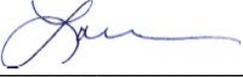


State of Alaska
Department of Labor and Workforce Development

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| Divisions: Alaska Workforce Investment Board (AWIB), Employment and Training Services (DETS) | Policy: 07-520.2 |
| 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 ; Federal Regulation 2 CFR 2900 | Effective: 2/3/2016 Revised: 6/19/2020 |
| Approved:  _____ Louise Dean, Executive Director, AWIB | 6/30/2020 _____ Date |
| Approved:  _____ Patsy Westcott, Director, DETS | 6/30/2020 _____ Date |

1. Parties Affected

This policy applies to subrecipients of public funds from the Alaska Workforce Investment Board (AWIB), the Division of Employment and Training Services (DETS), and to AWIB and 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](#) (OMB Circular) 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; institutions of higher education; and commercial. This policy ensures that subrecipients and AWIB and DETS staff have guidelines on allowable costs and on when to seek approval for costs that are allowable only under certain conditions.

3. Policy

Division staff and grant recipients will become familiar with the relevant federal and state policies, statutes, regulations, circulars, and policies associated with allowable costs. The OMB Circular provides guidance on allowable and unallowable costs in administering state funds. Exceptions are at the discretion of the DETS and AWIB Directors, in accordance with Generally Accepted

Accounting Principles (GAAP) and the State of Alaska administrative guidelines, and as specified in this policy.

DETS/AWIB will only reimburse costs incurred by a specific program or project for which funds are awarded. Reimbursable costs must serve a legitimate purpose and include adequate and appropriate documentation for the program or project. The subrecipient should contact the granting division for guidance if there are any questions regarding whether a particular cost is allowable or unallowable.

The following general cost principles must be used to determine whether 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 subrecipient to carry out the scope of work of the award. In determining necessity, consideration should be given to whether the cost would generally be 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 under 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. Costs 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 charged program. 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. Salary and time charged to the project for personnel compensation must only be for the portion of time the individual spends supporting the allowable award activities. If a subrecipient administers more than one award by AWIB/DETS, costs must be allocated to each award or activity based on proper allocation methods and procedures as described in the GAAP or federal or state regulations, statutes or laws.
- d) **Costs must be authorized or not prohibited** under federal, state, or local laws, statutes, regulations or policies. 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 subrecipient. 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 programs.

- f) **Costs must not be used to meet matching or cost-sharing requirements.** A subrecipient 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 subrecipient must document all costs in a manner consistent with GAAP. Examples include retaining evidence of competitive bidding for services or supplies, and maintaining adequate time records for employees who charge time to funds.
- h) **Costs must conform to exclusions and limitations.** A subrecipient 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. Approval from AWIB/DETS must be obtained at least 30 days prior to purchase. AWIB/DETS will retain interest in all equipment throughout its useful life. The grant recipient must follow AWIB/DETS [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; and
 - (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 subrecipient for the purpose of a home office workspace is unallowable.
 - iii) **The costs of idle facilities** are unallowable except to the extent that:
 - (1) they are necessary to meet workload requirements which may fluctuate and are allocated appropriately to all programs;
 - (2) although not necessary to meet fluctuations in workload, they were necessary but are now idle because of changes in program requirements; or
 - (3) 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 AWIB/DETS at award close-out and are subject to provisions of AWIB/DETS *Property Management* policy.

- 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). AWIB/DETS require written approval prior to purchase of any tickets for 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 circulars or regulations. Subrecipients 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, legislators (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 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 Asset 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 written approval of AWIB/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 only, 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 participants as it relates to skills training and the purchase of equipment, with appropriate prior approval.

Discretionary funding conditions. In addition to the allowable cost provisions of the OMB Circular, certain USDOL funding sources, specifically discretionary sources, contain other provisions related to allowable, unallowable, and prohibited costs and activities. Please refer to the allowable cost information for specific discretionary grants located on the [AWIB/DETS](#) websites.

Specific Workforce Innovation and Opportunity Act (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:

Unallowable activities are the cost of acquisition of land; brokerage fees; and any legal expenses incurred in the prosecution of claims against the government. This includes appeals to the Administrative Law Judge of disallowed costs or other claims and civil actions where the federal government is a defendant.

Allowable activities

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

1. Costs related to construction or rehabilitation associated with the training of participants are allowed; however, costs associated with the acquisition of land are not.
2. Costs used 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, are allowed.
3. Costs to fund repairs, renovations, alterations and capital improvements of property, including State Employment Service Agency (SESA) real property, identified at WIOA section 192, using a formula that assess costs proportionate to space utilized; and Job Training Partnership Act (JTPA) owned property which is transferred to WIOA Title I programs, are allowed.
4. Costs of Job Corps facilities, as authorized by WIOA section Part 686 are allowed
5. Costs 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 are allowed under 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 under WIOA section 189(c).

Federal Register Vol. 80, No. 73 NPR 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); and

- h) 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 as prohibited by WIOA regulations, section 683.260, or use of WIOA funds for customized or skill training, on-the-job training, or company-specific job applicant assessments 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:

AWIB/DETS staff is responsible for ensuring that 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.

Recipients of public funds from AWIB/DETS are responsible for:

- Ensuring that costs charged to the award are an allowable expenditures made in accordance with the requirements of this policy;
- Obtaining the prior written approval of AWIB/DETS for any costs which the policy, statutes or regulations describe as requiring such prior approval; and
- Repaying AWIB/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 and 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 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. 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 AWIB/DETS and a financially assisted recipient under one of AWIB/DETS' training programs, and includes Reimbursable Services Agreements (RSAs) 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) **A Fabricated item** 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** are buildings or land or any portion thereof, wherever located, and whether owned or leased by the organization.
- i) **Generally Accepted Accounting Principles (GAAP)** 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.
- j) **Idle facilities** are completely unused facilities that are excess to the organization's current needs.
- k) **Idle capacity** is the unused capacity of partially used facilities.
- l) **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.
- m) **OMB Circular** is a government publication of the rule governing cost principles, specifically referring to 2 CFR Part 200 in this policy.
- n) **Pre-award expenditures** are expenditures incurred by the subrecipient prior to start date specified on the award agreement.
- o) **Subrecipient** is the entity specified in an award or RSA as the recipient of AWIB/DETS public funds.
- 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 AWIB/DETS.