

State of Alaska Department of Labor and Workforce Development

Division: Employment and Training Services	Policy: 07-520
Subject: Allowable Cost Guidelines	Pages: 7
References: Federal Regulation 2 CFR Part 200; Federal Register Vol. 80, No. 73 NPR; Training and Employment Guidance Letter (TEGL) 12-10	Effective: 2/3/2016
Approved:  Mike Andrews, Director	 Date

1. Parties Affected

This policy applies to grant recipients receiving public funds from the Division of Employment and Training Services (DETS) and to DETS staff.

2. Background

There are allowable and unallowable costs associated with public federal and state funds. The President's Office of Management and Budget (OMB) published OMB Circular [2 CFR Part 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#) that identifies allowable costs that can be charged to a grant award by different types of organizations, including state, local and tribal governments; non-profit organizations; and institutions of higher education and commercial.

This policy ensures that the grant recipients and DETS staff has general guidelines on the different types of costs that are allowable and guidelines on when to seek approval for costs that are allowable under certain conditions.

3. Policy

DETS staff and grant recipients should become familiar with the relevant federal and state policies, statutes, regulations, circulars, and policies associated with allowable costs.

The [OMB Circular](#) is utilized for allowable and unallowable cost as guidance in administering state funds. Exceptions to this are at the discretion of the DETS Director and in accordance with GAAP and the State of Alaska administrative guidelines, and as specified in this policy.

DETS will only reimburse for costs incurred for a specific program/project in which funds are awarded. In order for the costs to qualify they must serve a legitimate purpose and include adequate and appropriate documentation for the program or project. If there is any question regarding whether a particular cost is allowable or unallowable, the grant recipient should contact DETS for guidance.

The following general cost principles must be used in determining if expenditures charged to the grant award are allowable for reimbursement:

- a) **Costs must be necessary and reasonable.** All costs against the grant award must be “necessary and reasonable for the proper and efficient performance and administration” of the award.
- b) **A necessary cost** is a cost that is required in order for the grant recipient to carry out the scope of work of the project. In determining reasonableness, consideration should be given to: whether the cost the type generally recognized as ordinary and reasonable for the operation of the entity. Such factors as sound business practices, arms-length bargaining, appropriate laws and regulations, terms and conditions of the federal or state award; market prices for comparable goods or services; whether the individuals concerned acted with prudence in the circumstances given their responsibilities to the organization, its employees, the public and the Federal or State government; and significant deviations from established practices of the governmental unit which may unjustifiably increase costs, should all be taken into consideration when determining if the cost is necessary.
- c) **Costs must be direct, indirect, or allocable.** A grant recipient may charge costs to the project if those costs are clearly identifiable in the budget. Cost charged should benefit the award 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 project and other fund sources, and be distributed in reasonable proportion to the benefits received. Shared costs must also be necessary to the overall operation of the organization although the direct relationship to a final cost objective cannot be shown. If a grant recipient conducts other projects in addition to the authorized activities, allocation methods should be used to determine what share of costs should be charged to the award.
Salary and time charged to the project for personnel compensation must be the portion of time the individual spends supporting the allowable award activities. If a grant recipient administers more than one award by the DETS, costs must be allocated to each award or activity based on proper allocation methods. Allocation methodologies and procedures as described in the Generally Accepted Accounting Principles Guide (GAAP) or federal or state regulations, statutes or laws.
- d) **Costs must be authorized or not prohibited** under federal, state, policies, local laws, statutes or regulations. For example, entertainment and alcoholic beverages are prohibited from being charged to any federal or state award.

