

Chapter 7

Cost Classification

INTRODUCTION

This chapter provides guidance on the proper classification of costs to the WtW program, discusses the administrative cost limitation, and addresses the expenditure requirements for Required Beneficiaries and Other Eligibles participant categories. It contains the following sections:

- Cost Categories and Activities
- Administrative Costs and Limitations
- The 70%/30% Requirement
- Chart of Accounts
- Other Guidance.

Appendix E provides a matrix of program activities and services and reporting requirements to help staff determine the correct cost categories to which time and other costs should be classified or charged. The appendix also contains a sample chart of accounts to assist grantees and subgrantees with the proper classification of costs. It should be noted that the sample chart is not required of WtW program operators, but it does provide an example of how the various cost categories and objectives associated with a WtW program might be classified.

COST CATEGORIES AND ACTIVITIES

Cost classification is described in OMB Circular A-87 as the process used to assign costs to benefitting cost objectives—either the ultimate objective or interim objectives—which then are usually allocated on some basis of benefit to the ultimate objective. In the WtW program, the ultimate cost objectives that may receive costs are the WtW grant, the cost categories (Administration, Program Services), and the participant categories described in the requirements of 20 CFR 645.211. However, in order to comply with the reporting instructions under the WtW grant, it will be necessary for the WtW grantees and subgrantees to identify costs by a number of other cost objectives such as the individual program activities, contracts, vouchers, etc. This may be done through classification in the accounting system or through a linking spreadsheet that links the accounting system to the Federal reports. If a linking spreadsheet is used, a clear audit trail must exist between the official books of account and the Federal reports. The definitions of the various cost activities are contained in 20 CFR 645.211, 645.220, and 645.235(b). These cost activities are listed as follows:

- Program Activities
 - Community Services
 - Work Experience
 - Job Creation Employment Wage Subsidies (Public and Private)
 - On-the-Job Training (OJT)
 - Job Readiness Services (Vouchers and Contracts)
 - Job Placement Services (Vouchers and Contracts)
 - Post-Employment Services (Vouchers and Contracts)
 - Job Retention Services and Support Services
 - Individual Development Accounts
 - Intake, Assessment, Eligibility Determination, and Case Management

- Administration and Other Cost Activities
 - Administration
 - Federal Computerization/Technology Expenditures
 - Program Income (Earned and Expended).

DOL has not defined the program activities in detail, preferring to allow flexibility in program design. The definitions of these activities should be consistent with those in the TANF legislation and in the final TANF regulations. In addition, definitions should embody the concept of “work-first” as described in both the authorizing legislation and the regulations.

To determine the proper classification of costs within the agency’s books of account, each organization must determine the extent to which reporting categories will also be separate classifications within the chart of accounts. At any rate, each organization must have a system to trace costs from the federally-required reports to the official books of account and source documentation.

As stated previously, while there are only two cost categories in the more traditional view, the number of reporting categories is much larger. Thus, the number of required cost objectives increases. A review of the reporting format indicates that there are 14 different program cost activities, and these are further multiplied by the two participant eligibility categories—Required Beneficiaries and Other Eligibles. The cost categories of administration and computerization/technology expenditures must also be multiplied by the two participant eligibility categories. Grantees should carefully review their systems for charging costs to ensure that all the cost activities may be adequately accounted for and that the costs reported on the Federal financial reports (QFSR) are traceable to both the accounting system and source documentation.

ADMINISTRATIVE COSTS AND LIMITATIONS

Administrative costs are limited in the WtW program to a maximum of 15% of the fiscal year allocation for formula grantees. [20 CFR 645.235(a)(1)] This limitation also applies at the local area grantee level. Competitive grantees also have administrative cost limitations. These limitations are contained in the grant award document and in no case will exceed 15% of the total grant. [20 CFR 645.235(a)(2)] Cost limitations are measured at the end of the grant period for

both formula and competitive grantees by comparing the total reported administrative expenditures to the amount available for administration. If administrative costs exceed the maximum limitation, the amount in excess of 15% becomes a disallowed cost and is subject to repayment.

Administrative costs are defined as the “costs associated with the overall management and administration of the WtW program and which are not directly related to the provision of services to participants”. [20 CFR 645.235(b)] The types of activities that are to be considered as administrative have also been listed in the regulations. Administrative costs consist of all the personnel (salaries, wages, fringe benefits) and non-personnel (facilities, equipment, supplies, etc.) costs associated with these activities, including the following:

- # **Program Management and General Administrative Functions.** This includes the costs associated with overall program direction and management such as the executive director, fiscal officer, project directors, etc. It does not include the personnel costs of those staff who supervise the provision of direct client services.
- # **Planning.** This includes costs associated with the preparation of the required WtW plans and budgets.
- # **Monitoring and Evaluation of Programs.** These costs include review of subrecipients for compliance with applicable rules and requirements, monitoring of projects against contractual requirements, and review of subrecipient systems such as financial management and management information systems (MIS). It does not include the costs of reviewing participant progress in program activities as a part of case management or through counseling.
- # **Procurement.** This includes all the costs associated with the procurement of goods and services, including preparation of requests for services, evaluation of proposals, contract negotiation and processing, contract administration, writing of procedures, follow-up and imposition of sanctions, and evaluation of price or cost data. It also includes the cost of activities related to the procurement of such program activities as community services or OJT, although it does not include the costs associated with the design of such services.
- # **Public Relations.** This includes the costs associated with providing State or local officials and the general public with information related to the WtW program. It does not include the costs of participant outreach activities.
- # **Developing Systems and Procedures.** This includes the costs of developing the systems and writing the procedures needed to ensure program compliance. It includes the costs associated with developing the management information system, the financial management and reporting system, procurement, etc. It excludes the costs of computer technology, both hardware and software, needed for the MIS system for tracking or monitoring.
- # **Preparing Reports.** This includes the costs associated with preparation and submission of the required financial and participant reports as well as any reports required of local

area grantees by the State on program performance and of competitive grantees on program performance.

