity are allowable, while some are not. Please consult the respective circular or regulations for precise explanations.

	Cost Item	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
1	Accounting systems	NT	NT	A	NT
2	Advertising and public relations	AC	AC/U	AC/U	AC
3	Advisory councils	NT	NT	A	NT
4	Alcoholic beverages	U	U	U	U
5	Alumni activities	U	NT	NT	NT
6	Asset valuations resulting from business combinations	NT	NT	NT	A
7	Audit services	See A-133	See A-133	A	NT

8	Automatic electronic data processing	NT	NT	AC	NT
9	Bad debts	U	U	U	U
10	Bid and proposal costs	Item 65	Reserved	Item 65	Item 65
11	Bonding costs	NT	A	A	NT
12	Budgeting	NT	NT	A	NT
13	Civil defense costs	AC	NT	NT	A/U
14	Commencement and convocation costs	U	NT	NT	NT
15	Communications costs	A	A	A	NT
16	Compensation for personal services	A/U	A/U	A/U	A/U
17	Contingency provisions	U	U	U	U
18	Cost of money (See also Item 40)	U	U	U	AC
19	Deans of faculty and graduate schools	A	NT	NT	NT
20	Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement	AC/U	AC/U	A/U	U
21	Deferred research and development costs	NT	NT	NT	AC/U
22	Depreciation and use allowances	AC	AC	AC	AC
23	Disbursing service	NT	NT	A	NT
24	Donations and contributions	U	U	U	U
25	Economic planning costs	AC/U	AC/U	AC/U	NT/U
26	Employee morale, health and welfare costs and credits	A	A	A	U
27	Entertainment costs	U	U	U	U
28	Equipment and other capital expenditures	A/U	AP	AP	AP

29	Executive lobbying costs	U	U	U See Item 42	U
30	Fines and penalties	U	U	U	U
31	Fund-raising and investment management costs	NT	NT	U	U
32	Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs (See also Item 64)	NT	NT	A	A
33	General government expenses	NT	NT	U	NT
34	Goods/services for personal use	U	U	NT	NT
35	Goodwill	NT	NT	NT	U
36	Housing and personal living expenses	U	AC/U	NT	NT
37	Idle facilities and capacity	NT	AC/U	AC/U	AC/U
38	Independent research and development	NT	Reserved	NT	AC
39	Insurance and indemnification	AC	AC	AC	A
40	Interest, fund-raising and investment management costs	A/U	A/U	A/U	U
41	Labor relations costs	AC	AC	NT	AC
42	Lobbying	U	U	U	U
43	Losses on sponsored agreements/contracts	U	U	U	U
44	Maintenance and repair costs	A	A	A	A
45	Manufacturing and repair costs	NT	NT	NT	A
46	Manufacturing and product engineering costs	NT	NT	NT	A
47	Material costs	A	A	A	A
48	Meetings and conferences	NT	A	See Item 2	See Item 2
49	Memberships, subscriptions, and professional activity costs	A/U	A/U See also Item 2	A/U See also Item 2	NT
50	Motor pools	NT	NT	A	NT
51	Organization costs	NT	AP	NT	U
52	Other business expense	NT	NT	NT	A

53	Overtime, extra-pay shift and multi-shift premiums	NT	AC	AC	See Item 16
54	Page charges in professional journals	NT	A	NT	NT
55	Participant support costs	NT	A	NT	NT
56	Patent costs	A	A/U	NT	A/U
57	Plant protection costs	NT	NT	NT	A
58	Plant reconversion costs	NT	NT	NT	U
59	Plant security costs	U	A	NT	NT
60	Pre-agreement costs (See also Item 61)	U	NT	NT	NT
61	Pre-award costs	NT	AP	U (formula)/AP	NT
62	Pre-contract costs (See also Item 61)	NT	NT	NT	AP
63	Professional services costs	A	A	A	A
64	Profits and losses on disposition of plant equipment/other capital assets	A	A	See Item 32	See Item 32
65	Proposal costs (See Item 10)	AC	Reserved	AC/AP	AP
66	Publication and printing costs	NT	A/U	A	NT
67	Rearrangement and alteration costs	A	A	A	NT
68	Reconversion costs (See also Item 58)	A	A	A	NT
69	Recruiting costs	A/U	A/U	See Item 2	A
70	Relocation costs	AC	AC	NT	A/U
71	Rental cost of buildings and equipment	AC	AC	AC	AC
72	Royalties and other costs for use of patents	A	A	NT	A
73	Sabbatical leave costs	A	NT	NT	NT
74	Scholarships and student aid costs	A	NT	NT	NT
75	Selling and marketing	U	U	NT	A/U
76	Service and warranty costs	NT	NT	NT	A
77	Severance pay	AC	AC	AC	AC
78	Special tooling and special test equipment costs	NT	NT	NT	A

79	Specialized service facilities	AC	AC	NT	NT
80	Student activity costs	U	NT	NT	NT
81	Taxes	AC	AC	AC	AC
82	Termination costs	NT	AC	NT	A/U
83	Trade, business, technical and professional activity costs	AC	AC	AC See Also Item 49	AC
84	Training and education costs	AC	AC	AC	AC
85	Transportation	AC	AC	NT	AC
86	Travel costs	AC	AC	AC	AC
87	Termination costs applicable to sponsored agreement (See also Item 82)	AC	NT	NT	NT
88	Trustees	AC	AC	NT	NT
89	Under recovery of costs under Federal agreements	U	U	U	U