- e) **Costs must receive consistent treatment** by a grant recipient. Costs must be treated uniformly across all award or program elements and from year to year. Costs that are indirect for some programs cannot be considered direct costs to other DETS programs.
- f) **Costs must not be used to meet matching or cost-sharing requirements.** A grant recipient may not use costs, whether direct or indirect, reimbursed under an award as match or to meet matching fund requirements unless specifically authorized by law, statute or policy.
- g) **Costs must be adequately documented.** A grant recipient must document all costs in a manner consistent with GAAP. Examples include retaining evidence of competitive bidding for services or supplies and adequate time records for employees who charge time to funds.
- h) **Costs must conform to exclusions and limitations.** A grant recipient may not charge a cost that is unallowable per federal or state requirements or cost limitations imposed in policies, statutes or regulations.
- i) **Selected Costs.** The following are selected types of costs and their general treatment. All other costs are identified in the [OMB Circular](#).
 - i) **Equipment** purchases are unallowable unless specified in the award. Equipment purchased by grant funds must be necessary to support the activity specified in the award and acquired in accordance with organizational practice. DETS will retain interest in equipment that is \$5,000 or greater and has a life of more than one year. The grant recipient must follow the DETS's *Property Management* policy, for any such items or property.
 - ii) **Rental Costs of Real Property and Equipment** are subject to limitations identified in the [OMB Circular](#). Rental costs are allowable to the extent that the rates are reasonable according to the following factors:
 - (1) rental costs of comparable property;
 - (2) market conditions in the area;
 - (3) alternatives available; life expectancy, condition, and value of the property leased.

Rental costs under “sale and lease back”, “less-than-arm’s-length” and “capital” lease arrangements are allowable only up to the amount that would be allowed had the grant recipient continued to own the property. Rental costs include expenses such as depreciation, maintenance, taxes, and insurance. Rental of any property owned by a grant recipient, commercial or residential for the purpose of a home office workspace is unallowable.
 - iii) The costs of idle facilities are unallowable except to the extent that:
 - (a) They are necessary to meet workload requirements which may fluctuate and are allocated appropriately to all programs; or
 - (b) Although not necessary to meet fluctuations in workload, they were necessary but are now idle because of changes in program requirements;

- (c) Capacity is reasonably anticipated to be necessary to carry out the purpose of the award or was originally reasonable and is not subject to reduction or elimination by use on other awards, subletting, renting, or sale.
- j) **Fabricated items.** Construction-related training that results in the construction or fabrication of items, including buildings or other tangible property, using federal or state award funds with a total cost of \$5,000 or more per unit that are not sold or otherwise disposed of during the term of the award project must be reported on the Property Inventory Listing form provided by DETS at award close-out.
- k) **Travel.** Reasonable travel costs necessary to effectively manage the 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). DETS requires prior written approval of any travel outside of Alaska charged to an award.
- l) **Training.** Professional development and training costs are allowable and are referred to as “capacity building” costs. Consistent with the “necessary and reasonable” provision of OMB circular(s) or regulations. Grant recipients should ensure that training is relevant to the specific funded program or results in increasing the effectiveness of staff working on a funded program.
- m) **General Government Expenses.** 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 award. These costs are specifically addressed in the [OMB Circular](#).
- n) **Public Outreach and Advertising.** Costs associated with public outreach, community relations, or efforts to publicize the award activities in order to generate participation are allowable within certain limitations. However, any public relations costs that solely promote the organization, or are not directly related to the award, are not allowable. The OMB Circular contains specific requirements and prohibitions related to the use of advertising and advertising media.
- o) **Interest.** Generally, interest on payments for equipment bought on time payments is allowable as a direct cost under certain conditions and are outlined in the [OMB Circular](#).
- p) **Pre-award Costs.** Pre-award costs cannot be charged to an award.
- q) **Capital Assets Costs.** 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 DETS.
- r) **Interest.** Interest costs associated with capital leases and other lease-purchase arrangements are allowable so long as they are reasonable and allocable to the award pursuant to specific criteria identified in applicable OMB cost principles. Lease-purchase

arrangements for real property, however, are unallowable. Permissible lease costs of real property are limited to operating leases, not capital leases.

- s) **Start-up costs.** Costs associated with the start-up of a business are not allowable. However per [Training and Employment Guidance Letter \(TEGL\) 12-10](#), entrepreneurial skills training and a portion of equipment, software and computer costs is allowable if they are purchased and used to provide training to eligible program participant as it relates to skills training and the purchase of equipment, with appropriate prior approval.