- # **Resolution of Audit Findings.** This includes preparation of the various schedules and financial and participant information required for the audit function and include all costs associated with the review and resolution of subrecipient audits under the requirements of 29 CFR Part 96.
- # **Evaluating Program Results Against Stated Objectives.** This includes preparation of reports and analysis of information used to determine the overall performance and effectiveness of the WtW program.
- # **Performing Administrative Services.** This includes such activities as general legal services, accounting and auditing services, property management, payroll, and personnel.
- # **Travel Costs.** This includes the travel costs incurred for official business related to program management and administrative functions.

This list is intended to provide grantees and subgrantees with adequate guidance on the proper classification of administrative costs. It is not all-inclusive. In classifying administrative costs, grantees and subgrantees should remember the concept of direct benefit to clients. Costs that cannot be directly associated with provision of client services, including oversight and management functions, should be considered as administrative costs and subject to the limitation.

THE 70%/30% REQUIREMENT

The Act and the Interim Final regulations, 20 CFR 645.211, require that a minimum of 70% of the WtW expenditures must be made for the Required Beneficiaries participants described in 20 CFR 645.212, and a maximum of 30% must be expended on the participants described in 20 CFR 645.213. This requirement refers to actual program expenditures, not to percentages of participants nor to funds available.

Section 403(a)(5)(C)(ii-iii) of the Act further specifies that “an entity that operates a project with funds provided under this part shall expend” funds in accordance with participant categories discussed in this section. The DOL has specified the definitions of “operating entity” and “project” at 20 CFR 645.210. For formula grantees, this means that the 70%/30% requirement applies to each local area grantee allocation and to each and every separate project funded under the WtW governor’s funds set-aside. For competitive grantees, the requirement applies to the grant as a whole.

Grantees and subgrantees must develop a mechanism to capture the costs by these participant categories. The most effective method would be the use of separate codes in the chart of accounts, and classification in the general ledger, whenever possible. If costs are to be pooled and then allocated to either a cost category or program activity, then the allocation base must also include an appropriate mechanism for allocating the pooled costs not only to WtW and the

appropriate category/activity, but also for allocating to the two required participant eligibility categories.

CHART OF ACCOUNTS

A chart of accounts is a listing, usually numerical, that provides an organization with the proper codes to charge costs in the general ledger and to then report the financial results of operations. There is not a preferred way or a best way to develop a chart of accounts to use in the classification and booking of costs to a general ledger or accounting system. Each organization must determine the various types of costs within the organization, not just the WtW costs, and develop a chart of accounts that permits the organization to accumulate and track costs in the most efficient and effective manner possible. However, all charts of accounts should include at least the following classifications: funding sources, cost objectives (such as salaries), and program activities (as necessary to report results). For the WtW program, an additional classification must be considered for the two participant eligibility categories of Required Beneficiaries and Other Eligibles.

In developing a chart of accounts, an organization must address the level of detail required by Federal reporting requirements, cost principles, auditing standards, and organizational needs such as planning and evaluation. In order to accurately classify costs, the index must provide for the identification of

- Sources of funds (e.g., WtW, JTPA, foundation funds, State programs, etc).
- Cost objectives (e.g., salaries, FICA, insurance, telephone, rent, etc.). Cost pools (for example, an administrative cost pool or a case manager's cost pool) would also be identified.
- Program activities or cost categories. Examples include vouchers for job readiness services or OJT contracts, administration.
- WtW participant eligibility categories (Required Beneficiaries and Other Eligibles). Both the Act and the regulations require that costs by participant eligibility categories be reported.

OTHER GUIDANCE

Job Title vs. Job Function

Staff and related costs should be classified against the appropriate cost category or program activity based on the job duties actually being performed. If staff perform duties related to more than one category or activity, then the costs should be allocated on basis of actual time or another equitable method. [20 CFR 645.235(c)(1)] General indirect (G&A and overhead) costs are usually charged to administration, but it may be appropriate to remove a portion of such costs from an overhead or indirect cost pool and charge them directly to a cost objective/category directly benefitted by them, as set out in the following example. [20 CFR 645.235(c)(2)]

Example. A project director spends four to six hours every week providing mentoring services to program participants. The director's salary and fringe benefits are classified as administration and post-employment services based on a time sheet prepared on a biweekly basis. Should the project director's time be wholly classified as administration, a time sheet would not be required; however, the job description should be sufficiently detailed to serve as documentation for the classification.

Vendor-Level Cost Classification

Because of the nature of the goods and services they provide, vendors are not normally expected to break out their invoices by program activity or cost category. Recipients and subrecipients, however, must classify the costs of the goods and services procured from vendors. There may be some instances where a vendor provides services that may be charged to more than one activity/category, and the grantee must classify the costs properly. In these instances, the recipient/subrecipient must establish an appropriate reporting or invoicing arrangement to properly classify the costs. The establishment of appropriate reporting/invoicing is also critical to the recipient classifying the costs by the appropriate participant eligibility category. Appendix F contains a listing to assist grantees in distinguishing between subrecipients and vendors.

Example. The contract between a competitive grantee and the vendor includes both job placement and job retention services. There are clearly two separate activities being provided, and the service provider serves both 70% and 30% eligible participants. The invoicing arrangement between the vendor and the grantee must clearly delineate the services provided, the costs of each, and the costs by type of participant in order for the grantee to comply with WtW reporting and compliance requirements.