Specific WIOA conditions. In addition to the allowable cost provisions of the [OMB Circular](#), the [Federal Register Vol. 80, No. 73](#) contains a number of provisions related to allowable, unallowable and prohibited costs and activities, including:

a) Unallowable activities are:

- 1) the cost of acquisition of land;
- 2) brokerage fees;
- 3) 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.

b) Allowable activities are:

There is five instances in which the costs of construction or purchase of facilities are allowable under the WIOA programs:

- 1) Costs related to construction and/or rehabilitation associated with the training of participants is allowed; however, costs associated with the acquisition of land are not;
- 2) 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;
- 3) to fund repairs, renovations, alterations and capital improvements of property, including:
 - a) State Employment Service Agency (SESA) real property, identified at WIOA section 192, using a formula that assess costs proportionate to space utilized;
 - b) Job Training Partnership Act (JTPA) owned property which is transferred to WIOA Title I programs;
- 4) Job Corps facilities, as authorized by WIOA section Part 686; and
- 5) to fund disaster relief employment on projects for demolition, cleaning, repair, renovation, and reconstruction of damaged and destroyed structures, facilities, and lands located within a disaster area WIOA section 170(d), YouthBuild programs under WIOA section 171(c)(2)(A)(i), and for other projects that the Secretary determines necessary to carry out WIOA, as described by under section 189(c) of WIOA.

The Workforce Innovation and Opportunity Act (WIOA), section [683.250](#) prohibits certain activities. All costs associated with these activities would be unallowable regardless of their treatment in the OMB Circular:

- a) The wages of incumbent employees participating in statewide economic development activities;
- b) Public service employment, except to provide disaster relief;
- c) Expenses prohibited under any other federal, state or local law or regulation;
- d) Sub-awards or contracts with parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal programs or activities;
- e) Contracts with person falsely labeling products made in America;
- f) Foreign travel;
- g) Use of funds to employ participants to carry out the construction, operation, or maintenance of any part of any facility used for sectarian instruction or as a place for religious worship with the exception of maintenance of facilities that are not primarily used for instruction or worship and are operated by organizations providing services to WIOA participants are prohibited by WIOA section 683.255(a);
- h) WIOA regulations, section 683.260 prohibit the use of WIOA funds for business relocation, if the relocation results in the loss of an employee's job at the original location in the United States.
- i) The use of WIOA 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, if the relocation has resulted in any employee losing their job at the original location.

4. Responsibilities

DETS staff is responsible for ensuring purchases of goods or services made with grant funds and award expenditures are allowable and are made in accordance with the requirements set forth in this policy.

Grant recipients are responsible for:

- a) Ensuring that costs charged to the award are an allowable expenditures made in accordance with the requirements of this policy.
- b) Properly classifying the costs they incur on grant related activities as being Administration or Program.
- c) Preparing and accounting for a grant budget that adequately differentiates between Program and Administration costs in accordance with this policy.
- d) Obtaining the prior written approval of DETS for any costs which the policy, statutes or regulations describe as requiring such prior approval.
- e) Repaying DETS the amount of any costs determined to be unallowable under the requirements of an award agreement or this policy.

5. Definitions

- a) **Allocable** means a cost that benefits more than one award or funding source should be charged to those award or funding sources in amounts that are proportionate to the amount of benefit each receives.
- b) **Allowable** means a cost that meet 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. Costs must be reasonable; direct, indirect, or allocable; treated consistently; and incurred during the award period.
- c) **Award** is all of the documents included in the contractual agreement between the DETS and a financially assisted recipient under one of the DETS' training programs and includes Reimbursable Services Agreements (RSA) with other state agencies where funds are provided for services to the public.
- d) **Capital Assets** are items of value that have a long-term life, such as land, buildings and equipment.
- e) **Direct Costs** are charges that can be readily identified as being specifically related to a particular funding source.
- f) **Equipment** is tangible property with a per unit acquisition cost of \$5,000 or more, and a useful life of one year or more.
- g) **Fabricated items** is tangible property with a per unit acquisition cost of \$5,000 or more, and a useful life of one year or more.
- h) **Facilities** is defined as buildings or land or any portion thereof, wherever located, and whether owned or leased by the organization.
- i) **Generally Accepted Accounting Principles (GAAP)** is 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.
- j) **Grant recipient or recipient** is the entity specified in a award or RSA as the recipient of DETS public funds.
- k) **Idle facilities** mean completely unused facilities that are excess to the organizations current needs.
- l) **Idle capacity** means the unused capacity of partially used facilities.
- m) **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.
- n) **OMB Circular** is a government rule governing the cost principles.
- o) **Pre-award expenditures** are expenditures incurred by the grant recipient prior to start date specified on the award agreement and are considered unallowable.
- p) **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 funds from the DETS.